

3. PROPOSED ECONOMIC DEVELOPMENT FUND

The 1999 Plan proposes the establishment of an Economic Development Fund by utilising \$41 million of the proceeds of the sale of Orion's retail business. The Annual Plan envisages that the fund will be used to provide for:

"...a variety of projects to ensure economic development...which generate long term jobs in Christchurch or the Canterbury region..."

The Plan is currently open for public consultation. Submissions close on 18 June and they will be heard during the week commencing 5 July. The Plan specifically calls for input from the public on whether such a fund should be established and asks for suggestions on uses for the fund, if it is.

Between May 1998 and approximately September 1999 the repayments to this Council will amount to \$229million. Of this sum it is proposed to use \$188 million for debt repayment.

WHY HAS A FUND BEEN PROPOSED?

The thinking behind the proposed fund is that Council had received a windfall from the forced sale of Southpower. The debate at the Strategy & Resources Committee drew out that we are holding this money in Trust as it represents the accumulated wealth created by previous generations. It represents "family silver" we have been forced to sell. If this is the case then it would seem appropriate that we invest in the future wealth of this region to assist the growth of jobs for our community.

In summary, Council's underlying rationale is:

- The capital nature of the money should be retained and it should be applied for the long term benefit of future generations. It would be inappropriate to distribute permanently funds which have been earned over a period of several generations. Its application needs to be in the form of an investment which will bring benefit to the community as a whole.
- Despite significant economic growth in Christchurch since the early 1990's, unemployment remains stubbornly and unacceptably high.
- Business investment can give rise to a private return (to the shareholder/investor) and also to a community return. In some instances the community return can make a project worthwhile although it may fall short of normal commercial criteria in terms of its private return. An example of such a project is the Christchurch Convention Centre which has a high return in stimulating in-bound tourism but does not itself make a commercial return. The Council would invest primarily for a community return since a community return would give rise to the following components:

- The 'Income generation multiplier' effect of the investment – by providing jobs the investment puts money into the pockets of Christchurch residents who, in spending it, generate demand or business for other goods and services, thereby stimulating job growth elsewhere in the community.
- Savings in the cost of welfare benefits to those who would otherwise not be in employment.

THE MONEY DOES RELIEVE RATES AT THE PRESENT TIME

The Council has not committed the fund to any specific projects at this stage. It has budgeted for the interest earnings on the fund to be applied in relief of general rates over a four year period with provisional utilisation of the fund being drawn down over the four years as follows: 1999/00 \$3M; 2000/01 \$5M; 2001/02 \$5M; 2002/03 \$28M. These draw downs do not relate to any specific project and are included in the budget to ensure that the interest earnings from the fund are not over estimated.

HOW MIGHT THE FUND BE USED?

Much of the debate has focused around the issue of whether or not we should be involved in an irrigation scheme on the Canterbury Plains or an ICAN Centre. The irrigation scheme has been suggested because this could produce numbers of semi skilled jobs for a portion of our population for whom there is little hope at the moment. It would also increase primary produce to which further value could be added.

The ICAN Centre is a proposal to link together the research and development which is occurring at the two universities and the numerous Crown Research Institutions in this city. At the moment the links between the private sector and these institutions are not strong. At present numerous potential jobs are lost to this city and this country because the commercial potential of this research is not exploited for our local community.

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Since these proposals have been discussed publicly a number of other ideas have surfaced. Some from the business sector have suggested altering the concept of the ICAN Centre into a "Virtual" Centre. Another suggestion is that we as a city should be looking at methods of assisting the growth of existing businesses through new product development. Several other suggestions are:

- That Council earthquake proof the Arts Centre. The thinking behind this is that the Centre is an icon in this city and if reduced to rubble by an earthquake we would lose a key attraction of this city.
- That Council address the issue of smog through a loans scheme to remove the smog created by fires in this city. The rationale behind this proposal is that new business needs to be attracted to Christchurch and one of the few detractions is the smog. More businesses here will lead to more jobs.
- That Council invest some funds for the revival of the central city. At present the centre of Christchurch is in a depressed state and the hope is that the Mayoral Forum on the Central City will lead to a new approach to the centre of our city, but this is likely to need funds.

It is important that no final decision is made on the Fund establishment and its criteria until the submissions on the annual plan are heard as this would pre-empt the input from the public and would not allow any issues raised through consultation to be taken into account.

CONSULTATION

As this is a major new initiative the Council wished to consult the public on the establishment of this fund. It is currently perceived that there should be three distinct phases of this consultation:

- On the Concept itself - if it is resolved to proceed with a fund, then :
- On the Criteria and Governance
- On individual projects

The first phase is currently in process and will be completed at the time the Annual Plan is confirmed by the Council in late July taking account of community views expressed as part of the process.

The second phase would proceed if following consideration of submissions Council was to proceed with the concept. A Fund would operate with criteria which are carefully prepared to ensure that only projects which truly add value for the local community were supported. It is intended that there be meaningful consultation at this phase with a wide range of interest groups including Canterbury Manufacturers, Employers Chamber of

Commerce, Financial Service providers, Community Employment Initiatives Group and the Council of Christian Social Services to ensure that the criteria and governance issues are developed in conjunction with those groups which are interested and can help in ensuring a sound structure.

The extent to which there is consultation on individual projects will depend on the criteria and governance arrangements established, but considering the potential size of projects it would seem to be prudent for consultation to take place with the public and/or the groups identified above on individual projects of a significant nature.

CRITERIA AND GOVERNANCE

While it is too early to give detailed consideration to possible criteria for utilisation of the fund, some of the basic issues which would need to be covered are:

- Sustainability of the fund
- Employment generation potential
- Sustainability of the projects
- Grants and/or loans
- Funding from income on the fund or capital
- Transparency
- Multiplier effect
- Attraction of other investors
- Recoverability of the investment and recycling of funds
- Prevention of “double dipping”
- Environmental impact
- Rigorous and independent feasibility studies as a pre-requisite

Recommendation: For discussion.