



BRIEFING

Request to draw down remaining contingency funding for the Tourism Sector Recovery Fund (tranche three)

Date:	31 August 2020	Priority:	High
Security classification:	In Confidence	Tracking number:	2021-0460

Action sought		
	Action sought	Deadline
Hon Kelvin Davis Minister of Tourism	<p>Agree to draw down the required funding for the third set of initiatives to be funded by the Tourism Sector Recovery Fund:</p> <ul style="list-style-type: none"> Regional Events Fund (\$50 million) Digital capability support (\$10 million) Strategic Tourism Asset Protection Programme (\$186.495 million, including \$20 million for Inbound Tourism Operator support) <p>Note that the Department of Conservation (DOC) will provide advice to draw down the remaining \$25 million which will enable it to waive DOC concession fees.</p> <p>Refer this briefing to the Ministers of/for Conservation, Tourism (Associate), Māori Development, and Regional Economic Development (Under Secretary) for their information.</p>	4 September 2020
Hon Grant Robertson Minister of Finance		
Hon David Parker Minister for Trade and Export Growth		
Hon Phil Twyford Minister for Economic Development		
Hon Stuart Nash Minister for Small Business		
Hon Shane Jones Minister for Regional Economic Development		

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
Danielle McKenzie	Acting Manager, Tourism Policy	04 896 5113	-	✓
s 9(2)(a)	Advisor, Tourism Policy	s 9(2)(a)	-	-

The following departments/agencies have been consulted

The Treasury, Tourism New Zealand, Department of Conservation

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 Withdrawn |



BRIEFING

Request to draw down remaining contingency funding for the Tourism Sector Recovery Fund (tranche three)

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Purpose

To seek approval to draw down \$246.495 million from the Tourism Sector Recovery Fund operating contingency, to cover a range of initiatives.

Executive summary

Cabinet established a \$400 million Tourism Sector Recovery Fund as a tagged contingency to support the tourism sector through COVID-19. Cabinet authorised the Ministers of/for Finance, Tourism, Trade and Export Growth, Economic Development and relevant appropriation Ministers to jointly draw down from the contingency.

As authorised Ministers, you have already drawn down \$128.505 million in two tranches to support a range of tourism recovery initiatives. \$271.495 million remains in the contingency.

This briefing seeks your agreement, as authorised Ministers, to draw down funding for the following initiatives, which Tourism Recovery Ministers have agreed to in principle:

1. \$50 million for a Regional Events Fund
2. \$10 million to support digital capability of the tourism sector
3. The Strategic Assets Protection Programme (STAPP), which, on face value of eligible applications, requires an additional \$186.495 million, including \$20 million to support Inbound Tourism Operators, grant funding and administrative costs for STAPP loans

This brings the total amount required \$12.903 million over the amount allocated in the tagged contingency. This shortfall was found after accounting for the costs of the Provincial Development Unit managing STAPP loans and once funding for all initiatives in the Tourism Recover Fund were finalised. In particular, s 9(2)(b)(ii)

_____ Tourism Recovery Ministers have agreed that s 9(2)(b)(ii) _____ will now be funded through the STAPP and were not accounted for in previous estimates.

We anticipate that the STAPP will be revised down as applications for funding includes costs that are covered by the Wage Subsidy Scheme and the waiver of DOC fees. We also consider that some tourism businesses will not be willing to take on debt, especially with no certainty about when international visitors will return. Therefore we recommend reducing the STAPP draw down to \$186.495 million, to better represent our assumptions around take-up and to fit within the contingency amount. Although this is MBIE's best estimate, if it eventuates that the contingency is over-subscribed after information of loan-take up comes through, we will update TRM on the options to respond to this.

This paper also deals with matters relating to administration of the loan scheme through the Provincial Development Unit (PDU). We recommend the Minister of Finance and Minister for

Regional Economic Development approve and sign the proposed new Subscription Agreement for PGFL for 105,700,000 ordinary shares at a price of \$1.00 per share in **Annex Two** to accept and hold STAPP and ITO loans.

A breakdown of the initiatives financed through the Tourism Sector Recovery Fund is attached at **Annex One**.

Recommended action

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

a **Note** that on 11 May 2020, Cabinet [CAB-20-MIN-0219.04 refers]:

- i. **Agreed** to funding for the Tourism Sector Recovery to cushion the impact of COVID-19 on the tourism sector and to position the sector for recovery, subject to further decisions on the criteria and governance principles for the funding;
- ii. **Agreed** to establish a tagged operating contingency of up to the amounts as follows in Vote: Business, Science and Innovation, to provide for the 'Tourism Sector Recovery Fund', which expires on 30 June 2021:

	\$m – increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Tourism Sector Recovery Fund – Tagged Operating Contingency	50.000	250.000	65.000	35.000	-

- iii. **Noted** that the funding in the tagged contingency 'Tourism Sector Recovery Fund' is being treated as operating expenditure, but depending on the decisions taken, some of the funding may end up being treated as capital expenditure;
- iv. **Authorised** the Minister of Finance, Minister of Tourism, Minister for Trade and Export Growth, Minister for Economic Development and any other relevant appropriation Minister to jointly draw down from the tagged contingency 'Tourism Sector Recovery Fund', subject to decisions described in recommendation a(i) above

Noted

b **Note** that \$128.505 million has already been drawn down from the tagged contingency in the 2020/21 financial year for the first and second set of investments from the Tourism Sector Recovery Fund, which consisted of:

