

10. UNIVERSITY OF CANTERBURY INNOVATION INSTITUTE - UNDERWRITING

General Manager responsible:	Director of Strategic Investment
Officer responsible:	Director of Strategic investment
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PURPOSE OF REPORT

1. The purpose of this report is to seek Council approval to underwrite fundraising by the University of Canterbury for an Innovation Institute, which will ensure the ability to secure Government funding of \$9.7 million for the project.

EXECUTIVE SUMMARY

2. The University of Canterbury has developed a proposal to establish an Information and Communications Technology (ICT) research and training facility which will bring together industry-led and university-led research and development to help enhance the local ICT industry and make it very significant in international terms. This is expected to have a very positive impact on the regional economy.
3. The Government has offered \$9.7 million in suspensory loans provided an equal amount of funding can be guaranteed from private sector sources and can be assured by January 2006.
4. The University of Canterbury Foundation is committed to raising the necessary local funds but needs a longer period to raise the required amount.
5. The University has sought Council support in the form of underwriting the private sector funding to an amount of \$5 million.
6. It is not intended that Council funding be uplifted on a permanent basis, if at all.
7. If called upon to provide the underwriting the Council could treat the funding as an investment and on the basis of an agreement entered into for the provision of the underwriting, would obtain interest on the funds which would leave the Council in an income neutral position.

FINANCIAL AND LEGAL CONSIDERATIONS

8. The Council has significant financial resources in the form of reserve funds but because of its own commitments for its own capital programme is not in a position to divert those funds to outside entities on a permanent basis.
9. The Council does have other funds such as the Capital Endowment Fund which needs to keep its capital intact to produce an ongoing income but which could be invested in this project if the underwriting is called up.
10. The Investment Policy of the Council allows for an unsecured investment of this nature provided it has been approved by the Council.
11. An investment with an interest income flow would leave the Capital Endowment fund income in a neutral position.

STAFF RECOMMENDATIONS

It is recommended:

- (a) That the Council approve the underwriting of the University of Canterbury Innovation Centre project to the maximum amount of \$5 million.
- (b) That the Council confirm that should the underwriting commitment be called up, that it be made available in the form of an unsecured interest bearing loan as an investment of part of the Capital Endowment Fund.
- (c) That the Director of Strategic Investment be authorised to enter into an agreement with the University of Canterbury and to finalise the details of that agreement.

BACKGROUND ON UNIVERSITY OF CANTERBURY INNOVATION INSTITUTE - UNDERWRITING

12. The University of Canterbury (UOC) wishes to establish a national centre of excellence for research and training in information and communication technology (ICT). It is seen to be an important opportunity to grow the economic development potential of the region in ICT as it will provide a means of linking industry led R&D with academic expertise and enable post graduate research ideas to be developed through to reality.
13. Attached is a summary of the proposal and request to Council to help facilitate this project through the provision of underwriting. A seminar for Councillors has been arranged for 11.30am on 11 October where the Vice Chancellor will outline more about the project and the benefits it will bring to the city.
14. The total project has a cost of \$19.4 million and government funding through a suspensory loan of \$9.7 million has been announced provided an equivalent local amount can be raised.
15. The UOC has approached the Council to assist it to secure the government funding of \$9.7 million which has been promised for this project provided UOC can prove to the government by 6 January 2006 that it has an equal amount secured from local sources.
16. The UOC already has on hand funds of approximately \$3 million and believes that it can raise the balance from industry research partners over the following two years. The University Foundation headed by Mr Steven Collins has made a commitment to raise the needed funds. However, the government will only make its commitment available subject to the following conditions:
 - The ability to raise the total amount of local funds must be demonstrated by 6 January 2006.
 - A pattern of drawdown of the government funds must be committed to on 6 January 2006.
 - Funds do not have to be on hand on 6 January but a commitment to have the matching local money available on the forecast dates must be met or government funding will be foregone.
 - The Government will only make available funds to match what is actually on hand on the drawdown dates.
17. The UOC is seeking an underwriting commitment from the Council of \$5 million so that it can secure the funding offer from government by January 2006. They do not intend to draw this from the Council in the long term although they may need to call it up temporarily if their fundraising cannot achieve the pattern of drawdown forecast in January 2006.
18. The Council's Strategic Directions document has goals, objectives and challenges under the 'Prosperous Economy Outcome' which are consistent with the support of the proposal. In particular some of the relevant references are:
 - Goals and Objectives**
 - Enhance business activity in the city by investing in, managing and encouraging provision of infrastructure, byfacilitating the provision of 'next generation' communications infrastructure.
 - Work in partnership with the business and education sectors to attract and train people with diverse skills that meet business needs, by supporting the development of trade and professional skills to meet current and future needspromoting and teaching the entrepreneurship and values of business to the community ...supporting the work of the tertiary education providers
 - Key Challenges**
 - Investing in Innovation We need to invest more in research and development and to become more effective at getting good ideas to market.
19. One of the important aspects of this facility will be its ability to produce significantly better graduates in the ICT area which will be a major complement to the plan to position Christchurch as an internationally significant digital city.

