
REPORT 2
(1215/11/IM)

**ECONOMIC GROWTH: EXPANSION OF THE ECONOMIC
DEVELOPMENT FUND**

1. Purpose of report

This paper asks the Wellington City Council (the Council) to agree to extending the Events Development Fund and renaming it as the Wellington Economic Initiatives Development Fund (WEID Fund).

2. Executive summary

Wellington's economic growth performance in recent years has faced a wide range of challenges. While reorganisation to the structures of local government in the region have been touted by some as a solution to addressing those challenges, Wellington City Council (WCC) has in place a number of tools that, if arranged well, have the potential to advance the city's growth aspirations now.

WCC is a responsive council and offers a range of financial assistance instruments that are designed to provide assistance to people and organisations with ideas and business opportunities. WCC's support for events such as *World of Wearable Arts*, the *International Rugby Sevens* and *Homegrown* have helped launch iconic Wellington events and keep them, but this can be extended.

WCC has committed itself, through its Economic Development Strategy, to being *Open for Business* and supporting great ideas and initiatives that have the potential to contribute to the city's economic growth prospects.

Enlarging Wellington's business footprint, building the tax base and transitioning the economy to one which supports sustainable economic growth requires the City to be able to attract and retain talent and investment. Achieving these broad objectives and the activities WCC has approved as part of a *Going for Growth* programme is challenging and requires sophisticated integration of the financial tools available.

Extending the current arrangements provided for the Events Development Fund, adding two additional streams builds on a principled approach to the role WCC can play in supporting growth opportunities that are consistent with the character of Wellington.

WCC must be agile in responding to opportunities and it must be able to engage in a way that not only protects the integrity of those opportunities but which can be flexible. In doing so, WCC must also clearly state its priorities for such support and the Wellington Economic Initiatives Development Fund will provide for that.

3. Recommendations

If is recommended that Council:

1. *Receive the information.*
2. *Agree to extend the scope of the Events Development Fund, rename it as the Wellington Economic Initiatives Development Fund and agree the framework as outlined in section 4.3 of this paper.*
3. *Agree to increase the funding of the Wellington Economic Initiatives Fund by an additional \$3m to be funded from the forecast operating surplus in the 2012/13 financial year.*

3. Background

3.1 Wellington faces challenges

In May 2013, Prime Minister John Key was reported¹ as having said that Wellington is a city that is dying. Following the reporting of those comments, the Prime Minister put his comments in context that, rather, the shape and face of Wellington's future growth prospects is changing.

The Prime Minister further added to his later comments that Wellington is a city facing challenges that, like any other city, Wellington needed to find solutions for. His comments were not isolated; in 2012, former Prime Minister Sir Geoffrey Palmer noted² that Wellington was at risk of becoming a backwater.

While neither of those two comments, in isolation and out of context, are positive statements about Wellington; there is an element of truth to them. Wellington's rate of growth has been flat over recent years, its labour market remains volatile, access to investment capital continues to be a challenge for most and residents' expectations about a better value for money proposition continue to climb – albeit reasonable that they do.

WCC is engaged in a vast array of activities throughout the city that are hoped to each contribute to enduring growth.

WCC is a responsive city council. However, while it may be responsive, its agility in being able to respond quickly and to enable an appropriate reprioritisation of its resources in order to support initiatives that present themselves as significant is limited.

¹ <http://www.stuff.co.nz/dominion-post/news/8639058/Shearer-slams-PM-over-capital-dying-quip>

² <http://www.stuff.co.nz/national/7629338/Wellington-risks-becoming-backwater-former-PM>

Generally, business considers process requirements of government both central and local to be a constraint on the agility of an organisation in responding to opportunity. Balanced against that is an understanding that government and local government must be transparent and accountable with the application of public resources.

However, that careful balance must be maintained from both perspectives. It is not risky to invest public money into economic opportunities and it is not necessarily always in the public interest to limit responsiveness through process.

3.2 Operating Context

Open for Business

The Wellington City Economic Strategy (EDS) sets out that:

Being open for business means delivering the Council's business-facing services with a 'can do' attitude, enabling a well-functioning built environment, and facilitating a business environment where 'smart', innovative firms can thrive.³

The Open for Business platform provides direction for how WCC will endeavour to engage with businesses and with people and organisations that have great ideas that will contribute to the aspirations we have articulated for the city.