- i. \$100 million for urgent allocation from the Strategic Tourism Asset Protection Programme, \$10 million for New Zealand Māori tourism, \$7 million to support tourism businesses to develop COVID-19 response plans, and \$0.750 million for funding administration [briefing 3452 19-20 refers]
- ii. \$10 million for the Regional Business Partners programme and \$0.755 million to support the New Zealand Tourism Futures Taskforce [briefing 2021-0056 refers]

Noted

c **Note** that this leaves \$271.495 million in the tagged contingency, as shown below:

\$m – increase/(decrease)

	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Tourism Sector Recovery Fund – Tagged Operating Contingency	50.000	121.495	65.000	35.000	-

d **Note** that Tourism Recovery Ministers agreed to support in principle, pending agreement from Ministers with delegated authority for the Tourism Recovery Package Contingency [briefings 2021-0368 and 3829 19-20 refer]:

- i. \$50 million for the Regional Events Fund including \$0.250 million to administer the fund
- ii. \$10 million for digital capability
- iii. The settings of the Strategic Assets Protection Programme, which officials estimate will require an additional \$166.198 million and \$20 million to support Inbound Tourism Operators
- iv. \$25 million for the DOC Concessions Waiver

Noted

e **Agree** to establish the following appropriation for the Regional Events Fund:

Vote	Appropriation Minister	Title	Type	Scope
Business Science and Innovation	Minister of Tourism	Tourism: Regional Events Fund	Non Departmental Output Expenses	This appropriation is limited to the funding of entities to support the delivery of events that will stimulate domestic tourism.

Agree / Disagree

f **Agree** to establish the following appropriations for the Crown's Tourism-related investments and management in Provincial Growth Fund Limited (PGFL):

Vote	Appropriation Minister	Title	Type	Scope
Business Science and Innovation	Minister for Regional Economic Development	Regional Economic Development: Tourism Investment Provincial Growth Fund Limited	Non Departmental Capital Expenditure	This appropriation is limited to the Crown's investment in the Provincial Growth Fund Limited for Tourism related projects
Business Science and Innovation	Minister for Regional Economic Development	Regional Economic Development: Tourism Investment	Departmental Output Expense	This appropriation is limited to the operating costs associated with administering tourism related initiatives

Agree / Disagree

g **Agree** to draw down \$50.000 million from the fund for Regional Events Fund, including \$0.250 million for administrative costs

Agree / Disagree

h **Agree** to draw down \$10.000 million from the fund for digital capability, including:

- i. \$5.000 million to Qualmark
- ii. \$5.000 million to the existing digital enablement package

Agree / Disagree

i **Agree** to draw down \$186.495 million from the fund to allocate through the Strategic Tourism Asset Protection Programme in a combination of grants and loans, including:

- i. Loan funding of \$172.823 million which includes \$20 million for Inbound Tour Operators (ITOs) and \$152.823 million for eligible STAPP applicants
- ii. Grant funding of \$10.672 million which, combined with remaining funding from the earlier drawdown, will support Regional Tourism Organisations and STAPP
- iii. \$1 million for ongoing management and administration of the STAPP
- iv. \$2 million for loan administrative costs

Agree / Disagree

j **Note** that under section 65L of the Public Finance Act 1989, the Minister of Finance may lend money to a person or organisation if it appears to the Minister to be necessary or expedient in the public interest to do so

Noted

k **Agree** to the following revision to the spending profile of the Tourism Sector Recovery Fund – Tagged Operating Contingency to allow for the drawdowns above:

	\$m – increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Tourism Sector Recovery Fund – Tagged Operating Contingency	50.000	121.495	65.000	35.000	-
Adjustment	(50.000)	138.678	(53.953)	(34.725)	-
Resulting tagged contingency amounts	-	260.173	11.047	0.275	-

l **Approve** the following changes to appropriations to provide for these decisions above with a corresponding impact on the operating balance and net core Crown debt:

	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Vote Business, Science and Innovation					
Minister of Tourism					
Non Departmental Output Expenses: Tourism: Marketing of New Zealand as	-	5.000	-	-	-

a Visitor Destination					
Tourism: Regional Events Fund	-	49.750	-	-	-
Tourism: Strategic Tourism Assets Protection Programme	-	-	10.672	-	-
Multi-Category Expenses and Capital Expenditure: Policy Advice and Related Outputs MCA Departmental Output Expense: Policy Advice and Related Services to Ministers – Tourism (funded by revenue Crown)	-	0.600	0.375	0.275	-
Minister for Small Business					
Multi-Category Expenses and Capital Expenditure: Small Business: Digital Enablement of Small Business MCA Non Departmental Output Expense: Small Business: Digital Enablement Small Business and Provider Funding and Services	-	5.000	-	-	-
Minister for Regional Economic Development					
Non Departmental Capital Expenditure Regional Economic Development: Tourism Investment Provincial Growth Fund Limited	-	172.823	-	-	-
Departmental Output Expenses: Regional Economic Development: Tourism Investment (funded by revenue Crown)	-	2.000	-	-	-
Total Operating	-	62.350	11.047	0.275	-
Total Capital	-	172.823	-	-	-

Approve / Disapprove

- m **Agree** that the expenses incurred under the recommendation above be charged against the Tourism Sector Recovery Fund – Tagged Operating Contingency previously established by Cabinet [CAB-20-MIN-0219.04 refers]

Agree / Disagree

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

Agree / Disagree

- o **Note** that \$25 million remains in the tagged contingency, and that DOC will provide further advice seeking to draw down this funding to enable DOC to waive concession fees

Noted

p **Note** that there is a potential \$12.09 million shortfall in FY 2021/22 and 2022/23:

