



Report 08.922
Date 24 November 2008
File WRS/09/01/01

Committee Wellington Regional Strategy
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Grow Wellington Funding 2009/10

1. Purpose

This report sets out the options for funding Grow Wellington from regional rates for the 2009/10 financial year. Under its Terms of Reference the committee is to make a recommendation to Greater Wellington for the level of funding for Grow Wellington in its 2009 Long Term Council Community Plan/Annual Plan.

2. Significance of the decision

The matters for decision in this report **do not** trigger the significance policy of the Council or otherwise trigger section 76(3)(b) of the Local Government Act 2002.

3. Background

3.1 Previous Funding Decisions for the Economic Development Agency

During the process to establish the Wellington Regional Strategy (WRS) and the regional economic development agency there was much debate about the level of funding the agency was to receive from rates collected by Greater Wellington. The WRS Forum, and then the Interim WRS Committee, proposed the following targeted economic development rate levels (excl GST):

2007/08: \$4.0 million

2008/09: \$4.5 million

2009/10: \$5.0 million

2010/11 and beyond: \$5.0 million plus projected inflation.

This proposal was taken through a public consultation process (in the form of an amendment to Greater Wellington Long Term Council Community Plan) in September 2006. The Interim Committee confirmed the proposed rate funding levels at its meeting on 30 January 2007. Greater Wellington endorsed that decision at its meeting on the 22nd February 2007.

A minor change was made to the rates provisions for the economic development agency through the Mediated Agreement that followed the decisions of the Interim Committee and Greater Wellington. Clause 2 of the Agreement states that:

“GW will ensure the inclusion of provisions in the multi-lateral agreement for agreement by the parties that:

2.1 Caps the amount sought by GW rates for economic development for the WRS at \$5 million plus GST subject to CPI adjustments until 30 June 2012”

The WRS Multi-Party Agreement (signed by all the region’s councils in late 2007) includes the following provisions:

“6 Funding Protocols

6.1 The Councils agree to abide by the following protocols in regard to funding the WRS and its initiatives:

6.1.1 GW will, subject to any further recommendations of the WRS Committee in accordance with clause 6.1.3, set a targeted regional economic development rate of no more than:

- (a) \$4 million plus GST in 2007/08 allocated as set out in clause 6.1; and*
- (b) \$4.5 million plus GST in 2008/09; and*
- (c) \$5 million plus GST in 2009/10; and*
- (d) \$5 million plus GST increased by the CPI increase over the previous year, in 2010/11;*
- (e) the cap amount for 2010/11 calculated under paragraph (c), increased by the CPI increase over the previous year, in 2011/12;*

subject to the GW Annual Plan and LTCCP process and in accordance with the adopted proposals.

6.1.2 The targeted regional economic development rate for 2007/08 will be allocated on the following basis (allocating 42% to businesses and 58% to non-businesses):

- *A uniform annual charge to residential ratepayers of \$12.50 plus GST.*
- *A uniform annual charge to rural ratepayers of \$25 plus GST.*
- *The remainder of the cost of the GW CCO being charged to businesses on the basis of their capital values.*

6.1.3 *GW agrees to allocate the funds received from the GW targeted regional economic development rate to the WRS Committee to fund the new GW CCO or any other delivery entity approved by the WRS Committee to deliver the economic development initiatives outlined in the WRS. GW will not allocate any part of the targeted economic development rate for initiatives that are inconsistent with the WRS.*

6.1.4 *The WRS Committee will require that the statement of intent for the GW CCO will include an explicit statement to record that capital or operational expenditure on community facilities or events are not activities that can be funded by the GW CCO.*

6.1.5 *GW will deal with any subsequent desire (by either GW or any of the other Councils), to increase or decrease the annual GW targeted regional economic development rate or to adjust the agreed rating allocation formula from that set out in clause 6.1.2 in the following manner:*

- (a) *by referring the matter to the WRS Committee for consideration and recommendation;*
- (b) *by only acting on a recommendation by the WRS Committee that has received the support of a three quarters vote of the WRS Committee;*
- (c) *by not proposing any increase in the targeted rate above the amount recorded in this document, unless all of the Councils that are a party to this document support the proposed increase.”*

3.2 Grow Wellington Statement of Intent 2008/09

The Grow Wellington Board released its Statement of Intent 2008/09 in April 2008. It shows its expectations for income (excl GST) from Greater Wellington as follows:

2008/09	\$4.4 million
2009/10	\$4.5 million
2010/11	\$5.0 million

The increasing funding levels are in effect one year behind the increases signalled in the Long Term Council Community Plan. Grow Wellington has indicated previously to the Committee that it will only seek the funding levels it needs, rather than asking for the funding at levels provided for in the Long Term Council Community Plan.

The regional council has budgeted \$4.3 million for Grow Wellington in the current (2008/09) financial year and is forecasting that it will require all this funding.

A copy of Grow Wellington's Income Statement from the Statement of Intent 2008/09 is in **Attachment 1**.