The EDS provides strong direction for WCC's engagement, it sets out four key strategic direction statements:

- *Foster a business environment in the city where it is easy, efficient and affordable to invest and do business*
- *Protect and enhance the central city's role as the economic engine room of the region*
- *Support the development of vibrant suburban centres as local business districts*
- *Strengthen the Council's links with Wellington businesses and economic stakeholders, underpinned by strong understanding of the Wellington economy, collective intelligence of developments, opportunities and issues.⁴*

The EDS sets out a range of specific actions to help deliver on the overall objective which would, if successfully implemented, include the creation of an environment that is supportive of economic growth. Specifically, the actions

³ Wellington City Economic Development Strategy, Open for Business, p29

⁴ Wellington City Economic Development Strategy, Open for Business, Strategic directions, p29

look towards engagement, partnership and responsiveness as the main approaches leading to the aspirations of the city.

Specific actions

The EDS sets out eight high priority actions and four supporting actions relating to the Open for Business platform, of these the following are of greatest relevance here:

- *Engage with businesses to ensure that Council services, and the way that these services are delivered, are underpinned by a 'can do' attitude.*
- *Engage with key corporate businesses in the city to understand their needs and how they can be retained in the city.*
- *Continue the programme of prioritised investment in core city infrastructure.⁵*

The implementation of the strategy is multidimensional, a mix of engagement, activity and the application of resources in targeted activity areas is given cohesion by the broad priorities of the EDS governing the approach. Being able to engage and partner with and respond to business and opportunity are fundamental to encouraging growth in Wellington.

In addressing and responding to the economic challenges and opportunities faced by Wellington now and in the future, WCC's approach must be business-facing, business-friendly and most importantly it must be able to adequately and appropriately respond with a high degree of agility.

3.3 Current Situation

The Events Development Fund Approach

WCC maintains the Events Development Fund. In its Events Policy 2012, the Council sets out that it has different objectives for different events depending on the nature of the event. The value of the fund currently is \$1.45m for 2013/14.

Supporting arts events bolsters Wellington's position as an arts leader Supporting national events that attract domestic and international visitors is aligned with the Council's Economic Development Strategy and supporting community festivals contributes to local identity, social cohesion and resilience. With this in mind the Council's role, objectives and priorities have been considered in light of whether the event is:

- *Iconic...*
- *Regional...*
- *Community...⁶*

⁵ Wellington City Economic Development Strategy, Open for Business, Specific Actions – pp 28, 29

⁶ Events Policy 2012

This paper does not propose to change that approach, rather – as discussed below, to broaden the general approach and to identify within it that the events funding approach be maintained as a stream of funding, alongside direct funding for economic development initiatives.

The important principles of the approach developed in the Events Fund are common to broader economic investment funds, these are outlined in the Events Policy:

In the future the Council will be seen:

- *As actively working with and developing the events sector for the long-term benefit of Wellington*
- *Applying a broader range of tools to generate the desired outcomes...*
- *Having an ongoing partnership approach where we add value through sharing information, coordination, training and strategically planning ahead*
- *Having a balance between the proactive development of new events and reactive support for ongoing events with a ‘can-do’ approach.*

It is these principles that will continue to drive a new funding approach.

3.4 Growth Support Approaches

Australia

The Sunshine Coast has developed a Business Investment Framework to secure targeted and suitable investment in its regional economy. The Business Investment Framework provides for a range of activities including a dedicated client manager in Council for each investor and for larger proposals, potential access to an incentives scheme.

The Sunshine Coast Investment Incentive Scheme is intended to encourage business investment by helping offset various relocation/establishment costs. The premise of the incentives approach is to apply conditions in the contractual agreements reached.

Conditions can be wide and varied but are targeted at retention and longevity of stay in the region. The approach can include the reimbursement of a portion of funds where both parties agree to terminate the agreement but this is seldom.

The focus of the scheme is, as with most investment approaches, targeted at industries and sectors of interest to the regional economy. Sunshine Coast targets a wide range of industries and sectors that include:

- Cleantech (environmental industries)
- Creative and Digital Industries
- Tourism, Food and Beverage
- Health and Wellbeing, Sport and Leisure
- Aviation and Light Industry
- Professional Services.

The approach in Sunshine Coast includes a pre-assessment process where potential applications can contact an Investment Facilitator who – without bias – can assist in facilitating the application through to submission.