- \$6 million for PDU administration costs, and
- \$6.903 million for STAPP loans

Noted

q **Note** that this shortfall is based on 100% loan take-up which, by MBIE's estimates, is not likely to occur meaning the shortfall will likely fit within the allocated amount

Noted

r **Note** that we will provide further advice to Tourism Recovery Ministers on addressing this shortfall if it eventuates once loan uptake is known

Noted

s **Agree** that \$6 million be transferred from STAPP and ITO loans to the PDU to cover the costs of administering the loans once loan uptake is known

Agree / Disagree

t **Refer** this briefing to the Ministers of/for Conservation, Tourism (Associate), Māori Development, and to the Under Secretary for Regional Economic Development for their information

Referred

Minister of Finance and Minister for Regional Economic Development

u **Note** that subscription agreements allow for PGFL to draw-down additional equity funding from the Crown (in tranches, or otherwise) as and when it is required to hold and make payments in relation to STAPP and ITO loans

Noted

v **Agree** to approve and sign the proposed new Subscription Agreement for PGFL for 105,700,000 ordinary shares at a price of \$1.00 per share in Annex Two to accept and hold STAPP and ITO loans

Agree / Disagree



Danielle McKenzie
Acting Manager, Tourism
Labour, Science and Enterprise, MBIE

31 / 08 / 2020

Hon Kelvin Davis
Minister of Tourism

..... / /

Hon Grant Robertson
Minister of Finance

..... / /

Hon David Parker
Minister for Trade and Export Growth

..... / /

Hon Phil Twyford
Minister for Economic Development

..... / /

Hon Stuart Nash
Minister for Small Business

..... / /

Hon Shane Jones
Minister for Regional Economic Development

..... / /

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OFFICIAL INFORMATION ACT

Cabinet created a Tourism Sector Recovery tagged contingency

1. In the COVID-19: Response and Recovery Fund Foundation Package, the Government established a \$400 million tagged contingency 'Tourism Sector Recovery Fund' for the purpose of cushioning the impact of COVID-19 on the tourism sector, and to position the sector for recovery [CAB-20-MIN-0219.04 refers]. This package is overseen by the Tourism Recovery Ministers Group, which is comprised of the Ministers of Tourism, Finance, Māori Development, and Conservation, and the Parliamentary Under-Secretary to the Minister for Regional Economic Development.
2. Cabinet authorised the Minister of Finance, Minister of Tourism, Minister for Trade and Export Growth, the Minister for Economic Development and any other relevant appropriation Ministers to jointly draw down from the tagged contingency.
3. Ministers have already drawn down \$128.505 million on the contingency fund for the first and second set of investments from the Tourism Sector Recovery Fund, including:

First set of investments (draw down approved 7 June – briefing 3452 19-20 refers)

- a. \$100 million for the Strategic Tourism Assets Protection Programme;
- b. \$10 million for New Zealand Māori tourism;
- c. \$7 million for the Tourism Transitions Programme; and
- d. \$0.750 million for MBIE to administer funds.

Second set of investments (draw down approved 20 July – briefing 2021-0056 refers)

- e. \$10 million for the Regional Business Partner programme; and
 - f. \$0.755 million for administrative support for the Tourism Futures Taskforce.
4. \$271.495 million remains in the tagged contingency.

Ministers have made further decisions on tourism recovery funding

5. Tourism Recovery Ministers (TRM) have made a series of further decisions regarding initiatives to be funded by the Tourism Sector Recovery Fund.
6. In June, TRM agreed that \$25 million of the fund be used for a Department of Conservation (DOC) concession fee waiver [briefing 3829 19-20 refers].
7. In July, TRM agreed that \$50 million of the fund be used to create a Regional Events fund, that \$20 million be used to support Inbound Tour Operators, and that \$10 million be used to lift digital capability in the tourism sector [briefing 2021-0368 refers]. At that same meeting in July, TRM agreed to the criteria for granting funding under the Strategic Tourism Assets Protection Programme.

\$50 million is required to create a Regional Events Fund

8. TRM agreed to establish a \$50 million Regional Events Fund to stimulate domestic tourism through events.
9. The purpose of the Fund is to stimulate domestic tourism through the provision of new events, or to ensure that pre-existing events continue to happen if they are not supported through other means.

10. In order to do this, Ministers must establish a new appropriation. We recommend that you agree to create the following appropriation:

Vote	Appropriation Minister	Title	Type	Scope
Business Science and Innovation	Minister of Tourism	Tourism: Regional Events Fund	Non Departmental Output Expenses	This appropriation is limited to the funding of entities to support the delivery of events that will stimulate domestic tourism.

11. \$0.250 million of this amount is required to administer the Regional Events Fund.
12. The funding is operating expenditure to be drawn down in 2020/21 financial year, as shown below:

	\$m increase			
	2020/21	2021/22	2022/23	2023/24 & Outyears
Vote Business, Science and Innovation				
Minister of Tourism				
Non Departmental Output Expense: Tourism: Regional Events Fund	49.750	-	-	-
Departmental Output Expense: Policy Advice and Related Services to Ministers - Tourism	0.100	0.075	0.075	-