3.3 WRS Office Funding

In addition to the rate collected by Greater Wellington to fund Grow Wellington, there is a general rate collected to fund the activities of the WRS Office. The annual budget for the office is \$400,000 (excl GST). Greater Wellington collects \$100,000 as a general rate. The balance of the funding is assumed to be from external sources.

In 2007 when the office was established it was thought that the majority of the WRS Office funding would come from the Regional Strategy Fund, administered by NZ Trade and Enterprise. The fund provides up to \$750,000 over three years to regions to support the development and implementation of regional economic development strategies. At the time it was decided that the WRS Office, not the economic development agency, would seek funding support from this source.

The rules governing the Regional Strategy Fund have made accessing funding quite difficult for the types of projects the WRS Office is doing. Consequently an informal agreement has been reached with the Chief Executive of Grow Wellington that the Company would make use of this fund, in lieu of funding from the Grow Wellington regional rate. Up to \$250,000 of the Grow Wellington rate would be used by the WRS Office instead of going to Grow Wellington and the WRS Committee would support Grow Wellington's applications for funding from the Regional Strategy Fund.

4. Grow Wellington Funding Request

Grow Wellington has confirmed it will not require the full \$5 million from the region in the 2009/10 year. It has requested funding at \$4.5 million. See **Attachment 2**.

The funding deed entered into between Greater Wellington and Grow Wellington (on the recommendation of the WRS Committee) records that the maximum annual funding for the 2009/10 year will be \$5 million + GST. The funding deed also records that funding that is not drawn in a financial year may be carried forward by Grow Wellington to the following year without reducing the annual funding for the following year.

5. Analysis of Funding Options

The Chief Executives met on Friday 14th November to consider the funding of Grow Wellington. They acknowledged that there are strong pressures on councils to hold rate increases at relatively low levels in the coming few years, and in particular 2009/10. In response to this pressure, and prior to the Chief Executives' meeting, the Chief Executive of Grow Wellington had been working with Greater Wellington's Chief Executive to explore the opportunities and consequences of lower-than-forecast funding levels to Grow Wellington. The following is a summary of Grow Wellington's assessment of different funding scenarios. It should be noted that the Grow Wellington Board has not considered these options.

5.1.1 Funding at \$4.5m

"With \$4.5m Grow Wellington will achieve the outcomes set out in the Statement of Intent and in doing so provide a series of platforms for growth from which to launch as the economy comes out of recession. This includes, for example, embedding the Screen and Digital Technology and Biotechnology and Life Science Centres of Excellence with a series of industry growth projects, delivering our Sector projects, and working with up to 150 individual businesses across our Business Growth Programme to deliver investment, export markets and jobs.

Conventional economic wisdom (and feedback from our clients and stakeholders) is that this is the time to invest in growth. Grow Wellington is uniquely placed to ensure this investment is both strategic and tactical; working as it does in partnership with all the relevant regional economic players. To spend any less we risk undermining the resilience of our economy and potentially slowing its recovery.

An important part of the approach Grow Wellington takes to growing the region's economy is to leverage the money we receive from the regional rate to secure further funding and resources for our work. In this context "leveraging" means securing outcomes far greater than the original investment made by our organisation. All our work is underpinned by this philosophy and ensures that our approach to economic development is not only truly regional but leverages or draws on the collective resources and economic drivers of all of the Wellington region's economic participants - businesses, tertiary and research institutions, business support organisations and iwi.

So for example, in Grow Wellington's Centre of Excellence programme, we use our own funds as a catalyst for far greater investment. In the case of the Health, Education and Research Collaborative (HERC Centre) our \$10,000 contribution to a collaborative pool will attract \$50,000 from the other collaborative members and contribute to a wider initiative which we expect would bid for upwards of \$5m in central Government funding. This funding will in turn contribute to the establishment of a facility we expect to attract a slice of the health care market which will generate millions in export revenue.

From an internal perspective we apply this approach too. All aspects of our work leverage or gain greater traction from initiatives in other areas of the organisation meaning the impact we create for any of our clients, projects or programmes is far greater as a result. We actively put in place processes to ensure this is effective and part of the way we work.”

5.1.2 Funding at \$4.3m

“There are a number of options management might consider in the event of a budget cut. These could include cutting projects and/or people, slowing the delivery of projects or making a percentage cut across all the organisation’s activities.

Given the highly interrelated nature of the work we do and the extent to which all aspects of our work leverage or gain greater traction from initiatives in other areas of the organisation we will need to undertake careful analysis of each of these options.

We have however identified the following as initiatives we might consider cutting or slowing given the possibility they could be picked up by others in the region. They are the skills programme, Angel HQ and our international connectivity together with work on “Telling the region’s story internationally”. We might also look to substantially reduce the marketing budget.

Reducing our marketing budget will have the most severe impact on our Business Growth programme with the consequence that regional businesses will not receive our services, commercial connections and advice, miss funding and grant opportunities, productivity enhancement and export markets.