The Investment Incentive Scheme takes a principled approach setting out broad parameters against which proposals can be assessed. This provides some scope and flexibility to create a bespoke solution to the proposal and reduces potential barriers to the formation of the partnership between Council and the applicant. At the same time, sufficient reporting mechanisms and safeguards are included through the provisions of the agreement to ensure consistency with statutory and policy requirements.

The Investment Incentives Scheme has supported growth to success for a relatively large number of targeted organisations. *Clearmake* is the flagship Cleantech investment project becoming the 2008 Telstra Business Awards Regional Business of the year. The headquarters are now based on Australia's Sunshine Coast as a result of the scheme.

Innovation Centre Sunshine Coast has the largest physical commercial presence on the Sunshine Coast housing start-up businesses in their first years. A subsidiary of the University of the Sunshine Coast, the Innovation centre, supported by the scheme has helped “graduate” 55 companies and has created over 350 jobs locally.

4. Discussion

4.1 Wellington Economic Initiatives Development Fund

Going for Growth

Clearly, there are a range of products and mechanisms currently operating throughout the Wellington region and from within WCC. It is also clear, however, that refinement of the broader approach is necessary to ensure that not only can WCC make investments into opportunities at a range of levels, but that it can do so with relative agility and in a targeted and bespoke way – to maximise the potential benefits of these opportunities as they arise.

While WCC's grants and investments have delivered success to Wellington or have supported the development of initiatives that are likely to bring about

success, in “going for growth” and being open for business, WCC will need to consider some reconfiguration of the tools it has to support economic growth opportunities.

WCC needs to invest its resources in the right projects and projects that will really bring about the kind of positive economic outcomes it is focused on supporting to come about.

In being able to respond appropriately and with relative agility, being open for business must be more than a slogan. WCC needs to be able to actively engage with opportunities that ‘lift the burden’ to make it easier for them to expand, grow or establish themselves in Wellington.

The way in which WCC can respond to opportunity is largely through grants. However, being more agile in how we can respond with greater simplicity ensuring that confidentiality where necessary is maintained and imposing appropriate accountability mechanisms must be a priority for how we may be able to make a difference.

This paper sets out a broader approach by building on the foundations of our current approaches.

As has been discussed above, WCC has been able to respond to opportunities that have set in place the foundations of long-term success. WCC has made smart strategic investments in to developing the RMA consent application for an extension to Wellington’s airport runway, we have made investments that saw the first Australian Football League match played outside Australia, we invested in to the premiere screening of the Hobbit and a number of other initiatives.

The Wellington Economic Initiatives Development Fund (WEID) will position WCC to respond – from within a principled approach – to opportunity, supporting proposals that are likely to deliver positive economic development outcomes to the city.

4.2 ‘WEID - Open for Growth’

WEID - Open for Growth sets a narrative for how WCC will work to help advance Wellington’s growth aspirations through an investment and partnership approach. A significant fund, WEID will enable opportunities to be considered in real-time and, subject to being consistent with the City’s growth priorities, will position WCC alongside real and meaningful activities and initiatives.

This paper doesn’t preclude WCC’s consideration of significant investment opportunities within the scope of the proposed WEID Fund but which are of a scale exceeding the value of the fund. Those decisions will still be put to the Council to consider.

By extending the Events Development Fund, WCC can up its game and truly engage in meaningful ways. Freeing WCC up to respond in this way will help to

create the kind of environment in which we can manage growth, grow the city's tax base and allow for increased strategic financial investment capability and capacity.

4.3 WEID Framework

Drawing on the principled approach of the events fund, the following table sets out the proposed WEID framework:

Wellington Economic Initiatives Development Fund			
Governing Principles			
<i>The governing principles are established to provide a high level guidance to the nature of the WEID fund and the approach established.</i>			
Partnership⁷	Friendly⁸	Agile	Responsive⁹
<i>Working with people and organisations in a partnership approach to help develop opportunities</i>	<i>Taking a truly business friendly approach recognising that Council activities direct affect businesses in a variety of ways</i>	<i>Organising Council to be able to respond to opportunity in real time, focusing on outcomes</i>	<i>Taking a "can do" approach to solving problems and drawing on Council's expertise to be a facilitator of growth opportunities</i>
Funding Streams			
<i>The funding streams focus on the broad areas in which opportunities arise and where WCC needs to be even more agile and appropriately flexible in its response to allow for bespoke agreements - tailored to maximise opportunities consistent with its economic growth aspirations</i>			
Outcome Priorities			
<ul style="list-style-type: none"> • Helping generate income and productivity growth at a faster rate than the economy as a whole • Helping facilitate opportunities that contribute to economic growth in Wellington • Being agile, responsive and engaged through a partnership approach that is 			

⁷ Consistent with WCC's Partnerships with the Private Sector Policy, Long Term Plan 2012-22 , p138

⁸ Wellington City Economic Development Strategy, Principles of the Strategy

⁹ Wellington City Economic Development Strategy, Open for Business, Specific Actions, p28

tailored to maximise the potential benefits from opportunities as they arise.