\$10 million is required to lift digital capability in the tourism sector

13. Low productivity has been, and remains, an intractable challenge for the tourism sector. One of the contributors to this issue is a lack of investment in, and uptake of, digital tools, platforms and systems, particularly among operators that are small and medium enterprises (SMEs). This is linked to the fact that many SMEs are unaware of how digitalisation can enhance their businesses.
14. TRM agreed to:
- Funding of \$5 million to Qualmark to build off its work with tourism operators under the Tourism Transitions Programme, by helping them to develop digital strategies and access digital tools; and
 - Additional funding of \$5 million to the existing Digital Enablement Package, to be specifically earmarked to ensure that tourism operators can benefit from initiatives under this package.
15. This funding is operating expenditure to be drawn down in the 2020/21 financial year, as shown overleaf:

	\$m increase			
	2020/21	2021/22	2022/23	2023/24 & Outyears
Vote Business, Science and Innovation				
Minister of Tourism				
Non Departmental Output Expenses:				
Tourism Marketing of New Zealand as a Visitor Destination	5.000	-	-	-
Digital Enablement Small Business and Provider Funding and Services	5.000	-	-	-

An additional \$189.342 million over two years is required for the Strategic Tourism Asset Protection Programme

16. The Strategic Tourism Asset Protection Programme (STAPP) is intended to protect 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.
17. On 7 June, authorised Ministers agreed to draw down \$100 million from the tourism recovery fund to allocate through the STAPP in order to provide urgent investments outside of the application round. Of this, TRM agreed to allocate \$15.700 million in grants to AJ Hackett, Discover Waitomo, and Whale Watch Kaikōura.
18. TRM agreed that successful applicants to the STAPP through the formal application round will receive grant funding up to \$500,000 over two years. The remaining funding amount will be offered via a concessional loan.¹ The grant is not contingent on the loan.
19. TRM met on 24 July and agreed on successful STAPP applicants through the funding round. If all successful applicants through the funding round accept the full amount available to them, this will equate to \$60.252 million in grants and \$180.245 million in loans, to a combined total of \$232.432 million. This is in addition to the \$15.7 million already allocated.
20. In addition to the STAPP funding round, Ministers have agreed to allocate \$20.2 million to support Regional Tourism Organisations (RTOs) and \$2 million for STAPP administration. Ministers also agreed that up to \$20 million will be made available through the STAPP for Inbound Tour Operators (ITOs) via loans, as ITOs are a key link between overseas wholesalers and travel sellers.
21. The total allocation of STAPP (including investments that have already been drawn down) is shown in the table below.

STAPP	Funds Committed Specifics (up to \$million)
AJ Hackett	\$10.200
Discover Waitomo (THL)	\$4.000
Whale Watch Kaikōura	\$1.500

¹ A concessional loan is a loan that is substantially more generous than what is available on the market.

STAPP Approved Grants (including Māori businesses)	\$60.253
STAPP Approved Loans (including Māori businesses)	\$180.245
RTO support (grants)	\$20.200
ITO support (loans)	\$20.000
STAPP Administration	\$2.000
Total	\$298.398

22. The total amount in approved STAPP grants and 25 per cent of the approved amount in STAPP loans will be drawn down in the 2020/2021 financial year. The remaining 75 per cent of the approved amount for loans will be drawn down in the 2021/2022 financial year. RTO Support and STAPP Administration funding is required in the 2020/21 financial year.
23. As \$100 million has already been drawn down, an additional \$166.198 million is needed to meet the requirements of the STAPP.
24. However, when considered alongside the other initiatives listed in this briefing, this brings the total funding \$6.903 million over the amount set aside in the tagged contingency. This became apparent after finalising the cost of all the initiatives in the Tourism Recovery Fund. In particular, s 9(2)(b)(ii) [REDACTED] Tourism Recovery Ministers have agreed that s 9(2)(b)(ii) [REDACTED] will now be funded through the STAPP and thus were not accounted for in previous estimates.
25. We expect that the STAPP funding required will be revised down, as some applicants have identified costs already addressed by other government initiatives such as the Wage Subsidy Scheme and the DOC concessions fee waiver. We also anticipate that not all eligible STAPP firms will take up the loans. Some firms will be reconsidering their viability in light of an extended border closure. Others will be unwilling to take on additional debt during this period of uncertainty, no matter how concessionary the loan terms.
26. Therefore, we consider it appropriate to reduce this draw down by \$6.903 million in order to keep the total within the tagged contingency. This means that the total to be drawn down for STAPP is \$186.495 million.
27. The loan portion of the STAPP (including the support to ITOs) will be administered through the Provincial Growth Fund Limited, a schedule 4a company. To ensure the correct appropriation structure is in place for the STAPP loans we recommend the establishment of the following new non-departmental and departmental appropriations.

Vote	Appropriation Minister	Title	Type	Scope
Business Science and Innovation	Minister for Regional Economic Development	Regional Economic Development: Tourism Investment Provincial Growth Fund Limited	Non Departmental Capital Expenditure	This appropriation is limited to the Crown's investment in the Provincial Growth Fund Limited for Tourism related projects
Business Science and Innovation	Minister for Regional Economic Development	Regional Economic Development: Tourism Investment	Departmental Output Expense	This appropriation is limited to the operating costs associated with administering tourism related initiatives

28. The grant proportion (including the support to RTOs) will be administered by Tourism portfolio officials.
29. The phasing of funding for the STAPP programme across 2020/21 and 2021/22 is shown below:

	\$m increase			
	2020/21	2021/22	2022/23	2023/24 & Outyears
Vote Business, Science and Innovation				
Minister of Tourism				
Non Departmental Output Expense: Strategic Tourism Assets Protection Programme	-	10.672	-	-
Minister for Regional Economic Development				
Non Departmental Capital Expenditure Regional Economic Development Tourism Investments Provincial Growth Fund Limited	172.823	-	-	-
Departmental Output Expenses Regional Economic Development: Tourism Investment (funded by revenue Crown)	2.000	-	-	-
Departmental Output Expense: Policy Advice and Related Services to Ministers - Tourism	0.500	0.300	0.200	-