Cutting or slowing the skills programme will have the most severe impact on the region’s ability to place skilled migrants with employers with the consequent impact on productivity and international connections. It will also remove our ability to offer practical help to our Business Growth clients and employers with skills development, skills investment and replacement. As one of our higher profile programmes there will also be stakeholder management issues to consider.

Cutting or slowing the delivery of Angel HQ will impact on the region’s start-up and early stage expansion companies which would lose the Region’s only central access point to Wellington’s angels and the national angel network. It would also have a direct impact on our Activate and Incubator clients who will also lose this source of early stage funding at a time when other funding sources, such as the banks, have severely tightened lending criteria. Again as one of our higher profile programmes there will also be stakeholder management issues to consider.

Cutting or slowing our international connectivity work will remove our ability to raise the value of the port and airport with a consequent impact on both of these entities and the region’s exports and international businesses. It will

also mean we stop work on “Telling the region’s story internationally”. This will reduce our export businesses effectiveness in selling their products and services into international markets.

Cutting or slowing the Centres of Excellence and sector programmes are the least appealing options for two reasons; they are unlikely to be taken up by anyone else and these areas are precisely the ones where we see the region’s strongest competitive and natural advantage. It is in these areas where we are likely to see the faster recovery as the economy comes out of recession and as providing the greatest potential reservoirs of jobs. ”

6. Chief Executives’ Assessment and Recommendation

The Chief Executives have recognised that the global economic downturn will have an impact on New Zealand and the Wellington region. Indicators show economic activity in the region has already slowed in the last three quarters and will slow considerably in the coming year.

The Chief Executives considered three alternative funding level options:

- i. \$4.5 million, as provided for in the Statement of Intent
- ii. reducing to \$4 million
- iii. the status quo (2008/09) level of \$4.3 million (which is an increase of \$300,000 in Greater Wellington’s rates)

The majority of the Chief Executives agreed that now is the time to invest in Grow Wellington to enable it to facilitate economic growth. They agreed that to do otherwise would reduce the region’s ability to both minimise the impacts of the downturn, and to enable the community to recover quickly from the recession.

The Chief Executives acknowledged that, in partnership with other regional players, Grow Wellington is delivering the Wellington Regional Strategy, with emphasis on international connections, markets, entrepreneurialism, innovation, product development, jobs and capital. **Attachment 3** is a summary of the work currently being undertaken by the company that was presented to the Chief Executives.

The majority of the Chief Executives also recognised that funding Grow Wellington at the \$4.5 million level, rather than a lesser amount, was symbolically very important, within the context of the global and national recession.

An alternative view expressed at the meeting was that, when people in our communities are hurting financially, now is not the time to ask them to pay more. This is particular relevant given the long term (20 years +) nature of most of Grow Wellington and the WRS outcomes.

The majority of Chief Executives consider that funding Grow Wellington at \$4.5 million in the 2009/10 year is appropriate. The Chief Executives also considered funding at \$4.3 million and \$4.0 million, but there was not enough support to recommend these to the Committee.

The Chief Executives also agreed that Greater Wellington's Long Term Council Community Plan should very clearly state the reasons for the increased funding, including acknowledging the role of the WRS Committee in the funding decision.

7. Funding Decision Process¹

The various funding agreements reached through the mediation process are reflected in the Committee's Terms of Reference, and the Multilateral Agreement. The Multilateral Agreement records Greater Wellington's commitment to set the targeted regional economic development rate at \$5 million plus GST in 2009/10. Any change to this commitment requires a three quarters majority vote by the WRS Committee. If the WRS Committee does not agree to recommend any change, Greater Wellington is required (subject to its LTCCP process) to set the rate for the 2009/10 year at \$5 million + GST.

The Committee cannot make the final decision on the funding as only Greater Wellington has the authority to make rates decisions. If Greater Wellington does not receive a recommendation from the Committee it must (subject to its LTCCP process) proceed in accordance with the commitment recorded the Multilateral Agreement to set the rate at \$5 million + GST.

If the Committee does make a recommendation to reduce the funding level, Greater Wellington may either accept the Committee's recommendation or if the recommendation is not accepted, Greater Wellington must refer the matter back to the Committee for further consideration. If this situation arises the Committee will reconsider the funding decision in the New Year.

8. Communication

There are no matters that require communicating arising from this report. A media statement will be prepared following Greater Wellington's consideration of the committee's recommendation.

9. Recommendations

That the Committee:

- 1. Receives the report.*
- 2. Notes the content of the report.*

¹ The outline of the funding decision-making process has been prepared on the basis of legal advice provided by DLA PhillipsFox.

3. *Notes that a 75% majority vote needs to be achieved to change the regional rate funding of Grow Wellington from the previously agreed \$5 million (plus GST) for the 2009/10 financial year.*
4. *Recommends to Greater Wellington Regional Council that it provides in its LTCCP 2009-2019 a regional economic development rate of \$4.5 million (excl GST) for the 2009/10 financial year.*

Report prepared by:

Report approved by:

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Attachment 1: Grow Wellington's Income Statement from the Statement of Intent 2008/09
Attachment 2: Grow Wellington funding request
Attachment 3: Summary of Grow Wellington current work