

TO: Finance, Strategy and Development Committee

FROM: Manager, Economic Development Unit

MEETING DATE: 29 November 2010

SUBJECT: **INDUSTRY PROJECT FUND
- PROJECT VARIATION APPROVAL PROCESS**

SUMMARY

The Industry Project Fund aims to encourage collaboration amongst local businesses. It is administered by the Economic Development Unit and to date 17 projects have been partially funded by the Council.

Collaborative projects sometimes change during the term of the project. This reality has been highlighted recently with variations proposed by Animation Research Ltd and their project partners. In the process of debating this issue it was suggested that clarification of the process was needed.

This report proposes a process that aims to balance the desire for flexibility with the need to obtain appropriate authority for project variations. This should simplify the approval process for project variations in future.

IMPLICATIONS FOR:

(i) Policy:	No
(ii) Approved Annual Budget:	No
(iii) LTCCP/ Funding Policy:	No
(iv) Activity Management Plans:	No
(v) Community Boards:	No
(vi) Sustainability:	No

RECOMMENDATIONS

That the Council agrees to the adoption of the Project Variation Approval Process for Industry Project Funding as attached as Attachment One.

INTRODUCTION

This report outlines the potential variations that can occur to collaborative projects partially funded by the Industry Project Fund and recommends an appendix to the fund's guidelines which outlines the process of deciding whether specific variations fit within the terms of the original application.

BACKGROUND

The Industry Project Fund was initially called the Industry Support Fund, with a budget of \$110,000 in 2007/2008. This fund was created after rationalisation of the amounts of funding allocated to specific sectors and allowed industries that may have received less "as of right" to apply to the fund for specific projects.

Before the finalisation of the Dunedin Visitor Strategy in 2008, a contestable tourism fund was suggested to assist with the implementation aspects of the strategy, because the timing of the strategy adoption did not align with annual plan funding decisions. This contestable fund's scope was widened by the Council into an economic development contestable fund and was combined with the funding allocated to the Industry Support Fund.

A summary of the projects funded to date is provided below:

Completed Projects

Oil and Gas Supply Base Industry
Dunedin ICT Cluster - Internship Programme
Strath Taieri Irrigation Group
Dunedin Cruise Experience Survey
Flat Sheet Metal and Fastening Materials
Love Dunedin – Domestic Marketing Campaign
International Student Market
Lean Manufacturing for the ICT Sector
Data Centre in Dunedin
Pathway to Apprenticeship

Projects in Progress

Closing the Clinical Gap: Attracting Senior Medical Officers to Otago
Sports Analysis
Anaerobic Pilot Plant – Mobile Waste Processing
International Student Market
Dunedin ICT Cluster - Internship Programme
Biotechnology partnership
National Centre to Train Technology Teachers
Improved Farmer Capture and Use of Decisions Information
On-line Coach Development Platform

Total Project Partners' Contribution: \$1,893,462

DCC's Contribution: \$1,130,156

The reality that variations will inevitably occur with some collaborative projects has been highlighted by a variation request made by Animation Research Ltd for the Sports Analysis project. This situation has been resolved but Councillors and the Economic Development Unit agreed that a process as to how to handle these variations would help for future requests.

While some discussion took place regarding whether 50% of the funding should be provided up front or not, it is suggested that the time to completely review the fund is in light of the Economic Development Strategy which is currently being worked on and may advocate expansion, alteration or removal of specific grants or funding. Meanwhile, clarification around the issue of variations is suggested.

DISCUSSION

Attachment One provides a proposed appendix to the Industry Project Fund's guidelines which aims to take account of potential variations to project:

- budgets – projects may cost more or less than anticipated
- time – deadlines may alter
- partners – partners may leave
- milestones – project goals can alter

In terms of budget variations, there is no risk to the Council to contribute more than has been approved. This is because actual funding offered is the lesser of:

- total actual funding approved originally, or
- the percentage contribution from the Council originally approved, if the project costs are less than anticipated.

For example, a project is budgeted at \$120,000, of which the Council approves a 60% contribution, \$72,000. If the project actual costs were \$200,000, the Council funding is capped at \$72,000. If the actual project costs were lower, for example \$100,000, the Council funding would be 60% of this, ie \$60,000.

Depending on the degree of other variations, the guidelines propose that three levels of authority be established:

- Manager, Economic Development Unit – for **minor variations** where the minority of partners leave and are replaced, deadlines are extended for less than six months or the minority of milestones change.
- Chair and Deputy Chair (Economic Development) of Finance, Strategy and Development Committee – for **significant but not substantial variations** where partners are not replaced or the majority of partners change, time extensions are requested for more than six months or the majority of milestones change, but the original goal remains.
- Finance, Strategy and Development Committee – for **fundamental variations** where partners are unable to meet their original funding contribution or there is a fundamental change in what the project is aiming to achieve.

CONCLUSION

The Industry Project Fund is helping foster collaboration amongst businesses in Dunedin. This report advocates a process that aims to balance the need for flexibility when collaborative projects change with the need for accountability when spending ratepayers' funds.

This will help clarify the process for applicants, the Economic Development Unit's staff and Councillors.

Prepared by:

Approved by:

Peter Harris
Manager, Economic Development Unit

Sue Bidrose
General Manager Strategy and Development

Date report prepared: 1 November 2010

Attachments

- 1 Project variation approval process for Industry Project Fund

ATTACHMENT ONE – PROJECT VARIATION APPROVAL PROCESS FOR THE INDUSTRY PROJECT FUND

	MINOR VARIATION	SIGNIFICANT BUT NOT SUBSTANTIAL VARIATIONS	FUNDAMENTAL VARIATIONS
	Approved by Manager, Economic Development Unit	Approved by Chair and Deputy Chair (Economic Development) of Finance, Strategy and Development Committee	Approved by the Council
Project Costs	Any variations which cannot exceed the lesser of: - total funding originally approved, or - percentage of project costs to be provided by the Council For example, if project costs increase, the Council's contribution is capped; if project costs decrease, the Council's contribution is reduced to match the original percentage contribution.		
Time	Less than or equal to 6 months	Greater than 6 months	
Partners	If the minority of partners withdraw but are replaced with another partner, who commits the same funding to the project.	If the minority of partners withdraw but are not replaced, but the remaining partners are still at least 3, and they will increase commitment to fill the funding gap If majority partners withdraw and are replaced with new partners who commit the same funding.	If any partners withdraw and the remaining or new partners are unwilling to fill the funding gap.
Project Goal or Milestones	The project is still achieving the same goal but a minority of milestones change.	The project is still achieving the same goal but the majority of milestones change.	Fundamental change in what the project aims to achieve and it could be seen as a different project.