

SUBMISSION TO CCC ANNUAL PLAN

MAY 2004

FUNDING LEVELS FOR CEDF

Summary:

Council has proposed that the current split in the way the earnings from the Capital Endowment Fund are distributed (70% economic development/30% community projects) be changed to a 60%/40% split. The panel of CEDF who administer the funding decisions on behalf of the Council wish to make a strong case that the existing funding split should be kept at 70%/30%.

Background

Since the Canterbury Economic Development Fund began operating in mid 2002 it has made \$2,098,966 available to 8 new business projects in Canterbury. The eight recipients are:

- 1. Brylton Software Ltd equity of \$350,000**
- 2. Gracelinc Ltd loan of \$200,000**
- 3. Central Plains Water Ltd Loan Convertible to Equity of \$416,666**
- 4. HITLab NZ Ltd grant of \$200,000**
- 5. Canterbury Innovation Incubator Ltd (Cii) grant of \$146,300**
- 6. Enztec Ltd loan of \$350,000**
- 7. Imbada Project at Lincoln Ventures Ltd grant of \$236,000**
- 8. Ultralab South Ltd grant of \$200,000**

In making their decisions on who should receive funding CEDF has considered a number of other clients who appeared worthy of funding but who had risks that were not sufficiently researched or parts of the project which had not been well enough presented. The six-monthly timetable of CEDF has made it impractical to improve and then consider some of these applications in the few weeks available.

Changes to CEDF Procedures.

CEDF sees benefits to clients in operating a continuous process that will accept applications all through the year, work with applicants to get the proposals complete and ready for investment, and have CEDF meetings every six weeks to approve those applications that meet the criteria for CEDF.

This new process will result in a larger number of clients who meet the CEDF criteria, whom CEDF will want to grant funds to.

Meeting the objectives of CEDF and obtaining the outcomes that the Council wants will be more difficult with the reduced percentage of funding that has been proposed for next year.

The Existing Regime for Distributing the CEF Earnings

At the 70%/30% ratio CEDF received funding of \$1,425,244 for the 2002/03 year, and will receive funding of \$1,662,000 for the 2003/04 year. The funding was lower in the first year because the CEF investments earned at a lower rate.

The Proposed Regime for 2004/05

Next year it is proposed that CEDF will receive \$1,449,708. This is a drop of 12.8%, down to only 87.2% of the amount for last year. Assuming constant operating costs for CEDF, this means that CEDF will be unable to fund one project worth \$212,292, that it would otherwise have been able to fund.

That will be the equivalent of a Gracelink Ltd or a HITLabNZ project not getting CEDF support in the 2004/05 year, and for each year after that.

The CEDF panel objects strongly to the suggested reduction of CEDF funding from 70% of the CEF earnings to only 60% of those earnings.

The Long-Term Nature of an Investment Programme

When investing in new or existing business projects, neither the flow of potential deals nor the achievement of success or outcomes happens in a regular fashion. New deals or clients appear in a spasmodic fashion, and the clients that are funded each achieve success in a spasmodic fashion.

There will therefore be periods of time when it is not appropriate to spend the investment money, and CEDF will keep the funding until a later date when better clients appear. If the Council is going to remove part of the funding at source every time CEDF exercises a prudent waiting option, then CEDF is going to fail to meet its objectives. Such a process will cause CEDF to invest in more risky projects, to avoid the political removal of that funding.

In future years CEDF will be recovering funds from these early clients and increasing the amount of funding available for economic development. Loans are due for repayment in 2007 and 2008 for example, and shares in Brylton could be sold at a suitable time. In these later years the effect of reducing the funding from 70% to 60% can be cushioned by the other funds being repaid. But the reduction of CEDF funding in 2004/05 or 2005/06 has an immediate and significant impact on the number of projects that can be assisted.

RECOMMENDATION

The CEDF panel recommends that the Council decide not to alter the ratios of CEF earnings given to economic development and community projects, and continue the existing system of distributing 70% of the earnings for economic development and 30% of the earnings for community projects.

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