OPTIONS

20. The Council has three options for dealing with this request:
- Take no action
 - Make a grant
 - Provide underwriting

PREFERRED OPTION – PROVIDE UNDERWRITING

21. Assuming that the Council wishes to ensure that UOC is able to gain access to the government funding of \$9.7 million and provide this facility to help grow the local ICT industry and economy, then the preferred option is to provide the requested underwriting support of \$5 million for this project.
22. Although this request is for underwriting and there is a genuine expectation that UOC will not need to call up the underwriting, it will be a contingent liability for the Council until such time as the funds are all raised by UOC and will need to be recorded in the Council's accounts in this way.
23. Because there is a contingent potential for this underwriting to be called up it, is necessary to consider how the Council would handle it in those circumstances. It is my recommendation that this be by way of an investment in an interest bearing loan and therefore the matter needs to be evaluated against the criteria in the Council's Investment Policy.
24. The Council's Investment Policy provides that loans to community organisations may be made provided they are authorised by the Council. Such loans should have a designated funding source and if they are to be unsecured this must be specified. It is therefore within the Council's power to determine to make a loan to UOC on the basis outlined and on the assumption that UOC as a public entity is seen as a community organisation. From my initial investigations such a loan would need to be unsecured given the restrictions on UOC from pledging its assets and revenues as security. The fact that UOC is a Crown backed public entity should be adequate to assure the Council that any loan funds do not need to be specifically secured since they would be provided to a secure public body for a facility which could not be estranged from public ownership.
25. Should the Council agree to this underwriting then I believe that it should be supported by a properly drawn up agreement which not only spells out the circumstances on which the underwriting would be made available but also the basis on which any underwriting would be treated as a loan until such time as it is repaid.
26. If the underwriting was called up then it could be treated as an investment of funds from the Capital Endowment Fund and the interest payable by UOC would enable the budgeted income of the Capital Endowment Fund to be maintained. In this way the Council budget and forecasts would be unaffected.

ASSESSMENT OF OPTIONS

The Preferred Option – Provide Underwriting

	Benefits (current and future)	Costs (current and future)
Social	NA	NA
Cultural	Enhances opportunities for highly skilled post graduates in ICT to be developed. Institute will be a new destination for domestic as well as international students	No direct cost to the Council
Environmental	Proposed building intended to be an icon building by which New Zealand's ICT industry is recognised	No direct cost to the Council
Economic	Government grant of \$9.7 million towards this facility is assured. Attraction of global companies because the region is rich in innovative research and educated manpower Expertise to drive ICT development in the region.	Nil cost. Risk that underwriting may be called up in which case the Council would charge interest and remain in a neutral position regarding its income stream.

Extent to which community outcomes are achieved:

Primary alignment with community outcome a prosperous city .. based on a range of successful and innovative businesses.

Also contributes to strategic objectives as noted above in the background section of this report.

Impact on Council’s capacity and responsibilities:

No direct impact on the Council’s capacity as even if underwriting is called up it will be in the form of an investment and income flows will be maintained.

Effects on Maori:

Neutral

Consistency with existing Council policies:

Consistent with the Council’s policy to encourage economic development. Project supported by CDC

Views and preferences of persons affected or likely to have an interest:

This is the preferred option for the University and its supporting industry partners

Other relevant matters:

Refer to other parts of this report.

Maintain The Status Quo – Take no action

	Benefits (current and future)	Costs (current and future)
Social	NIL	NIL
Cultural	NIL	NIL
Environmental	NIL	NIL
Economic	NIL	NIL
<p>Extent to which community outcomes are achieved: No contribution to community outcomes. May mean the loss of funding and failure to achieve the proposal by UOC. This would lose an opportunity to contribute to the Prosperous City community outcome</p> <p>Impact on Council's capacity and responsibilities: Nil</p> <p>Effects on Maori: Neutral</p> <p>Consistency with existing Council policies: Failure to achieve this economic development opportunity at no cost to ratepayers</p> <p>Views and preferences of persons affected or likely to have an interest: University and local ICT industry would be disenchanted at the lack of Council support</p> <p>Other relevant matters: Refer to other parts of this report.</p>		

Option 3 – Make a Grant

	Benefits (current and future)	Costs (current and future)
Social		
Cultural	Enhances opportunities for highly skilled post graduates in ICT to be developed. Institute will be a new destination for domestic as well as international students.	
Environmental	Proposed building intended to be an icon building by which New Zealand's ICT industry is recognised.	
Economic	Government Grant of \$9.7 million towards this facility is assured. Attraction of global companies because the region is rich in innovative research and educated manpower. Expertise to drive ICT development in the region.	Cost of \$5 million grant would be a direct cost on rates and if spread over two years would add approximately 1.4% to the rates in each year.
<p>Extent to which community outcomes are achieved: Primary alignment with community outcome a prosperous city .. based on a range of successful and innovative businesses. Also contributes to strategic objectives as noted above in background section of this report.</p> <p>Impact on Council's capacity and responsibilities: A grant would add significantly to forecast rate increases and reduce the Council's ability achieve other objectives.</p> <p>Effects on Maori: Neutral</p> <p>Consistency with existing Council policies: Failure to achieve this economic development opportunity at no cost to ratepayers</p> <p>Views and preferences of persons affected or likely to have an interest: Undoubtedly would make interested parties commitment much easier but this is more than is being asked for.</p> <p>Other relevant matters: Refer to other parts of this report.</p>		