

16th April 2009

Draft LTCCP
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Long-Term Council Community Plan (LTCCP) 2009 – 19

Submission from - Canterbury Development Corporation Limited (CDC) and the Canterbury Economic Development Fund Trustees Limited (CEDF)

The Canterbury Development Corporation Limited (CDC) and the Canterbury Economic Development Fund Trustees Limited (CEDF) appreciate the opportunity to make a submission on the draft LTCCP 2009-19.

This submission has the objective of informing the Council of the implications of the draft proposals (as outlined under Council Activities and Services, Economic Development, Pages 146 – 157), as they effect both organisations.

Canterbury Development Corporation

CDC has adopted a new approach to economic development, which it presented to Council on 12 February 2009, under the by-line of 'Next Gen CDC'. Next Gen CDC will grow the local and regional economy on the basis of a well developed economic development strategy which is founded on appropriate and effective infrastructure, the development of high value-add industry sectors, and targeted support for export-oriented businesses.

To resource Next Gen, CDC intends, for the period FY 2009-2012, to configure its underlying fixed costs to the Christchurch City Council's (CCC) annual funding. CDC is able to adopt such an approach due to the CCC inflation adjusting this funding, which now allows CDC, for the first time, to be able to plan ahead with some certainty for its key people.

To complement this base funding, CDC intends to selectively pursue additional third party contract funding from the likes of New Zealand Trade and Enterprise, where it is directly relevant to growing the economy, and apply such funding to variable, contract based project resources. In doing this, CDC seeks to leverage the investment that CCC is making in CDC as its economic development agency.

While CDC is of the view it could achieve better things more quickly (and provide greater leverage) with more CCC funding, it is mindful of the competing pressures on CCC funding. Accordingly CDC would like CCC to reserve the ability to provide some additional funding to CDC, on a case by case basis, where CDC can demonstrate that additional investment will produce significant returns to the City.

Canterbury Economic Development Trustees Limited

It is CEDF's contention that reducing Special Project Grants from the Capital Endowment Fund (CEIF) from \$1m (2008-09 FY) to \$350,000 per annum has the potential to severely limit the Fund's long term sustainability and effectiveness.

Given the funding of \$350,000 per annum, and assuming annual investments of \$850,000, (which compare with an average annual distribution over the last two years of \$1.43m), the fund will be left with a modest balance as at 30 June 2012.

All the indications are, however, that additional demands will be put upon CEDF funds in the near term as a result of the current economic conditions. CEDF currently has a very full 'pipeline' and is having to turn away quality proposals which meet its investment criteria.

As a consequence the board of CEDF Trustees Limited has undertaken a thorough review and has concluded that by significantly changing the way it is funded and is managed, the Fund can continue to play an important role in the economic development of the region in the short term.

Funding

Three basic funding options, none of which are mutually exclusive, have been identified to address this situation,

1. To reduce the average distribution and/or the number of distributions.
2. To manage the Fund down and exit current investment over time.
3. To obtain additional funding to maintain the historic level of distribution. Possible alternative funding sources include: -

- *Relying on dividends, divestments, and interest from distributions.* This will require a change in the positioning of the Fund whereby it accommodates applications from more established organisations where the risk/reward profile is significantly superior to that of a start up company.
- *A CDC balance sheet drawdown.* CDC currently has a modest surplus of retained earnings above any foreseeable requirements for contingent funding, and proposes to transfer this amount to CEDF.
- *Innovation Funding.* As a result of the leadership of CDC, the Canterbury Innovation System is continuing to develop into an integrated and effective system to fast-track local ideas and products to market. Enabling CDC and CEDF to play a more proactive role has the potential to open up funding sources for commercialisation from TEC¹, MRST², FRST³, SCIF⁴ and the like.

It is anticipated some of this funding will be available as matched funding, necessitating CEDF to have sufficient funds available to make appropriate investments.

- *Private Funding.* Through Powerhouse Ventures Limited (PVL), CEDF is currently joined in a limited partnership to the value of \$300,000, matched by PVL. The potential to develop similar partnership arrangements needs to be explored, not only with PVL, but with other venture capital and equity funders who operate locally.

¹ Tertiary Education Commission

² Ministry of Research, Science and Technology

³ Foundation for Research, Science and Technology

⁴ Seed Co-Investment Fund

Fund Management

In addition to developing these funding options, CEDF is proposing changes to the way it operates, where the objective is to improve the quality of interventions and more tightly manage the existing portfolio. These changes include,

1. Engaging professional advisers to market the Fund. The need for the Fund to attract third party funding as described above will demand a credible fund manager capable of securing appropriate investment partners.
2. Engaging professional advisers to evaluate applications in order that the trustees receive the best quality advice and recommendations.
3. Have those same advisers responsible for the management of the overall portfolio in order to ensure ongoing accountability and a professional relationship is developed with Fund recipients.

The grant funding proposed represents a real challenge to the future effectiveness of CEDF at a time when the Fund is becoming an integral part of the Canterbury Innovation System. This system is itself becoming a national model for commercialising research and development. Given the economic circumstances which are expected to prevail over the next few years and beyond, it is vital that the Fund is able to provide incisive local contribution to growing companies. The CEDF Trustees Limited considers that the current LTCCP funding proposal is problematic to CEDF achieving this goal.

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