30. The grant proportion (including the support to RTOs) will be administered by Tourism portfolio officials.

Addressing the potential shortfall in funding

31. PDU officials have estimated a budget of up to \$8 million over four years (\$2 million in the first year, \$6 million over the following three years) is required to administer STAPP and ITO loans. The key assumptions of these figures are based on PDU having the capability to manage loan investments right through the end of its term: from applications, to assessment and possibly negotiations, to contract management and monitoring.
32. As noted above, there is currently \$2 million allocated for STAPP administration. We recommend that this funding is used to provide PDU with the additional capacity needed to deliver the STAPP loans. The \$2 million provides the PDU with required resource until the end of the 2020/21 financial year and would enable them to issue the loans.
33. An additional \$6 million is required by the PDU to manage STAPP loans for the remainder of the loan term. As noted above, STAPP loan funding is also \$6.903 over the amount available in the tagged contingency. This brings the total potential shortfall to \$12.903 million. If this shortfall would occur, it would be in the 2021/22 and 2022/23 financial years.

34. There is sufficient funding in appropriations for 2020/21 to allow the PDU to undertake management and payment of the STAPP loan scheme for this financial year.
35. We have previously advised TRM that there are options to address this shortfall [briefing 2021-0526 refers]. These options include:
- Use funding which is allocated but not utilised by firms to contribute towards the \$12.903 million shortfall once grant and loan uptake is known.
 - Seek to address it through Budget or any subsequent CRRF rounds
 - Explore if the funding can be found by delaying a previously announced Tourism Recovery Fund projects
36. We expect that the STAPP funding required will be revised down, as some applicants have identified costs already addressed by other government initiatives such as the Wage Subsidy Scheme and the DOC concessions fee waiver. We also anticipate that not all eligible STAPP firms will take up the loans. Some firms will be reconsidering their viability in light of an extended border closure. Others will be unwilling to take on additional debt during this period of uncertainty, no matter how concessionary the loan terms.
37. In light of this, we recommend that the potential \$12.903 million shortfall be noted as a financial risk which is likely to not eventuate. We will provide further advice to Ministers with more detailed options to address this once STAPP loan uptake is known.

Effects on the tagged contingency

In total, \$246.495 million is required for tranche three across four years

38. To give effect to these decisions, \$235.173 million is needed in financial year 2020/21, \$11.047 million is needed in financial year 2021/22 and \$0.275 million is needed in 2022/23.
39. In order to accommodate this draw down, a revision to the tagged contingency spending profile is required. This will transfer the remaining tagged contingency funding from financial years 2019/20 and 2022/23 to financial year 2021/22.

	\$ million in tagged contingency increase / (decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Amount remaining in tagged contingency after tranche 1 and 2 draw downs	50.000	121.495	65.000	35.000	-
Revision to spending profile	(50.000)	138.678	(53.953)	(34.725)	-
Contingency profile post-revision	-	260.173	11.047	0.275	-
Funding to be drawn down in tranche 3	-	(235.173)	(11.047)	(0.275)	-
Amount remaining in tagged contingency after tranche 3 draw down	-	25.000	-	-	-

DOC will provide further advice seeking to draw down the remaining funding

40. Following this draw down, \$25 million will remain in the tagged contingency in financial year 20/21.

41. TRM agreed that \$25 million would be made available to enable DOC to support tourism operators by providing a 16-month waiver of fixed and activity fees for all tourism-related concessions [briefing 3829 19-20 refers].
42. This will ease cash flow pressures for COVID-affected tourism businesses that hold DOC concessions, and fund the conservation activities and investment to which concessions revenue from tourism normally contributes.
43. This funding will be backdated to 1 March 2020, but will all be drawn down in the 2020/21 financial year.

Any further funding initiatives will need Cabinet agreement

44. The \$400 million Tourism Sector Recovery Fund is now fully allocated. If Tourism Recovery Ministers wish to proceed further with any additional funding initiatives, Cabinet's authority will need to be sought for funding. Any further initiatives could either be funded through a 'topping up' of the Tourism Sector Recovery Fund or as a standalone investment.

Capitalising PGFL to hold STAPP and ITO loans

45. TRM agreed that PGFL will hold the STAPP and ITO loans on behalf of the Crown. PGFL is an asset holding company that holds loans and equity investments that are managed by the Provincial Development Unit. This means that once loans have been contracted they will be transferred to PGFL to hold and the PDU, under a management agreement, is responsible for the day to day management and administration of PGFL's investments on the company's behalf.
46. Once STAPP and ITO loans are transferred to PGFL to hold, it is responsible to make and receive payments in respect of those investments. To allow PGFL to advance payments to recipients, Shareholding Ministers agreed that PGFL would initially be 100 per cent financed by equity and carry no debt [briefing 0398 19-20 refers]. The Subscription Agreement confirms the details of the uncalled capital facility or the number of shares to be held by PGFL and the process for making calls on shares in alignment with PGFL's constitution². It allows PGFL to draw-down equity funding from the Crown (in tranches, or otherwise) as and when it is required.
47. Another Subscription Agreement for PGFL is required to accept and hold STAPP and ITO loans. This proposed Subscription Agreement ensures that PGFL has the funding available to accept the transfer of these investments. Under the Management Agreement between the PDU and PGFL, PGFL is required to enter into funding arrangements with the Crown, via a Subscription Agreement, before it can accept the novation (transfer) of any investments.

