



COVERSHEET

Minister	Hon Stuart Nash	Portfolio	Economic Regional Development
Title of Cabinet paper	Crown Regional Holdings Limited: Further Report on Designs and Operational Changes and Other Technical Matters	Date to be published	30 September 2021

List of documents that have been proactively released		
Date	Title	Author
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Information redacted

YES / NO *(please select)*

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IN CONFIDENCE

Office of the Minister for Economic and Regional Development

Chair

Cabinet Economic Development Committee

Further report back on design and operational changes for Crown Regional Holdings Limited and other technical matters

Proposal

- 1 This paper seeks Cabinet agreement to minor changes to the design and operation of Crown Regional Holdings Limited (CRHL¹) (formerly known as Provincial Growth Fund Limited), and reports back to Cabinet on:
 - 1.1 the design, investment mandate and operation of CRHL;
 - 1.2 whether to enable active investments; and
 - 1.3 whether to recycle proceeds of Provincial Growth Fund (PGF) investments.
- 2 The paper also seeks Cabinet approval to several technical decisions related to the evolved Regional Economic Development approach:
 - 2.1 To add the Associate Minister of Agriculture (Animal Welfare) to the Māori Economic Development Ministers, as agreed by this group.
 - 2.2 To note Kānoa – Regional Economic Development & Investment Unit (Kānoa – REDIU) as the new name for the Provincial Development Unit – this paper refers to the Unit by the new name.
 - 2.3 To confirm the Minister of Finance and the Minister for Economic and Regional Development as Regional Economic Development Delegated Ministers in relation to any outstanding administrative decisions on existing Kānoa – REDIU led proposals and CRHL held investments.

Relation to government priorities

- 3 CRHL holds the Crown's investments from funds that aim to deliver regional economic development outcomes. CRHL's role is to oversee the management of these investments to ensure that the benefits of the Crown's investments are realised. This will also include investments made through the Regional Strategic Partnership Fund, a \$200 million Government manifesto commitment, which will play a role in supporting New Zealand's recovery from COVID-19.

¹ On 2 February 2021, Cabinet agreed to change the name of Provincial Growth Fund Limited to Crown Regional Holdings Limited [CBC-21-MIN-0013]. The name change was registered with the Companies Office on 24 June 2021.

Executive Summary

- 4 On 12 April 2021, Cabinet invited the Minister for Economic and Regional Development to report back on the design, investment mandate and operation of CRHL and whether to enable active investments and recycle proceeds of PGF investments [CAB-21-MIN-0114].
- 5 The Minister of Finance and I (as Shareholding Ministers of CRHL) had previously agreed to minor changes to give CRHL a marginally greater role in relation to the management of its investments. The proposed revised mandate for CRHL is as follows:
 - a. The CRHL Board will be consulted prior to any material decisions being made in relation to investment management;
 - b. The CRHL Board will be enabled to provide commercial advice on potential investments prior to Ministerial decision making in a manner similar to the now disbanded Independent Advisory Panel (IAP);
 - c. Kānoa – REDIU will continue to manage investments on CRHL's behalf; and
 - d. In relation to investment origination, Ministers will continue to make funding decisions on all investments; CRHL will not have any decision making powers.
- 6 Officials anticipate implementing the design changes for CRHL will take around three months and will align with the appointment of three new directors² which will be considered by Cabinet in due course.

Background

- 7 On 10 April 2019, Cabinet agreed to establish CRHL as a Schedule 4A company under the Public Finance Act 1989 [DEV-19-MIN-0084]. CRHL is an asset holding company that holds loan, equity and asset investments made through the Provincial Growth Fund (PGF) and, subsequently, other regional economic development funds. These investments are situated across communities in New Zealand's regions and are aimed at supporting regional economic development and increasing prosperity.
- 8 CRHL is a Schedule 4A company that holds investments made through regional economic development funds. CRHL has no decision making powers over the investments that it holds and the management of such investments are outsourced via a management agreement to Kānoa – REDIU within the Ministry of Business, Innovation and Employment (MBIE). CRHL's primary role is to supervise and monitor Kānoa – REDIU's performance in managing its investments thereby holding Kānoa – REDIU to account on its management activities.
- 9 CRHL must accept the novation (or transfer) of all investments from the Crown, whilst having no ability to influence, assess or approve the

²The Minister of Finance and I have agreed to increase the size of the Board to up to six Directors. This decision was made due to the magnitude of CRHL's investment portfolio. Current directors are Mr Rodger Finlay (as Chair of the Board), Mr Neville Harris QSO and Mr Graeme Mitchell.

