

CROWN REGIONAL HOLDINGS LIMITED

(formerly Provincial Growth Fund Limited)

Statement of Performance Expectations

2021 – 2022

Presented to the House of Representatives
pursuant to section 149L of the *Crown Entities Act 2004*

28 June 2021

*Provincial Growth Fund Limited changed its name to Crown Regional Holdings Limited (CRHL) on 24 June 2021

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1. Introduction

This Statement of Performance Expectations is submitted by the Board of Directors of Crown Regional Holdings Limited (the Company or CRHL), pursuant to the Crown Entities Act 2004 (the Act). This Statement of Performance Expectations sets out the forecast performance of the Company for the period from 1 July 2021 to 30 June 2022.

The Company's prospective financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (GAAP) and its audited accounts will comply with the Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS) and other applicable Financial Reporting Standards as appropriate to profit-oriented public benefit entities.

Statement of responsibility

The Company is responsible for the prospective financial statements contained in this document, including the appropriateness of the underlying assumptions.



Rodger Finlay
Chair



Neville Harris
Director

28 June 2021

2. Objectives

The overall objective of the Crown, via the Provincial Growth Fund (PGF) and other regional economic development initiatives, is to invest in regional economic development in New Zealand, including by providing various forms of financial support for recipients in regional New Zealand. The Crown's decision making in relation to PGF investments is governed by the criteria for PGF decision-making published by the Ministry of Business, Innovation and Employment (MBIE) from time to time, which includes non-financial criteria. The Crown wishes to hold its interests in certain PGF and other regional economic development investments through a limited liability company called Crown Regional Holdings Limited (CRHL, formerly Provincial Growth Fund Limited), but in doing so the Crown wishes to ensure that the primary responsibility for management and administration of those investments remains with the Crown.

The objectives of the Company are to:

- (a) act as an asset holding company to hold investments made through the PGF and other regional economic development initiatives;
- (b) maintain and comply with the Management Agreement with the Provincial Development Unit (now Kānoa – Regional Economic Development & Investment Unit, (Kānoa – REDIU)), which is part of MBIE, under which CRHL will outsource the day-to-day management and administration of investments to Kānoa - REDIU;
- (c) supervise and monitor the performance of MBIE's obligations under the Management Agreement, consistent with CRHL's company constitution; and
- (d) operate commercially and in a manner that optimises investments, minimises costs, reflects the funds' overarching objectives and ensures the timely distribution of any surplus funds.

3. Classes of Outputs

3.1 The Company has no reportable classes of outputs.

3.2 The Company makes only minimal outputs (within the meaning of section 2(1) of the Public Finance Act 1989) that are incidental to its objectives as set out in Section 2 above. These outputs are mostly derived from investment income received on bank deposits, loans and equity investments.

4. Nature and scope of functions and operations

4.1 *Funding*

The Company will receive operational funding to cover day-to-day costs from the Crown. In time, it will also generate investment income from the investments that have been and continue to be novated (transferred) to it by Kānoa - REDIU.

4.2 *Managing and Realising Assets*

The Company will manage the investments on behalf of the Crown. This may include providing funds consistent with existing agreements, managing interest and principal repayments of the loans and taking whatever steps are necessary to manage the loans and equity investments.

In practice, CRHL will outsource the day-to-day management and administration of all such investments to MBIE under the Management Agreement.

The Company will also acquire, manage and realise any other assets or investments as directed or approved by its Shareholding Ministers.

5. Impacts, outcomes and objectives

5.1 Commercial objectives

The Company is expected to operate commercially and in a manner that optimises investments, minimises costs, and reflects the funds' overarching objectives and ensures the timely distribution of any surplus funds.

6. Distribution Policy

6.1 The distribution policy provides for an annual distribution to be made to the Crown based on the available cash at the end of the year less cash required for forecast operating costs and investments over the subsequent year, and a cash buffer as agreed from time to time by the Crown. Such distributions will be by way of return of capital or dividends.

6.2 The Company is not expected to make any distributions in relation to the period to 30 June 2022.

7. Statement of significant assumptions

7.1 The key significant forecast assumptions are:

- (a) Investments will continue to be novated to the Company as soon as is practicable.
- (b) The Management Agreement with MBIE will continue to remain in effect.

8. Performance Measures

8.1 The following performance measures will apply to CRHL with 100% compliance to be targeted:

- (a) Contract management: the percentage of counterparties that have a contract management plan in place and receive contact from Kānoa – REDIU at least once every quarter.
- (b) Contract delivery: the percentage of counterparties that complete deliverables as per contract or for which variations are agreed prior to delivery period being completed.
- (c) Contract payment: The percentage of payments made to counterparties within 11 working days of a valid drawdown notice being received.
- (d) Portfolio risk management: The percentage of investments, notified by the Head of Kānoa - REDIU (or his delegate) to the CRHL Chair within 24 hours following Kānoa - REDIU increasing the RAG status of the investment to Red.