It is recommended that the Minister of Finance and the Minister for Regional Development approve and sign the proposed Subscription Agreement for PGFL for STAPP and ITO investments

48. The proposed Subscription Agreement for PGFL for STAPP and ITO investments is appended to this briefing for your consideration and approval (see Annex Two). The Agreement was developed by Chapman Tripp under the instructions of the PDU and is in alignment with previously approved Subscription Agreements. Having new Subscription Agreements, rather than amending the existing subscription agreement, ensure that there is a clear separation for reporting purposes as more capital is being issued.
49. Clause 2 of the Subscription Agreement states that the Crown agrees to subscribe for, and PGFL agrees to issue 105,700,000 ordinary shares at a price of \$1.00 per share so it can

²The First Schedule of the PGFL constitution notes the provisions that govern the calling of shares, for example, that Shareholding Ministers must pay calls once the PGFL Board passes a resolution to make a call on capital.

accept and hold further PGF investments. This subscription is representative of 50% of the possible value of STAPP loans plus \$20.2 million for ITO loans. Another Subscription Agreement will be proposed to Shareholding Ministers once the level of uptake of loans becomes known.

50. The terms on which the shares will be issued remain unchanged and are listed in Schedule One of the proposed Subscription Agreement as follows:
 - a. The Shares will be issued as uncalled shares
 - b. The Shares are held in equal proportions by the two Shareholding Ministers on behalf of the Crown
 - c. The Shares rank equally with all other ordinary shares of the Company as to voting, distribution and all other rights
 - d. The consideration for Shares is payable in accordance with clause 12 of the PGFL constitution which states that the PGFL Board may make calls on any Shareholder for any money that is unpaid on that Shareholder's shares
 - e. The period of notice for calls on the shares to be issued shall be 20 working days.
51. The proposed Subscription Agreement contains a clause to allow the value of the uncalled capital or the number of available shares to be varied via additional subscription agreements. This will ensure that further investment can be made in PGFL to hold and manage more investments.
52. Subject to Shareholding Ministers' approval to the proposed Subscription Agreement for STAPP and ITO investments, PGFL will be able to make a call against this uncalled capital facility. This will ensure that PGFL would have the cash to make payments against those investments once the investment agreements are transferred to PGFL.

Annexes

Annex one: Breakdown of Tourism Sector Recovery Fund

Annex two: Proposed Subscription Agreement for PGFL to hold and accept STAPP and ITO loans.

Annex one: Breakdown of Tourism Sector Recovery Fund

Summary of initiatives

Draw down tranche	Project	\$ million				
		2020/21	2021/22	2022/23	2023/24	TOTAL
1 & 3	Strategic Assets Protection Programme (STAPP)	\$147.817	\$137.678	-	-	\$285.495
1	AJ Hackett	\$10.200	-	-	-	\$10.200
	Discover Waitomo	\$4.000	-	-	-	\$4.000
	Whale Watch Kaikoura	\$1.500	-	-	-	\$1.500
1 & 3	STAPP Approved Loan	\$38.998	\$116.993	-	-	\$155.991
1 & 3	STAPP Approved Grant	\$45.669	\$4.937	-	-	\$50.606
3	STAPP Māori Tourism Loan	\$3.338	\$10.013	-	-	\$13.350
3	STAPP Māori Tourism Grant	\$1.912	\$5.736	-	-	\$7.648
3	STAPP Administration	\$2.000	-	-	-	\$2.000
3	Regional Tourism Organisation Support	\$20.200	-	-	-	\$20.200
3	Inbound Tourism Operators Loans	\$20.000	-	-	-	\$20.000
1	New Zealand Māori Tourism (through TPK)	\$10.000	-	-	-	\$10.000
1	Funding administration	\$1.250	\$0.300	\$0.200	-	\$1.750
2	Tourism Futures Taskforce	\$0.755	-	-	-	\$0.755
1 & 2	Development of COVID-19 Response plans	\$17.000	-	-	-	\$17.000
1	Support through Qualmark	\$5.000	-	-	-	\$5.000
1	Support through New Zealand Māori tourism	\$2.000	-	-	-	\$2.000
2	Support through Regional Business Partners Network	\$10.000	-	-	-	\$10.000
3	Building digital capability	\$10.000	-	-	-	\$10.000
3	Qualmark Digital Capability	\$5.000	-	-	-	\$5.000
3	Digital Enablement Package	\$5.000	-	-	-	\$5.000
3	Regional Events Fund	\$49.850	\$0.075	\$0.075	-	\$50.000
3	Regional Events Fund	\$49.750	-	-	-	\$49.750
3	Fund administration	\$0.100	\$0.075	\$0.075	-	\$0.250
4	DOC Concessions Waiver	\$25.000	-	-	-	\$25.000
TOTAL		\$261.672	\$138.053	\$0.275	-	\$400.000

Summary of tranches for drawing down funding

	\$m – increase/(decrease)					
	2019/20	2020/21	2021/22	2022/23	2023/24	TOTAL
Tourism Sector Recovery Fund	50.000	250.000	65.000	35.000	0.000	400.000
Revision to spending profile	(50.000)	138.678	(53.953)	(34.725)	0.000	Neutral
Post-revision	0.000	388.678	11.047	0.275	0.000	400.000
Tranche 1 Drawdown (3452 19-20)		(117.750)				(117.75)
Tranche 2 Drawdown (2021-0056)		(10.755)				(10.755)
Tranche 3 Drawdown (2021-0460)		(235.173)	(11.047)	(0.275)	0.000	(246.495)
Tranche 4 Drawdown (TBD)		(25.000)				25.000
Total to be drawn down		388.678	11.047	0.275	0.000	400.000

Annex two: Proposed Subscription Agreement for PGFL to hold and accept STAPP and ITO loans.

