

# Review of the GIF Industry Governed Bodies Fund & the GIF Sector Project Fund

---

Research, Evaluation and Monitoring Team  
Industry and Regional Development Branch  
MINISTRY OF ECONOMIC DEVELOPMENT

August 2006

# Contents

---

<b>EXECUTIVE SUMMARY .....</b>	<b>3</b>
Objective .....	3
Scope of Review .....	3
Conclusions .....	3
Recommendations: Policy .....	4
Recommendations: Operations.....	4
<b>1. BACKGROUND .....</b>	<b>6</b>
1.1 Scope of the review .....	6
1.2 Policy for supporting the GIF Industry Bodies .....	6
<b>GIF INDUSTRY GOVERNED BODIES FUND .....</b>	<b>9</b>
<b>2. PROGRAMME OBJECTIVES .....</b>	<b>9</b>
2.1 Intended outcomes .....	9
<b>3. PROGRAMME DESCRIPTION.....</b>	<b>10</b>
3.1 The Better by Design Advisory Board .....	10
3.2 NZBio .....	10
3.3 The HiGrowth Project.....	10
3.4 The Screen Council .....	10
<b>4. FINDINGS .....</b>	<b>12</b>
4.1 NZTE administration .....	12
4.1.1 Funding process.....	12
4.1.2 Underspend of operational funding .....	13
4.2 Sustainability of the Industry Bodies .....	13
4.2.1 NZBio .....	13
4.2.2 The Screen Council.....	13
4.2.3 HiGrowth .....	14
4.2.4 Learnings .....	14
4.3 Relationship with government agencies.....	14
<b>GIF SECTOR PROJECT FUND .....</b>	<b>16</b>
<b>5. PROGRAMME OBJECTIVES .....</b>	<b>16</b>
5.1 Intended outcomes .....	16
<b>6. PROGRAMME DESCRIPTION.....</b>	<b>17</b>
6.1 Eligible projects.....	17
6.2 Grant process .....	17
<b>7. FINDINGS .....</b>	<b>19</b>
7.1 NZTE Administration.....	19
7.1.1 Prior to July 2005 .....	19
7.1.2 Since July 2005.....	19
7.1.3 Grant Process .....	19
7.1.4 Programme efficiency.....	20
7.2 Programme spend .....	20
7.3 The Better by Design Advisory Board .....	21

7.4	Industry body collaboration .....	22
<b>8.</b>	<b>CONCLUSIONS AND RECOMMENDATIONS .....</b>	<b>23</b>
8.1	Recommendations: policy .....	23
8.2	Recommendations: operations .....	23
<b>APPENDIX ONE: GRANTS MADE UNDER THE GIF SECTOR PROJECT FUND.....</b>		<b>25</b>
<b>APPENDIX TWO: PROGRESS OF THE INDUSTRY BODIES.....</b>		<b>32</b>
	NZBio	32
	HiGrowth.....	32
	Screen Council.....	33
	Better by Design Advisory Board .....	33

# Executive Summary

---

## Objective

The reports of the four GIF Taskforces (2003) acknowledged the central role of industry in the success of their growth strategy and encouraged private sector ownership of each of the strategies. To this end, government provided operational funding and project funding to assist four industry bodies to develop co-ordination and leadership capability in the ICT, Design, Screen and Biotechnology sectors, and to drive the achievement of the growth targets.

## Scope of Review

This review of the GIF Industry Governed Bodies Fund and the GIF Sector Project Fund is concerned with the effectiveness and efficiency of NZTE's administration of funding to:

- The Better by Design Advisory Board (Design);
- NZBio (Biotechnology);
- The HiGrowth Project (ICT); and
- The Screen Council (Screen).

This review does not evaluate the performance of the industry bodies themselves, or make judgments about the GIF whole-of-government sector engagements. This review was completed as part of the review of Sector Facilitation undertaken by the Ministry of Economic Development.

