



## BRIEFING

### Update on progressing loans for Inbound Tourism Operators and proposed appropriation changes

<b>Date:</b>	25 November 2020	<b>Priority:</b>	Urgent
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	2021-1102

Action sought		
	Action sought	Deadline
Hon David Parker <b>Acting Minister of Finance</b>	<b>Agree</b> that the Ministry of Business, Innovation and Employment (MBIE) hold loans for Inbound Tourism Operators (ITOs) before investments are considered for transfer to Provincial Growth Fund Limited (PGFL).  <b>Approve</b> the appropriation changes to allow MBIE to hold loans for ITOs and make payments to them.	27 November 2020
Hon Stuart Nash <b>Minister of Tourism Minister for Economic and Regional Development</b>		27 November 2020

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
David van der Zouwe	Head of Investment, Provincial Development Unit	-	s 9(2)(a)	✓
s 9(2)(a)	Senior Policy Advisor, Provincial Development Unit	s 9(2)(a)	-	

**Minister's office to complete:**

- |   |  |
|---|--|
| <input type="checkbox"/> Approved             | <input type="checkbox"/> Declined            |
| <input type="checkbox"/> Noted                | <input type="checkbox"/> Needs change        |
| <input type="checkbox"/> Seen                 | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn           |

**Comments**



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#### Purpose

This briefing provides an update on progressing loans for Inbound Tourism Operators (ITOs). It also seeks Ministerial approval to appropriation changes within Vote Business, Science and Innovation to allow for the Ministry of Business, Science and Innovation (MBIE) to hold loans for ITOs and make certain payments to borrowers before investments are considered for transfer to Provincial Growth Fund Limited (PGFL).

These are technical changes only that will allow officials time to monitor the position of individual ITOs, and understand where the investments should ultimately be held. The appropriation changes will allow MBIE to make payments to borrowers expediently while this work is being done.

#### Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

- a **Note** the Minister of Finance has declared a conflict of interest in relation to Inbound Tourism Operators and has transferred decision making responsibilities to Hon David Parker to act on behalf of the Minister of Finance. *Noted*
- b **Note** the update in relation to progressing loans for ITOs. *Noted*
- c **Agree** that MBIE hold these loans to monitor the financial position of ITOs before investments are considered for transfer to PGFL. *Agree / Disagree*
- d **Note** it is still intended that ITO investments be transferred to PGFL. *Noted*
- e **Note** that appropriation changes are required urgently to allow for MBIE to hold loans to ITOs and make payments to borrowers before investments are transferred to PGFL. *Noted*
- f **Agree** to establish the following two new non-departmental appropriations:

Vote	Appropriation Minister	Title	Type	Scope
Business Science and Innovation	Minister for Economic and Regional Development	Regional Economic Development: Tourism Capital Investment	Non-Departmental Capital Expenditure	This appropriation is limited to capital expenditure for tourism-related initiatives.
Business Science	Minister for	Regional Economic	Non-Departmental	This appropriation

and Innovation	Economic and Regional Development	Development: Fair Value Write Down - Tourism	Other Expense	is limited to fair value write downs on loans made from the Tourism Recovery Fund
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*Agree / Disagree*

- g **Approve** the following changes to appropriations to allow for MBIE to hold ITO loans and make payments to borrowers before investments are considered for transfer to PGFL:

Vote Business, Science and Innovation Minister for Economic and Regional Development	\$m – increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24
Non Departmental Capital Expenditure Regional Economic Development: Tourism Investment Provincial Growth Fund Limited	-	(20.000)	-	-	-
Non-Departmental Capital Expenditure: Regional Economic Development: Tourism Capital Investment	-	20.000	-	-	-
Non-Departmental Other Expense: Regional Economic Development: Fair Value Write Down - Tourism	-	20.000	-	-	-

*Approve / Do not approve*

- h **Agree** that the proposed changes to appropriations in recommendation g for 2020/21 be included in the 2020/21 Supplementary Estimates and that in the interim, the increases be met from Imprest Supply.