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Subscription Agreement

Provincial Growth Fund Limited (the
Company)

The Sovereign in Right of New Zealand acting
by and through the Minister of Finance and
the Minister for Regional Economic
Development (the *Crown*)

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SUBSCRIPTION AGREEMENT

Date: 2020

PARTIES

Provincial Growth Fund Limited (the *Company*)

The Sovereign in right of New Zealand acting by and through the Minister of Finance and the Minister for Regional Economic Development (the *Crown*)

Each a *Party* and, together the *Parties*

BACKGROUND

A The New Zealand Government has allocated three billion dollars over a three year term to invest in regional economic development through the Provincial Growth Fund (*PGF*) which aims to lift productivity potential in New Zealand's provinces. The *PGF* is administered by the Provincial Development Unit (*PDU*) which was established in 2018 within the Ministry of Business, Innovation and Employment (*MBIE*). Other regional economic development funding may be administered by, or with the assistance of, the *PDU* from time to time.

B In the course of administering the *PGF* and other regional economic development funding, *MBIE* may identify certain Investment Agreements that are to be transferred to the *Company*.

C The *Company*, a Schedule 4A company under the Public Finance Act 1989, was established to act as the nominated legal entity for:

C.1 taking novation of rights, benefits, liabilities and obligations; and

C.2 accepting transfer of any Investments held, or which would otherwise be held,

under an Investment Agreement and its Related Agreements in relation to the relevant Investment.

A In connection with the novations of certain Investment Agreements and associated transfers of securities, the *Crown* and the *Company* wish to record the manner in which the *Company* will issue, and the *Crown* will subscribe for, 105,700,000 additional ordinary shares to be held in equal proportions by each Minister to assist the *Company* in providing funding to support regional economic development.

THE PARTIES AGREE as follows:

1 DEFINITIONS AND CONSTRUCTION

1.1 Defined terms

In this agreement, unless the context requires otherwise:



Act means the Companies Act 1993;

Aggregate Subscription Amount has the meaning given to that term in clause 2;

Completion means the fulfilment of the completion obligations of the parties set out in clause 4;

Company means Provincial Growth Fund Limited, company number 7707517, having its registered office at 15 Stout Street, Wellington central, Wellington, 6011, New Zealand;

Completion Date means a date to be agreed by the Company and The Treasury (acting on behalf of the Ministers) in writing;

Conditions means the terms and conditions applicable to the Shares as set out in Schedule 1;

Constitution means the constitution of the Company from time to time;

Crown means the Sovereign in right of New Zealand;

Encumbrance means a security interest, mortgage, charge, lien, pledge, option, first right of refusal, right of pre-emption or any other adverse interest of any nature;

Investments has the meaning given to that term in the Investment Management Agreement;

Investment Agreements has the meaning given to that term in the Investment Management Agreement;

Investment Management Agreement means the investment management agreement to be entered into between MBIE and the Company (as amended from time to time) in relation to the Investments;

Issue Price means \$1.00 per Share;

MBIE has the meaning given to that term in Recital A;

Ministers means the Minister of Finance and the Minister for Regional Economic Development and *Minister* means each of them;

PDU has the meaning given to that term in Recital A;

PGF has the meaning given to that term in Recital A; and

Shares means ordinary shares in the Company to be issued on terms set out in the Conditions, each to be issued for the Issue Price.

1.2 Construction

In the construction of this agreement, unless the context requires otherwise:



Clauses and Schedules: a reference to a clause or a schedule is to a clause or schedule of this agreement, and a reference in a schedule to a clause is a reference to a clause in that schedule;

Currency: a reference to any monetary amount is to New Zealand currency;

Defined Terms: words or phrases appearing in this agreement with capitalised initial letters are defined terms and have the meanings given to them in this agreement;

Documents: a reference to any document, including this agreement, includes a reference to that document as amended or replaced from time to time;

Headings: headings appear as a matter of convenience and do not affect the construction of this agreement;

No Contra Proferentem Construction: the rule of construction known as the contra proferentem rule does not apply to this agreement;

Parties: a reference to a party to this agreement or any other document includes that party's personal representatives/successors and permitted assigns;

Person: a reference to a person includes a corporation sole and also a body of persons, whether corporate or unincorporate;

Related Terms: where a word or expression is defined in this agreement, other parts of speech and grammatical forms of that word or expression have corresponding meanings;

Singular, Plural and Gender: the singular includes the plural and vice versa, and words importing one gender include the other genders;

Statutes and Regulations: a reference to an enactment or any regulations is a reference to that enactment or those regulations as amended, or to any enactment or regulations substituted for that enactment or those regulations; and

Writing: a reference to "written" or "in writing" includes all modes of presenting or reproducing words, figures and symbols in a tangible and permanently visible form.

2 SUBSCRIPTION FOR SHARES

2.1 Agreement to Subscribe

The Crown agrees to subscribe for, and the Company agrees to issue, the number of Shares at the Issue Price for the aggregate subscription amount set out in the table below (*Aggregate Subscription Amount*), to be held in equal proportions by each Minister on the terms and conditions set out in this agreement.

Number of Shares	Aggregate Subscription Amount
105,700,000	\$105,700,000



2.2 Issue of Shares

On the Completion Date, the Company shall issue the Shares to the Crown, to be held in equal proportions by each Minister.

