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## OPTIONS FOR A HOLDING COMPANY OR ACTIVE COMPANY

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Ministers previously requested advice on the establishment of a Holding Company to manage significant Provincial Growth Fund (PGF) investments (via financial instruments such as debt and equity).

In July Cabinet invited the Minister for Regional Economic Development and the Minister of Finance to report back to the Cabinet Economic Development Committee (DEV) by the end of October 2018 seeking agreement to establish a Crown-owned company including its purpose, functions and funding arrangements [CAB-18-MIN-047].

Three possible roles for a HoldCo or ActiveCo have been identified:

1. Management of PGF financial investments following application, negotiation by officials and Ministerial/Cabinet decision to invest
2. Manage negotiations in relation to complex commercial applications on behalf of PDU/Ministers
3. ActiveCo to have responsibility for proactively shaping investments within a defined area of PGF's activities, such as tourism infrastructure or commercial forestry.

Six months into PGF, we now have a clearer picture of the nature of commercial applications and the potential task for a HoldCo or ActiveCo.

Based on applications to date and our understanding of potential applications currently under development, we anticipate that the portfolio of investments for a HoldCo to manage might be along the following lines:

- Comme investments, with an aggregate value of up to \$ Commercial Information. Currently there are Comme projects with a total value of \$ Commercial Information Commercial has been approved and Comme are being considered
- the majority are likely to be debt rather than equity
- average interest rate on debt will be of the order of Comme per cent
- average term of the debt will be Comme years.

Applications to date also confirm that there is scope to more actively shape commercial applications in priority areas such as food and beverage, manufacturing, tourism and also projects with adjacencies to capability and infrastructure investments as appropriate, to realise greater impact from the portfolio of PGF investments. This shaping could be done through the Provincial Development Unit (PDU), the Independent Advisory Panel (IAP) and PGF government partners (Ministry for Primary Industries, Ministry of Business, Innovation and Employment, New Zealand Transport Agency and New Zealand Trade and Enterprise (NZTE)) and/or through an ActiveCo.

HoldCo/Active Co could be established as a new Crown entity/company or by adding to the activities of an existing Crown entity, of which there are three possible candidates:



1. Crown Infrastructure Partners (CIP) - Ministers are proposing a significant refresh of the Board; adding a PGF function would be a complication for the incoming directors;
2. Crown Infrastructure Investments Limited (CIIL) - being wound back to a holding company for the portfolio of Crown investments in large-scale irrigation. These will be managed by a contracted party, working to a three person CIIL Board;
3. NZTE, a core function of which is investment attraction (and the matching of investors with investment opportunities); food and beverage and tourism are priority sectors for NZTE. NZTE is already a key partner of PDU in delivering PGF.

Tasking an existing entity would enable utilisation of existing governance and back office capabilities, but would lack the clarity of purpose of a new entity. An important characteristic for HoldCo/ActiveCo is that it can evolve flexibly as we continue to refine organisational arrangements to most effectively support regional economic development and to maximise the impact of PGF's portfolio of investments.

On balance, officials recommend:

- establishing a minimalist HoldCo in the first instance, as a schedule 4A (Public Finance Act) company, but with a constitution flexible enough to enable an ActiveCo role if required (with the specifics to be set by Ministers as and when)
- an initial HoldCo Board of three, made up of members of the IAP
- Minister of Regional Economic Development and Minister of Finance as shareholding Ministers
- executive and back-office support from PDU in the establishment phase
- an initial establishment budget of \$500,000 (from the relevant PGF appropriation), to be administered by the Board.

The new entity would work with PDU and with relevant Crown entities/companies to establish the optimal operating model for HoldCo, leveraging existing Crown capabilities wherever practicable.

It is not yet clear whether investment income would be sufficient to cover HoldCo's operating costs in the early years, so it would be prudent to fund from the PGF appropriation, with all HoldCo income received being transferred to the PGF appropriation. HoldCo would estimate its annual operating budget during the establishment phase, for sign-off by Ministers.

The process to establish HoldCo and address the associated fiscal implications would involve a Cabinet paper, Order in Council with a subsequent APH paper for appointment of Board members. The development of a Statement of Intent is also required.

Officials will advise separately on resourcing the shift to a more proactive, more strategy-led approach to sector-based PGF investments, again leveraging existing Crown capabilities wherever practicable.



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Officials will use the direction set by Ministers at the RED Ministers meeting of 3 September as the basis for drafting the HoldCo Cabinet paper, which is due for submission to DEV in October.

PROACTIVELY RELEASED