## Conclusions

NZTE is currently administering the GIF Industry Governed Bodies Fund and the GIF Sector Project Fund in an efficient manner. There were initially a few teething problems as NZTE developed and then altered the criteria for the grant process. However, these issues have been resolved and the application process and monitoring systems are working well. There has been a notable improvement since NZTE centralised its administration in respect of the industry bodies.

Although the GIF industry bodies have had some success in pursuing their economic development objectives, there is a risk of government becoming financial guarantors of these and future bodies. There is certainly a role for government in facilitating the formation of industry bodies in specific circumstances; however, Cabinet approval of criteria is necessary to guide future decisions on operational funding for industry bodies.

Providing funding to the GIF industry bodies has provided valuable learnings for future policy: most notably that any future operational funding should be targeted at achieving greater collaboration within a sector. Government operational funding for HiGrowth and the Screen Council is scheduled to cease in June 2007. Although both will continue to exist as charitable trusts, it is unlikely they will be in a position to be fully-functioning industry bodies. NZBio has received an additional three years funding in recognition of its success in generating industry buy-in. The Better by Design Advisory Board has been founded on a unique model and has proven effective in championing the design strategy.

No evidence was gathered to determine whether the projects undertaken by the industry bodies were having a positive impact on their industry. This is due to the relatively small time since their inception and because they are all undertaking strategic projects that will take some time before the benefits are realised. The implementation of the Taskforce recommendations are reported through the annual GIF progress reports submitted to Ministers, with the next report scheduled for November 2006.

## **Recommendations: Policy**

1. MED seek Cabinet approval of a framework to guide any future decisions about the provision of operational funding to industry bodies, drawing on the learnings from the GIF industry bodies:

As a general principle, operational funding should only be provided where there is a clear economic benefit in terms of lifting sustainable growth in a sector. While there can often be a role in supporting industry bodies, there is a significant risk of government becoming financial guarantors of such bodies.

Recognising that this is an evolutionary process, future operational funding for industry bodies should only be considered where there is a demonstrable gap between the funds the industry body can reasonably derive from member subscriptions and other sources and the level of funding required for the body to build the necessary capability to implement its growth strategy. Other suggested criteria include:

- there is industry contribution towards funding the body (other than sponsorship / in kind funding), e.g. subscription based, levy, accreditation fee etc;
- the body has a realistic business plan, directed at implementing the sector's strategic plan and taking into account available resources;
- there is a plan in place, with milestones to be met, for the transition to full industry funding;
- funding is for a fixed period of time; and
- in the case where the sector is fragmented (including where there are multiple industry bodies), funding will be contingent on there being an agreed process for the sector to address the fragmentation, eg the body is an umbrella organisation supported financially by other bodies in the sector; or there is a commitment on the part of existing bodies to merge.

2. MED review which industry bodies should be able to access the GIF Sector Project Fund beyond June 2007. The original ten-year timeframe for the GIF Sector Project Fund was established on the basis that the industry bodies would develop widespread industry support and eventually become self-sustaining.

## **Recommendations: Operations**

1. NZTE insert 'clawback' clauses into future contracts with the GIF industry bodies to ensure that all operational funding that remains unspent at the end of each financial year is returned to NZTE.

2. NZTE should continue to provide funding for collaborative projects between the bodies, if and when they arise; however, a portion of the GIF Sector Project Fund should not be set aside to fund such projects.
3. NZTE should continue the centralised administration of the GIF Sector Project Fund.

# 1. Background

---

The Growth and Innovation Framework (GIF) Sector Taskforces on Biotechnology, Information and Communications Technology (ICT), Design, and Screen Production delivered reports on strategies for growing their sectors in 2003. These sectors were identified for special attention due to their high growth potential and because the technologies or capabilities with which they are concerned are enablers of activity across the economy generally.

## 1.1 Scope of the review

This review examines two cross-sectoral initiatives that were put in place by the government following the Taskforce reports: operational funding for an industry body in each of the four sectors; and the establishment of a contestable fund that the industry bodies could access for project-based funding.