9. Forecast financial statements

9.1 Prospective Statement of Comprehensive Income for the year ending 30 June 2022

| | Note | 2021/22 Full year Budget \$000 |
|--|------|---|
| Revenue | | |
| Interest income on loans and advances | | 6,199 |
| Unwind of concessions | 1 | 3,009 |
| Funding from Crown - operating | | 2,200 |
| Other interest earned | | 400 |
| Total revenue | | 11,808 |
| Expenses | | |
| Concessions granted | 1 | (42,734) |
| Fair value gain/ (loss) on loans and advances | 2 | (36,010) |
| Provision for impairment of loans and advances | | (23,842) |
| Service agreement with Ministry of Business, Innovation and Employment | | (840) |
| Audit fees | | (56) |
| Director fees | | (134) |
| Other overheads and expenses | | (94) |
| Total expenses | | (103,710) |
| Net surplus / (deficit) | | (91,902) |
| Total comprehensive revenue / (expense) | | (91,902) |

Note 1: A loan is concessionary when the terms entered into are below standard market conditions. An expense (referred to as "concessions granted") is recognised on drawn and undrawn portion of a loan and represents a difference between the interest charge per standard market conditions and those offered by the Crown. Over the life of the loan the concession is reduced to nil (referred to as "unwind of concessions").

Note 2: Fair value movement of loans and advances includes write-downs of suspensory loans as the Crown may forgive these amounts in the future if a borrower meets agreed public benefit outcomes and other write-downs due to increased credit risk.

9.2 Prospective Statement of Financial Position as at 30 June 2022

| | 2021/22 Full year Budget \$000 |
|--|---|
| Current assets | |
| Cash and cash equivalents | 94,032 |
| Interest receivable | 2,172 |
| Trade and other receivables | 100 |
| Current portion of loans and advances | 5,674 |
| Total current assets | 101,978 |
| Non-current assets | |
| Capitalised interest receivable | 4,595 |
| Loans and advances | 650,081 |
| Less: Concessions granted | (88,354) |
| Less: Fair value (decrease)/ increase | (69,456) |
| Less: Provision for impairment of loans and advances | (45,236) |
| Equity investments | 80,250 |
| Investments in associates | 19,000 |
| Fixed assets | 58,564 |
| Total non-current assets | 609,445 |
| Total assets | 711,422 |
| Current liabilities | |
| Trade and other payables | 100 |
| Provision for concessionary loss on undrawn loan commitments | 21,367 |
| Total current liabilities | 21,467 |
| Total liabilities | 21,467 |
| Net assets | 689,955 |
| <i>Represented by:</i> | |
| Shareholders' equity | |
| Share capital | 894,818 |
| Retained earnings | (204,863) |
| Total shareholders' equity | 689,955 |

9.3 Prospective Statement of Changes in Equity for the year ending 30 June 2022

| | 2021/22 Full year Budget \$000 |
|---|---|
| Opening equity | 581,857 |
| Equity injections from the Crown - cash calls | 200,000 |
| Transfer of assets from Ministry of Business, Innovation and Employment | - |
| Net surplus / (deficit) for the period | (91,902) |
| Closing equity | 689,955 |
| Made up of: | |
| Share capital | 894,818 |
| Retained earnings | (204,863) |
| Closing equity | 689,955 |

9.4 Prospective Statement of Cash Flows for the year ending 30 June 2022

| | 2021/22 Full year Budget \$000 |
|---|---|
| Cash flows from operating activities | |
| Crown revenue | 2,200 |
| Interest received | 1,402 |
| Payments to Ministry of Business, Innovation and Employment | (840) |
| Other operating expenses | (150) |
| Net GST receivable/ (payable) | 3,913 |
| <i>Net cash flows from / (to) operating activities</i> | <i>6,525</i> |
| Cash flows from investing activities | |
| Net Loan (advances made) / repayments received | (345,622) |
| Equity investments made | (37,350) |
| Purchase of fixed assets | (30,000) |
| <i>Net cash flows from / (to) investing activities</i> | <i>(412,972)</i> |
| Cash flows from financing activities | |
| Proceeds from calls on capital from the Crown | 200,000 |
| <i>Net cash flows from / (to) financing activities</i> | <i>200,000</i> |
| Net increase / (decrease) in cash and cash equivalents | (206,447) |
| Opening balance of cash and cash equivalents | 300,479 |
| Closing balance of cash and cash equivalents and term deposits | 94,032 |

Notes to the prospective financial statements

(1) Reporting entity

Crown Regional Holdings Limited (CRHL, formerly Provincial Growth Fund Limited) is a limited liability company incorporated in New Zealand under the *Companies Act 1993* and is a Schedule 4A entity of the *Public Finance Act 1989*. CRHL is domiciled and operates in New Zealand. CRHL's ultimate parent is the New Zealand Crown.