- investments prior to novation. Due to the nature of CRHL's role as a passive holding company, the Crown has granted CRHL with an indemnity. The indemnity protects the company from any liabilities it incurs as a result of the performance (or non-performance) of Kānoa – REDIU in managing CRHL's investments.
- 10 CRHL was initially established as a passive holding company based on the uncertainty at the time of establishment about the volume and type of investments that CRHL would hold. A transition away from a completely passive holding company was always envisaged and built into CRHL's design and structure. Joint Treasury/Kānoa – REDIU advice stated that an investment portfolio of at least \$150 million was an appropriate "tipping point" to consider a transition to a more active model.
 - 11 As at 31 May 2021, CRHL holds ^{Commercial} loan agreements, ^{Commercial Inform} equity deals and ^{Commercial} assets under construction, amounting to \$^{Commercial Information} from four different funds³. CRHL's portfolio is expected to grow to \$^{Commercial Information} by the ^{Commercial Information} based on current approvals, and continue to grow as the Regional Strategic Partnership Fund is implemented.
 - 12 On 17 June 2020, Cabinet agreed to further investigate whether the mandate of CRHL should be transitioned from a passive holding company to an active company [DEV-20-MIN-0101]. Cabinet also authorised Shareholding Ministers to finalise the design and operation of an active CRHL and to report back to Cabinet.
 - 13 A report back was subsequently provided in the Cabinet paper *Regional Strategic Partnership Fund: Further Implementation Decisions*, and on 12 April 2021 Cabinet invited the Minister for Economic and Regional Development to report back on the design, investment mandate and operation of CRHL and whether to enable active investments and recycle proceeds of PGF investments [CAB-21-MIN-0114].
 - 14 Given the scale, volume and complexity of CRHL's portfolio, Shareholding Ministers consider it is timely to make changes to allow CRHL to have a minor role in relation to the management of its investments, while maintaining Ministerial decision making on investment origination and key investment management decisions.
 - 15 This will better utilise the Board's knowledge and expertise. The complexity of CRHL's portfolio means that investments require more technical oversight and expertise. This is especially important following COVID-19 as some investments require more effective management.

³CRHL currently holds investments from four funds. These are the Regional Investment Opportunities Fund – part of the NZ Upgrade programme (RIO), the COVID-19 Response and Recovery Fund Infrastructure Reference Group (IRG) and the Strategic Tourism Assets Protection Programme (STAPP).

Cabinet Report Back

- 16 I (on behalf of Shareholding Ministers of CRHL) report back on each of the below considerations for Cabinet approval.

Design, investment mandate and operation of CRHL

- 17 CRHL's current mandate is very limited and restrictive; its role is largely administrative. It has no mandate to provide guidance or advice to Kānoa – REDIU on how its investments are managed.
- 18 The Minister of Finance and I, as Shareholding Ministers, have made the decision to not transition CRHL to a fully active company. Instead, minor changes will be made to CRHL's mandate to allow it to have some influence over the management of its investments. Ministerial decision-making on the origination of new investments will be maintained.
- 19 We have agreed the following revised design and operation for CRHL:
- a. **In relation to investment origination, Ministers will continue to make funding decisions on investments that CRHL hold** – Ministers will retain decision-making control over any new investments that CRHL will hold and retain designated management powers (such as trading and/or exiting investments), ensuring broader regional economic development objectives and public interest outcomes remain central to effective investment management;
 - b. **The CRHL Board will be enabled to provide commercial advice on investments prior to Ministerial approval, and will be consulted prior to any material decisions being made in relation to investment management** – this will allow the CRHL Board to utilise its expertise on potential investments that it will hold and have a role in the management of its investments. This advisory role prior to Ministerial decision-making is similar to that of the now disbanded PGF Independent Advisory Panel, which provided commercial advice on PGF investments; and
 - c. **Kānoa – REDIU will continue to manage investments on CRHL's behalf** – continuing to utilise Kānoa – REDIU to undertake day-to-day management functions will enable an expedient and straightforward transition, and mean a new entity structure, including staff, is not required.
- 20 We consider these minor changes balance the importance of maintaining Ministerial decision-making with a modest level of influence for CRHL in relation to investment management. These changes are appropriate in light of CRHL holding a greater range of investments, in terms of type, volume and complexity than was expected at establishment. Examples are outlined in Annex One.
- 21 The magnitude of CRHL's portfolio means it is one of the larger companies (as measured by total assets) held in the Crown's portfolio. The size and complexity of CRHL's portfolio means that it requires a strong investment

management approach and technical oversight and expertise. The diverse nature and type of funding arrangements also creates a broad risk profile that needs to be appropriately managed and monitored.

- 22 We consider it is timely for CRHL to have a role in the management of its investments, while maintaining Ministerial decision making over investment decision making and key management decisions. Giving CRHL a modest role in relation to the management of its investments will better utilise the CRHL Board's knowledge and expertise.