This review of the GIF Industry Governed Bodies Fund and the GIF Sector Project Fund is intended to inform future policy and delivery by examining the effectiveness and efficiency of NZTE's administration of funding. It is not intended to evaluate the performance of the industry bodies themselves, or to make judgments about the GIF whole-of-government sector engagements.

MED provides annual progress reports to Ministers on progress towards implementing the recommendations of the GIF Taskforces. It is through these reports that the comment is made on the performance on the industry bodies. The next such report is scheduled to be completed by the end of November 2006. A summary of salient points from the last update on the industry bodies is included in Appendix Two.

The four GIF industry bodies are:

- The Better by Design Advisory Board (Design);
- NZBio (Biotechnology);
- The HiGrowth Project (ICT); and
- The Screen Council (Screen).

## 1.2 Policy for supporting the GIF Industry Bodies

From an economic development perspective, increased sector-based contributions to GDP growth may be more likely to occur when firms and related organisations within a sector co-ordinate their activities, co-invest in research and work together to build capabilities and develop markets.<sup>1</sup> Hence, industry bodies by their nature, including professional associations, can play an important role in improving sector performance.

---

<sup>1</sup> MED: Review of Economic, Industry and Regional Development Policies and Programmes, 12 December 2005, p.13

Industry bodies are a response by groups of firms – usually within a sector or profession - to a market failure.<sup>2</sup> Industry bodies are established because they provide “industry good activities” that individual firms would under-invest in.

These “industry good activities” can include such things as the collection of statistics, standards setting, provision of research, sector-wide strategy development, training and development services, generic promotion and export information and assistance. Industry bodies are also a vehicle for improving communication, collaboration and facilitating collective action. Representing industry views and interests in a variety of fora is also an important function, including making representations to government (e.g. on tax and compliance issues).

While industry bodies are typically funded through levies or membership fees by their private sector membership, the government has invested in the four GIF industry bodies. The GIF Taskforce reports acknowledged the central role of industry in the success of the growth strategy and encouraged private sector ownership of each of the strategies. Accordingly, the establishment of industry bodies was deemed to be important to the development of co-ordination and leadership capability in these emerging sectors, and to drive achievement of the growth targets.

Funding for the GIF Sectors was established in a two tier system:

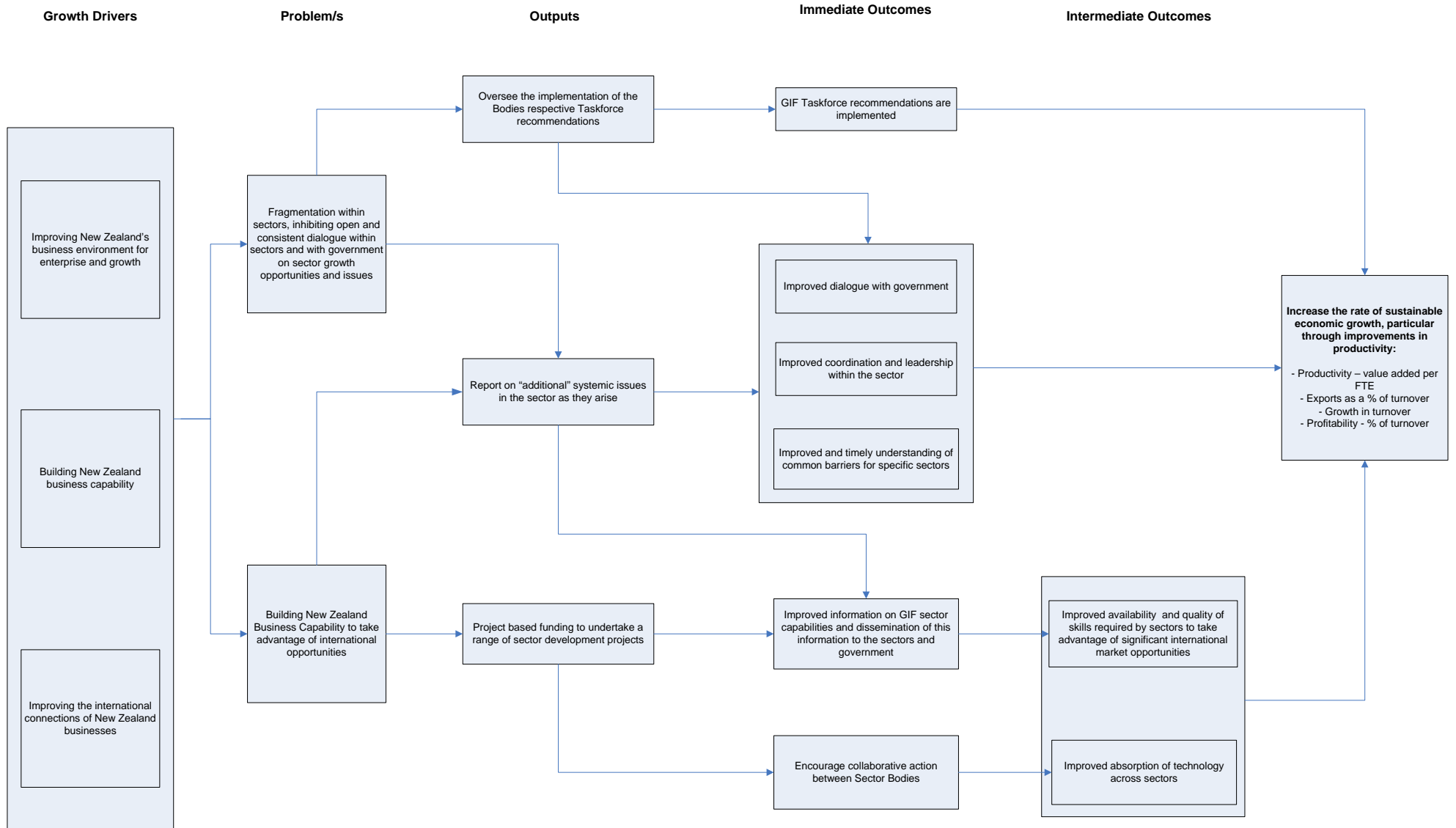
- operational funding to underpin the establishment of the body for a period of between 2 and 4 years, through NZTE from the GIF Industry Governed Bodies Fund (\$4.222 million over 4 years);
- project based funding via the GIF Sector Project Fund managed by NZTE, with the purpose of giving the bodies access to additional resources on a project by project basis (\$12.889 million over 10 years).

---

<sup>2</sup> Greer, Glen, Jon Manhire & Tony Zwart: Industry Views On The Making And Operation of Levy Orders Under The Commodity Levies Act 1990, A Report Prepared for MAF Policy, 1999.



**Table 1: Intervention Logic for the GIF Industry Governed Bodies Fund and the GIF Sector Project Fund**



# GIF Industry Governed Bodies Fund

## 2. Programme objectives

---

The objective of the GIF Industry Bodies Fund is to provide operational funding to the four GIF Industry Bodies in the form of a grant. This operational funding is intended to assist with the establishment of the bodies, after which there is an expectation that funding will be provided by industry sources.

### 2.1 Intended outcomes

Different models (including funding levels and duration) were deliberately utilised for each of the GIF industry bodies, as each body had a different role and was established in response to sector specific needs.

The Design and ICT Taskforces both proposed bodies whose primary purpose was to implement the respective Taskforces' growth strategies. These two bodies were never intended to be representative of their sectors as a whole. The Screen Taskforce proposed a body that was tasked with co-ordination, leadership and implementation functions. In the Biotechnology sector, NZBio, as the amalgamation of existing bodies, was in itself a co-ordinating initiative with leadership, representation and implementation functions.