2.3 Terms of Shares

The Shares will be issued on, and subject to, the terms set out in the Conditions.

2.4 Entry on register

The Company must ensure that each Minister's name is entered in the register of shareholders of the Company as holders of the Shares on Completion.

3 NO ENCUMBRANCES

The Company must issue the Shares to the Crown on the Completion Date:

- (a) free of all Encumbrances; and
- (b) together with all rights attaching to the Shares at the time of issue.

4 COMPLETION

4.1 Completion Date

Completion will occur on the Completion Date.

4.2 Completion obligations

At Completion, the Company must:

- (a) deliver to the Crown a copy of a valid resolution of the directors of the Company:
 - (i) approving the creation and issue of the Shares to the Crown; and
 - (ii) directing that each Minister's name be entered into the Company's share register in respect of the Shares; and
- (b) issue the Shares to the Crown by procuring the entry of the name of each Minister in the Company's share register in respect of the Shares; and
- (c) provide the Crown with evidence satisfactory to the Crown that the Ministers are the holders of the Shares.

4.3 Interdependent obligations

The Parties' obligations on the Completion Date are interdependent and Completion will not occur until the Parties have complied with all of their obligations set out in clause 4.2 and, once all such obligations have been complied with, Completion will be deemed to have occurred.



5 ENTITLED PERSONS AGREEMENT AND MAJOR TRANSACTION APPROVAL

5.1 Entitled persons agreement

The Ministers, being the "entitled persons" (as defined in section 2(1) of the Act) in relation to the Company, agree that the Company may issue the Shares to the Ministers on the terms and conditions set out in this agreement, and that in issuing the Shares the Company need not comply with sections 42, 44 or 45 of the Act pursuant to section 107(2) of the Act.

5.2 Authorisation of issue in accordance with Constitution

The Ministers expressly authorise the issue of the Shares on the terms and conditions set out in this agreement, for the purposes of clause 10.2 of the Constitution.

5.3 Approval of major transaction

The Ministers, being the only shareholders of the Company, approve the Company's issue of the Shares on the terms and conditions set out in this agreement as a major transaction if and to the extent required by and for the purposes of section 129(1) of the Act.

6 ADDITIONAL FUNDING

To the extent that the Crown and the Company agree that the Company requires additional equity funding to accept further novations of Investment Agreements and associated transfers of securities, the Parties may agree in writing, at any time, for the Crown to subscribe for, and the Company to issue, an additional number of Shares at the Issue Price, to be held in equal proportions by each Minister and on the same terms and conditions set out in this agreement.

7 GENERAL

7.1 Amendment

No amendment to this agreement or the Conditions will be effective unless it is in writing and executed by the Company and the Crown.

7.2 Further assurances

Each of the Parties must do any thing, including execute and deliver any documents, as may reasonably be required by any other party to obtain the full benefit of this agreement according to its true intent.

7.3 No waiver

A waiver of any provision of this agreement will not be effective unless given in writing, and then it will be effective only to the extent that it is expressly stated to be given. A failure, delay or indulgence by any Party in exercising any power or right will not operate as a waiver of that power or right. A single exercise or partial exercise of any power or right will not preclude further exercises of that power or right or the exercise of any other power or right.



7.4 No assignment

No Party shall transfer, assign, dispose of or create any Encumbrance over or deal in any manner with the benefit or burden of this agreement, without obtaining the prior consent in writing of the other Party.

7.5 Severability

If any part of this agreement is held by any court or administrative body of competent jurisdiction to be illegal, void or unenforceable, such determination shall not impair the enforceability of the remaining parts of this agreement which shall remain in full force.

7.6 Entire agreement

This agreement constitutes the entire agreement between the Parties relating to the subscription for, and issue of, the Shares. The agreement supersedes and extinguishes all earlier agreements, whether oral or written, between the Parties relating to the subscription for, and issue of, the Shares.

7.7 Governing law/jurisdiction

This agreement and the rights of the parties are governed by and construed in accordance with the laws of New Zealand. Each of the Parties irrevocably agrees that the Courts of New Zealand have non-exclusive jurisdiction to hear any suit, action or proceedings, and to settle any disputes which may arise out of or in connection with this agreement and for such purposes irrevocably submits to the jurisdiction of such Courts.

7.8 Counterparts

This agreement may be executed in any number of counterparts. Once the parties have executed the counterparts, and each party has received a copy of each signed counterpart which that party did not execute, each counterpart will be deemed to be as valid and binding on the party executing it as if it had been executed by all the parties.

7.9 Costs

The Parties will meet their own costs relating to this agreement.

EXECUTION

For and on behalf of Provincial Growth Fund
Limited by:

Name:

Title:

SCHEDULE 1: CONDITIONS OF SHARES

- 1 The consideration for which each Share will be issued is \$1.00 per Share (being \$105,700,000 for 105,700,000 Shares to be issued).
- 2 The terms on which the Shares will be issued are as follows:
 - 2.1 the Shares will be issued as uncalled shares;
 - 2.2 the Shares shall be held in equal proportions by the Shareholding Ministers on behalf of the Crown;
 - 2.3 the Shares shall rank equally with all other ordinary shares of the Company as to voting, distribution and all other rights;
 - 2.4 the consideration for the Shares shall be payable in accordance with clause 12 of the Constitution;
 - 2.5 for the purposes of clause 3 of the First Schedule of the Constitution, the period of notice for calls on the 105,700,000 Shares to be issued shall be 20 working days.

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