*Agree / Disagree*

- i **Agree** to forward this briefing to other Ministers that have an interest in the Tourism portfolio such as the Minister of Local Government, Minister of Māori Development, Minister of Conservation and the Associate Minister of Tourism.

*Agree / Disagree*



David van der Zouwe  
**Head of Investment**  
Provincial Development Unit, MBIE

25/11/2020

Hon David Parker  
**Acting Minister of Finance**

..... / ..... / .....

Hon Stuart Nash  
**Minister for Economic and Regional  
Development**  
**Minister of Tourism**  
..... / ..... / .....

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## Background

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1. The purpose of the Strategic Tourism Asset Protection Programme (STAPP) and the support for Inbound Tour Operators (ITOs) is to cushion the impact of COVID-19 on the tourism sector, and to position the sector for recovery.
2. The STAPP is intended to protect the assets in the tourism landscape that form the core of our essential tourism offerings to ensure their survival through the disruption caused by COVID-19. Funding support to ITOs ensures that they continue to operate until international visitors return. Supporting ITOs is important because:
  - a) they are a key link between overseas wholesalers and travel sellers;
  - b) they have strong relationships in our major markets; and
  - c) in order to be prepared for when New Zealand's borders reopen, they need to maintain some ability to prospect, build and maintain a pipeline of high value visitation to New Zealand.
3. In relation to support for ITOs, Ministers have made the following decisions:
  - allocated that up to \$20 million from the Tourism Recovery Fund to support ITOs via loans;
  - approved for funding for 26 ITOs through a tiered structure, reflecting estimated revenue;
  - agreed to core terms and conditions for ITO loans, for example, loans will be concessionary, subordinated (if applicable) and unsecured;
  - agreed that recipients could use loans to pay commercial debt, subject to conditions; and
  - agreed that the Provincial Development Unit (PDU) be the delivery agency for STAPP and ITO loans and that the Provincial Growth Fund Limited (PGFL) hold those loans over the term of the investments.
4. In addition, with respect to the detailed decisions on the ITO loan scheme, the Minister of Finance has transferred decision making due to a conflict of interest to Hon David Parker to act on behalf of the Minister of Finance.
5. The Minister of Finance (for STAPP) and the Acting Minister of Finance (in respect of ITOs) then agreed that all STAPP and ITO loans satisfy the public interest test required under section 65L of the Public Finance Act. Both Ministers also approved that the powers to sign and execute these loans be delegated to the Head of the PDU.
6. The PDU and MBIE Tourism branch have established the loan facility to contract and execute STAPP and ITO loans in an expedient and efficient manner. The PDU has already offered draft loan agreements to all ITOs and most of the STAPP recipients for consideration. ITO loans are the first tranche of loans to contract as part of STAPP programme as recipients have yet to receive any form of funding support to date.
7. Officials have worked with MBIE Legal and external legal advisors to develop a standardised loan agreement template for all STAPP loans. This template will reduce transaction costs, the period required for negotiation, and make management of loans post-execution simpler. The PDU have already received responses from most ITOs – with the request that they be contracted and paid as soon as reasonably possible.

## Proposed appropriation changes for ITO loans

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8. In September 2020, Ministers agreed to drawdown funding allocated for STAPP and ITO loans and approved appropriation changes to move all loan related funding to an

appropriation that would allow for PGFL to make loan payments on these loans, once they had been executed and novated (transferred) to the company to hold.