- Maximise potential leverage from both private and public sectors.

Supporting Events	Supporting Initiatives	Supporting Partnership
<p><i>Events that are:</i></p> <ul style="list-style-type: none"> • <i>Maximising the economic contribution that events can make to Wellington</i> • <i>Maximising the diversity and vibrancy of Wellington's arts and culture events</i> • <i>Enhancing a strong events support-structure which draws on Wellington's venues and assets</i> • <i>Encouraging more visitors to Wellington through strengthening the city's profile as a leading events destination</i> • <i>Encouraging the development of events that support the city's key strategic economic objectives.</i> 	<p><i>Initiatives that are:</i></p> <ul style="list-style-type: none"> • <i>Facilitating¹⁰ opportunities for Wellington that enlarges the city's business footprint</i> • <i>Supporting initiatives that build the city's reputation as an easy place to do business</i> • <i>Supporting initiatives that create/protect jobs in Wellington's professional services and innovative high-tech industries</i> • <i>Enhancing Wellington's image as a centre of excellence in innovation and professional services</i> • <i>Encouraging opportunities that contribute to the city's long-term economic growth aspirations.</i> 	<p><i>Partnerships that are:</i></p> <ul style="list-style-type: none"> • <i>Supporting people to commercialise innovative ideas that are Wellington-based or focused</i> • <i>Sharing expertise and resources to maximise potential opportunities for the city that:</i> <ul style="list-style-type: none"> • <i>will lead to improved economic growth opportunities, and/or</i> • <i>will lead to better value for money services for the local government sector</i> • <i>Encouraging a joined-up approach that contributes to the city's long-term economic growth aspirations.</i>

Funding Categories

The WEID Fund identifies two kinds of opportunities, and without limiting the extent to which financial or other support might be agreed by WCC, these include Strategy & Planning and Implementation.

¹⁰ This may be viewed as both forward-looking and responsive. Without limiting the scope of the fund, this may include an incentive-based approach which might be tagged with conditions and other deliverables.

<i>Strategy & Planning</i>	<i>Implementation</i>
<p><i>Proposal seeks support for, but not limited to</i></p> <ul style="list-style-type: none"> • <i>Feasibility studies</i> • <i>Consent applications</i> • <i>Economic analysis</i> • <i>Other.</i> 	<p><i>A business-case having been developed, support for activities associated with planning and implementing the proposal as per the agreement with WCC.</i></p>

Decision-Making

Investment is a two-way street and for the Council's part it will consider the commitment of resources through a more business-friendly approach. In return, proposals will need to be solid, measurable and make genuine contributions to the economic development objectives we are working towards. Based on the existing structure of the Events Development Fund, WEID funding decisions over \$100K will be made by the following,:

<ul style="list-style-type: none"> • WCC Chief Executive - Convenor • The Mayor • Economy portfolio leader • Sports and Events portfolio leader <p>Officer Support</p> <ul style="list-style-type: none"> • Decision-making will continue to be supported by officers.

Proposals to be considered for the WEID fund will be assessed for their strategic fit – that is, whether the proposal can demonstrate likely success as per the general and funding-stream outcome priorities. Those assessments will then be considered alongside the proposal for the WEID fund.

Proposals are expected to be of a scale in excess of \$0.1m or more, however where they are for less, assessments will also include advice as to whether existing alternative WCC grants or investment programmes may be more appropriate. Decisions under \$100K are delegated to officers.

In making its decisions, any agreement will include appropriate legal financial reporting and monitoring requirements and reporting with respect to performance against the priority outcomes, the WEID fund decision may express any additional conditions to the funding agreement as deemed appropriate.