Whether to enable active investments

- 23 There is no proposal to change from the status quo in relation to active investments. Under the proposed new arrangement, Ministers and/or Kānoa – REDIU (as investment manager) will retain decision-making control over the management of CRHL's investments. CRHL will not make any active investment decisions.
- 24 Kānoa – REDIU provided advice to Shareholding Ministers on options to give CRHL a more active role. In considering design options, there were two key considerations that we took into account:
- a. **the extent of CRHL's involvement, if any, in investment origination** – options ranged from Ministers retaining decision making on investments through to CRHL being capitalised to make its own investments decisions; and
 - b. **the extent of CRHL's involvement in the management and administration of investments, once approved** – options ranged from CRHL providing guidance and advice to Kānoa – REDIU on the management of its investments through to CRHL performing the day-to-day management of all investments.
- 25 Shareholding Ministers endorsed an option where Ministers will retain decision making control over new investments. Keeping decision-making powers allows Ministers to focus on delivery of broader regional economic development objectives and public interest outcomes. Retaining decision-making powers on investment management ensures that investments are managed and administered from the same public interest perspective rather than from a solely commercial one.
- 26 Ministers and Kānoa – REDIU will retain decision making powers related to investment management (such as exiting investments). Through a change to CRHL's management agreement, Kānoa – REDIU will be required to consult the CRHL Board on material investment management matters (e.g. divestment and write-off) prior to any decisions being made. This will provide CRHL the opportunity to engage on a proposed action to address how investments are managed, allowing Kānoa – REDIU to utilise the Board's expertise.

Commercial Information

27 Commercial Information

28 Commercial Information

- 29 I recommend, on behalf of Shareholding Ministers, that Cabinet agrees our decisions outlined above. Approval of these changes does not prohibit further changes to the mandate in the future should Ministers propose that CRHL be provided with more responsibility at a later date.

Implementing the change to the company's mandate

- 30 Following Cabinet agreement, Kānoa – REDIU will proceed with implementing the design and operational changes for CRHL. Minor changes to the Management Agreement between CRHL and Kānoa – REDIU are required. Changes to the scope of the current company constitution and the indemnity for CRHL will not be required. This is on the basis that Ministers and Kānoa – REDIU will retain ultimate responsibility for final decision making on investment origination, selection and management.
- 31 Officials anticipate that implementing the changes to CRHL's mandate will take around three months – the appointment of the three new directors will align with this timing.

Further technical decisions related to the evolved Regional Economic Development approach

Expanding the membership of the Māori Economic Development Ministers

- 32 On 2 February 2021, Cabinet agreed to establish a Māori Economic Development Ministers group consisting of the Minister for Economic and Regional Development, the Minister for Māori Development, the Minister for Māori Crown Relations, and the Minister of Local Government [CBC-21-MIN-0013]. The group was set up to help to accelerate Māori economic aspirations, guide the development of regional strategic partnerships work streams, and input into the development of the wider evolved Regional Economic Development approach.
- 33 Following discussion with the Minister for Māori Development, I recommend that the Associate Minister of Agriculture (Animal Welfare) be added to the membership of the Māori Economic Development Ministers group. This has been agreed by this group. The Associate Minister of Agriculture has been

delegated responsibility for Māori Agribusiness, which is an important aspect of Māori regional economic aspirations.

Update on the new name of the Provincial Development Unit

- 34 On 12 April 2021, Cabinet noted that the new name of the Provincial Development Unit will be transitioned to Regional Economic Development and Commercial Services to better reflect its evolved role [CAB-21-MIN-0114].
- 35 Following further consideration, the new name of the Unit has been confirmed as: Kānoa – Regional Economic Development & Investment Unit.

Decision-making authority for outstanding administrative decisions

- 36 On 26 January 2021, Cabinet agreed that the Minister of Finance and the Minister of Economic and Regional Development be delegated Regional Economic Development (RED) Ministers and gave these Ministers decision-making authority over any outstanding investment decisions and new funding decisions progressed through the evolved approach to RED [CBC-21-MIN-0013]. On 12 April 2021, Cabinet invited the Minister of Social Development and Employment and the Minister of Māori Development to join the RED Ministers [CAB-21-MIN-0114].
- 37 I seek Cabinet approval to clarify – in the interest of efficiency – that outstanding administrative decisions on existing Kānoa – REDIU managed investments and CRHL held investments be delegated to myself and the Minister of Finance. This will include administrative decisions relating to:
- 37.1 grant, loan and equity approvals;
 - 37.2 loan and equity notifications; and
 - 37.3 variations to existing funding decisions.
- 38 Accordingly, I propose that for the purposes of administrative matters, RED delegated Ministers will be: the Minister of Finance and the Minister for Economic and Regional Development. This will allow existing proposals and investments to be finalised, and funds disbursed in an efficient and timely manner.
- 39 New funding decisions, including those progressed through the Regional Strategic Partnership Fund, will be made by all four RED Ministers. This will also not extend to decisions related to IRG projects which are made by IRG Ministers.