CRHL's primary objective is to act as an asset holding company to hold loans and equity investments made through the Provincial Growth Fund and other regional economic development initiatives. CRHL does not operate to make a financial return.

CRHL has designated itself as a public benefit entity (PBE) for financial reporting purposes.

CRHL is exempt from income tax and has an exemption under the *Anti-Money Laundering and Countering Financing of Terrorism Act 2009*.

Pursuant to section 65ZD of the *Public Finance Act 1989*, on 10 December 2019, the Crown acting by and through the Minister of Finance agreed to provide an indemnity to CRHL. This indemnity covers losses, liabilities, damages, costs, charges and expenses which CRHL suffers as a result of the performance, or non-performance, of MBIE under a management agreement.

CRHL is prevented from borrowing any funds unless authorised by Shareholding Ministers as per sections 162 and 160 of the *Crown Entities Act 2004*.

The prospective financial statements for CRHL are for 12 months ending 30 June 2022, and were approved by the Board on 28 June 2021.

(2) Basis of preparation

The prospective financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently since the inception of CRHL.

Statement of compliance

The prospective financial statements of CRHL have been prepared in accordance with the requirements of the *Crown Entities Act 2004*, which includes the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

CRHL is a Tier 1 entity and the prospective financial statements have been prepared in

accordance with Tier 1 PBE accounting standards.

Actual financial results achieved for each forecast period are likely to vary from information presented and the variations may be material.

Presentation currency and rounding

The prospective financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000), except for when stated otherwise.

Measurement basis

The prospective financial statements have been prepared on the basis of historical cost unless otherwise noted within the specific accounting policies below.

(3) Significant accounting policies

Revenue

Funding from the Crown

CRHL is primarily funded from the Crown. This funding is restricted in its use for the purpose of CRHL meeting the objectives specified in the *Crown Entities Act 2004* and the scope of the relevant appropriations of the funder.

CRHL considers there are no conditions attached to the funding and it is recognised as revenue progressively over the period of entitlement.

Interest income

Interest income is recognised when earned using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less. All cash and cash equivalents are held in New Zealand.

Loans and advances

Loans and advances measured at amortised cost

Loans and advances are initially measured at fair value, and subsequently at amortised cost using the effective interest method.

Notes to the prospective financial statements (continued)

An expected credit loss model (ECL) is used to recognise impairment losses. ECL is determined by evaluating a range of possible outcomes, taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Evidence that a loan may be impaired includes significant financial difficulty of a borrower; a breach of contract such as a default or past due event; a restructuring of a loan on terms that CRHL would not consider otherwise; or a borrower entering bankruptcy or other financial reorganisation.

Loans and advances measured at fair value through profit or loss

Loans and advances measured at fair value through profit or loss are recognised initially by writing the amount lent down to its fair value. The fair value is determined by projecting forward estimated cash inflows from borrowers and discounting them back at an appropriate discount rate.

Equity investments

Equity investments are initially recognised at fair value with gains and losses subsequently recognised in the statement of financial performance. The fair value is assessed on an annual basis by reference to market value, for example, the quoted price for investments or recent observable trades in similar assets. Where there is no active market or observable trades, equity investments are valued using the discounted cash flow analysis.

Investments in associates

An associate is an entity over which CRHL has a significant influence. Significant influence is a power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over these policies.

Investment in associates is accounted for using equity method whereby the investment is initially recognised at cost and subsequently adjusted for the post-acquisition change in CRHL's share of the investee's net assets.

Fixed assets

Fixed asset is recognised as an asset only when it is probable that future economic benefits or service potential associated with this item will flow to CRHL and the cost of the item can be measured reliably.

Work in progress is recognised at cost less impairment and is not depreciated.

Goods and Services Tax (GST)

All items in the prospective financial statements, except for receivables and payables, are presented exclusive of GST.

(4) Critical accounting estimates and judgements

In preparing these prospective financial statements, CRHL has made estimates and assumptions concerning the future. These estimates and assumptions might differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on a number of factors, including expectations of future events that are believed to be reasonable under the circumstances.

Coronavirus (COVID-19) pandemic

The ongoing COVID-19 pandemic has increased the estimation uncertainty associated with:

- the extent and duration of the disruption to businesses arising from the actions by governments, businesses, and consumers to contain the spread of the virus; and
- the extent and duration of the expected economic downturn.

CRHL has developed various accounting estimates based on forecasts of economic conditions and of borrowers' ability to meet their financial and non-financial obligations to CRHL.

These estimates reflect expectations about future events that the Directors believe are reasonable in the circumstances.

There is a considerable degree of judgement involved and accordingly, actual events are likely to be different from those forecast. The effect of those differences may significantly impact accounting estimates included in these prospective financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to the expected credit losses and recoverable amount assessment of non-financial assets held as collateral for loans and advances.