Out of Scope & Exclusions

As a general guide and consistent with WCC's funding approach through the Economic Development Fund, a number of exclusions are set down where an approval of WEID funding will be out of scope, these include:

- Where full payment for the proposal is being sought
- Where funding is being sought for ongoing operational expenses
- Where funding is being sought in order to support the development of an application for funding support
- Where funding is being sought for a proposal that has already been determined through the WEID fund in the preceding 12 months.

Eligibility

Any person or persons or organisation or organisations may submit proposals for funding within the scope of decisions for the WEID fund.

Funding Cap

WEID Fund decisions may agree to one or as many proposals within the scope of decision-making up to the total value of the fund in any Financial Year as it sees fit.

Reporting Requirements

Any applicants successful in being granted WEID funding must:

- Provide WCC with a financial report detailing expenditure and any variations by the date stipulated in the funding agreement.
- Provide WCC with a report of how the project has delivered against the relevant *outcome priorities* and any other conditions that have been applied in the agreement.
- Any other matters or reports that may reasonably be required and which have been stipulated in the agreement.

Publicity and Marketing

In order to enhance the reputation of WCC as being open for business and being an organisation committed to making opportunities happen for Wellington, it is reasonable to expect that WCC may wish to publicise the investment made into any successful proposals.

Those in receipt of funding by the WEID fund Committee will be expected to work cooperatively and reach mutual agreement with WCC about potential publicity and marketing where appropriate.

5. Financial Implications

As described within this paper, the WEID Fund is part of an integrated approach to fostering growth in the economy. To be effective any funding for the WEID Fund needs to be sufficient to make a difference. It is proposed that the fund be initially capitalised at \$4.45 million (which includes \$1.45m of existing EDF plus top-up funding of \$3m).

There is no specific funding provided for the WEID Fund through the 2013/14 Annual Plan or within the 2012/22 Long Term Plan. The options to fund the WEID so that it is able to operate immediately are limited to providing funding through the 2013/14 annual plan or utilising the expected operating surplus for 2012/13.

The 2013/14 Annual Plan is now in the final stages of completion and the current rates funding requirement is currently expected to be above the Council's rates target of 2.50%. Any funding in the 2013/14 Annual Plan to capitalise the WEID Fund would result in an increase beyond the current rates requirement and further widen the gap to the rate target.

As we approach the end of the 2012/13 financial year it is clear that Council will have a significant operating surplus. Even taking into account the Council decision to provide funding, from the 2012/13 expected surplus, to WIAL of \$1.0 million in relation to the RMA approvals process the surplus is expected to be significantly in excess of \$3.0 million.

This provides a funding opportunity to capitalise the WEID Fund in a timely manner utilising the expected 2012/13 operating surplus. This means that the funding in the WEID Fund would be available to be utilised without any rates impact in the 2013/14 year. Future funding or top ups to the WEID Fund would be through the Annual Plan or Long Term Plan processes.

Operating surpluses at year end would normally feed through into Council's year end financial position and result in reduced borrowings. Once the year end operating surplus has been audited it would become available to be utilised to offset against future year rate increases or be retained as a reduction in Council's borrowings.

The forecast operating surplus for 2012/13 provides an opportunity to establish the WEID with an appropriate level of funding to enable the fund to be put to work immediately to actively foster economic growth in the City.

6. Conclusion

The WEID Fund will establish an agile funding tool that integrates well into WCC's *Open for Business* approach. WCC will be equipped to respond appropriately from within a principles based approach targeting Events, Initiatives and Partnerships as priority areas for growth.

The extension of the Events Development Fund approach to how WEID funding will operate will enable WCC to support activities that will be meaningful to Wellington's growth prospects.

Regardless of decisions yet to be made about the future potential structure of local government in the Wellington region, being able to respond now is crucial because Wellington must take advantage of its opportunities now.

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SUPPORTING INFORMATION

1) Strategic fit / Strategic outcome

The approach outlined in this paper aims to support the implementation of and objectives of the Council's Economic Development Strategy.

2) LTP/Annual Plan reference and long term financial impact

The fund has no direct impact on the 2013/14 Annual Plan as it draws on the current years operating surplus. The ongoing application of the fund will be confirmed as part of each annual planning round.

3) Treaty of Waitangi considerations

Not applicable.

4) Decision-making

This is not a significant decision. The programme is consistent with the Economic Development Strategy.

5) Consultation

The programme is consistent with the Economic Development Strategy that was subject to public consultation.

6) Legal implications

There are no legal implications arising from the decisions requested in this report.