Financial Implications

- 40 There are no financial implications associated with the proposals in this paper.

Legislative Implications

- 41 There are no legislative implications associated with the proposals in this paper. Design and operational changes to CRHL's mandate will be reflected within company's legal documentation.

Regulatory Impact Statement and Climate Implications of Policy Assessment

- 42 Regulatory Impact Analysis and Climate Implications of Policy Assessment requirements do not apply to the proposals in this paper.

Human Rights and Population Implications

- 43 There are no human rights or population implications associated with this paper.

Consultation

- 44 This paper has been prepared by Kānoa – REDIU within MBIE. The following agencies have been consulted: The Treasury, Public Services Commission and the Department of Prime Minister and Cabinet.

Communications

- 45 There are no media releases planned.

Proactive Release


- 46 In accordance with Cabinet Office guidance (CO (18) 4 – Proactive Release of Cabinet Material), Kānoa – REDIU officials will proactively release documents pertaining to this paper within 30 business days of decisions being made, unless there is good reason not to publish all or part of the material.

Recommendations

The Minister of Finance and the Minister for Regional Economic Development recommend that the Committee:

- 1 **note** that on 10 April 2019, Cabinet agreed to establish Provincial Growth Fund Limited (CRHL) as a Schedule 4A company under the Public Finance Act 1989 [DEV-19-MIN-0084].
- 2 **note** that on 17 June 2020, Cabinet agreed to further investigate whether the mandate of Provincial Growth Fund Limited (CRHL) should be transitioned from a passive holding company to an active company [DEV-20-MIN-0101].
- 3 **note** that on 12 April 2021, Cabinet invited the Minister for Economic and Regional Development to report back on the design, investment mandate and operation of CRHL and whether to enable active investments and Commercial Information

- 4 **note** that the Minister of Finance and the Minister for Economic and Regional Development (as Shareholding Ministers of CRHL) agreed to minor design and operational changes for CRHL where:

- a. in relation to investment origination, Ministers will continue to make funding decisions on investments that CRHL hold;
 - b. CRHL will be enabled to provide commercial advice on investments prior to Ministerial approval, and will be consulted prior to any material decisions being made in relation to investment management;
 - c. Kānoa – REDIU will continue to manage investments on CRHL's behalf.
- 5 **Agree** to the minor changes outlined in recommendation 4 above.
- 6 **Note** that the decisions made on the revised design and operation of CRHL means that the company will not transition to a fully active company with an investment mandate and will not enable active investments.
- 7 **Commercial Information** 
- 8 **Agree** the Associate Minister of Agriculture (Animal Welfare) be added to the membership of the Māori Economic Development Ministers group.
- 9 **Note** the new name of the Provincial Development Unit is Kānoa – Regional Economic Development & Investment Unit.
- 10 **Agree** that the Minister of Finance and the Minister for Economic and Regional Development be Regional Economic Development delegated Ministers in relation to any outstanding administrative decisions on existing Kānoa – REDIU managed investments and CRHL held investments (excluding Kānoa – REDIU led IRG projects).

Authorised for lodgement

Hon Stuart Nash
Minister for Economic and Regional Development

Annex One: Further detail on the complexity of the CRHL portfolio

1 The complexity of CRHL's portfolio means that investments require a stronger investment management approach and additional technical oversight and expertise. The diverse nature and type of the funding arrangements also creates a broad risk profile that will need to be appropriately managed and monitored. For example:

- CRHL holds loans that differ on lending terms such as interest rates, repayment schedules and general security arrangements. Some loans have a maximum term of 15 years. The bespoke structure of these investments has been considered advantageous as it ensured optimal results from the financial and public benefit points of view, while providing funding on terms reasonable for both parties;
- CRHL holds equity investments **Commercial Information** (such as Geo40 and Whakatōhea Mussels) **Commercial Information** Sugarloaf Wharf Development). CRHL's equity portfolio will include differing classes of shares in both growing and mature companies with varying levels of control; and
- CRHL holds investments in physical infrastructure assets (such as investments into the Ōpōtiki Harbour Development and West Coast Ports). Once developed, the company will hold full ownership of those assets.
- CRHL holds investments from several regional economic development funds. These are the Regional Investment Opportunities Fund – part of the NZ Upgrade programme (RIO), the COVID-19 Response and Recovery Fund Infrastructure Reference Group (IRG) and the Strategic Tourism Assets Protection Programme (STAPP).