9. Since those approvals, all 26 ITOs have provided financial documentation, and s 9(2)(b)(ii) completed the due diligence checks which includes reviewing the financial statements and management accounts provided as well as doing credit and media checks to identify any risk of funding any of the ITOs.
10. The PDU has carried out a high level review of the outcomes of s 9(2)(b)(ii) due diligence and uncovered matters related to some ITOs that required the need to request further information to better understand the details of the balance sheets of those ITOs and their solvency position. This was necessary to avoid undue risk to the Crown of funding being directed to insolvent entities. Once further information was provided, no concerns were identified that would question the current solvency position of those ITOs. However, it highlights the importance of providing funding support to allow them to continue to operate in the meantime.
11. Draft loan agreements have now been issued to all ITOs for consideration, with some close to being ready for execution. To minimise any risk associated with lending to insolvent entities, the draft agreements include protection clauses that require ITOs to provide a warrant of their solvency at the point of entering into the loan agreement. Once assurances have been provided and the loan has been entered into, ITOs are also required to provide financial statements, management accounts and another warrant of their solvency to the PDU before any drawdown of payment is made. This allows the PDU to monitor the financial position of borrowers at each drawdown and withhold payments where appropriate.
12. Lessons learnt from due diligence, as well as uncertainty around timeframes for the border re-opening, has indicated the need for the PDU to closely monitor ITOs via these loan investments before officials consider the transfer of investments to PGFL. Until certainty is provided on international travel and the borders reopening, the PDU consider that it would be better for MBIE to hold these investments in the meantime to monitor the commercial viability and debt serviceability of ITOs.
13. Transferring these loans to PGFL now would be administratively burdensome for PGFL and its Board of Directors, as the loans would likely require immediate impairment/write-down analysis and action, which (if held by PGFL) would require input from the PGFL Board. This could also have flow-on impacts for the capitalisation of PGFL. It is still the intent at this stage for ITO investments to be transferred to PGFL if appropriate over time.
14. To allow for MBIE to hold ITO loans and make payments to borrowers immediately after loans have been executed, appropriation changes are required urgently by establishing a new non-departmental capital expenditure appropriation and carrying out a fiscally neutral transfer of \$20 million as noted below.

**New appropriations are required for MBIE to hold concessional ITO loans**

15. This briefing is seeking approval to establish the below appropriations to allow for MBIE to hold ITO loans and make payments to borrowers immediately after investments have been executed.

Vote	Appropriation Minister	Title	Type	Scope
Business Science and Innovation	Minister for Economic and Regional Development	Regional Economic Development: Tourism Capital Investment	Non-Departmental Capital Expenditure	This appropriation is limited to capital expenditure for tourism-related initiatives.

Business Science and Innovation	Minister for Economic and Regional Development	Regional Economic Development: Fair Value Write Down - Tourism	Non-Departmental Other Expense	This appropriation is limited to fair value write downs on loans made from the Tourism Recovery Fund
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16. The following appropriation changes are then required to carry out a fiscally neutral transfer of \$20 million as noted below:

Vote Business, Science and Innovation Minister for Economic and Regional Development	\$m – increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24
Non Departmental Capital Expenditure Regional Economic Development: Tourism Investment Provincial Growth Fund Limited	-	(20,000)	-	-	-
Non-Departmental Capital Expenditure: Regional Economic Development: Tourism Capital Investment	-	20,000	-	-	-

17. New Zealand financial reporting standards require an expense to be recognised when a concessional loan is advanced, reflecting the concessional elements of the loan terms (referred to as the 'fair value write down').
18. The establishment of the *Non-Departmental Other Expense Regional Economic Development: Fair Value Write Down – Tourism* appropriation, which is non-cash, will allow MBIE to recognise any concessional write downs and any potential impairment losses in the value on ITO loans, and that the impact of the fair value write down and impairment on loans is not counted against the funding allocated for ITO loans. The briefing proposes that the appropriation be initially set at \$20 million. The value has been estimated based on the ITO loan terms that Ministers have already agreed.

## Next steps

19. Once appropriation changes have been approved MBIE will then be able to make payments to ITO recipients once contracts have been executed.
20. There is a risk that payments could be held up if these appropriation changes are not approved in a timely manner. It is anticipated that the first payments could be required very quickly since a number of loan agreements are close to execution.