As well implementing the recommendations of the GIF Taskforces, the four industry bodies also have some more intangible objectives in common. These include improved dialogue with government and an improved and timely understanding of sector-specific capabilities, opportunities and barriers by government. This ongoing relationship with government is an important aspect in ensuring the GIF sector engagements are able to respond to changing circumstances.

### **3. Programme description**

---

The GIF Industry Governed Bodies Fund is funded through NZTE Output Class 1.3 and has a budget appropriation of \$1.244 million in 2005/06 (GST exclusive). The Fund was established in September 2003 to assist with the establishment of industry bodies, charged with implementing the recommendations of the GIF Taskforces.

#### **3.1 The Better by Design Advisory Board**

The Better by Design Advisory Board (BBDAB) was unique, as it was never established as a 'sector' body, due to the horizontal nature of the design strategy, which is applicable across the economy. The BBDAB was created as an interim advisory board to NZTE and was provided with \$0.889 million over 4 years, ending in June 2007. The provision of operational funding to the BBDAB falls outside the scope of this paper as it is neither an industry body nor a legal entity. It exists under the auspices of NZTE to oversee and advise on NZTE's implementation of the Better by Design Strategy.

#### **3.2 NZBio**

NZBio was established as an incorporated society in December 2003, through a merger of existing bodies, Biotenz and the Biotechnology Association. Government funding of \$1.200 million was to be provided over three years. This was subsequently extended for a further three years at the same level.

#### **3.3 The HiGrowth Project**

The HiGrowth Project (HiGrowth) was created as a charitable trust in the ICT industry in November 2003. The ICT sector is identified as the beneficiary of the trust and the Board is legally bound to act in the best interests of the sector. Government support of \$1.333 million was provided over 4 years. Early difficulties experienced by HiGrowth resulted in bringing outyear funding forward to cover an immediate shortfall in funding.

#### **3.4 The Screen Council**

The Screen Council was created as a charitable trust in June 2004, with government funding of \$0.800 million over 2 years. Additional funding of \$0.250 million was allocated to Screen Council for 2006/07.

**Table 2: Funding allocations for the GIF Industry Bodies, as at 30 June 2006**

Industry Body	\$m (GST exclusive)						
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Better by Design Advisory Board	0.222	0.222	0.222	0.222	-	-	-
NZBio	0.400	0.400	0.400	0.400	0.400	0.400	-
HiGrowth	0.400	0.569	0.222	0.142	-	-	-
Screen Council	-	0.400	0.400	0.250	-	-	-

## 4. Findings

---

### 4.1 NZTE administration

To receive their operational funding, the industry bodies are required to submit their annual business plan to NZTE for approval. In the initial period following their establishment, it took some time for the industry bodies to establish themselves within the industry and to develop a work programme. In this establishment period, there was also no dedicated person within NZTE to liaise with the industry bodies and to help them meet the standards that were expected. The end result was that some bodies experienced delays of several months before their business plans were finally approved.

The industry bodies were highly critical of NZTE's administration during the first two years. However, from July 2005, with the appointment of a programme manager, NZTE administration has vastly improved. The operational funding for the GIF bodies is currently being administered by NZTE in an efficient manner, with robust reporting requirements.

While these initial difficulties are easy to identify with hindsight, they were to some extent inevitable. The establishment of the industry bodies and the provision of operational funding was an experimental process and NZTE was in the position of learning by doing. For its part, MED could have provided greater policy assistance during the establishment period to get the funding structure operational.

The process of supporting the industry bodies turned out to be more complex than first anticipated, and there was no precedent to fall back on for guidance. NZTE reacted positively to the initial challenges by tasking a unit within NZTE with the responsibility of funding administration. This central point of contact has increased transparency around funding and clarified the deliverables that NZTE expects.

#### 4.1.1 Funding process

In order to be able to draw down funding, an annual service and funding contract has to be signed between NZTE and each industry body.

This requires:

- The funding criteria to be met (i.e. consistent with Cabinet intentions).
- The industry body's business plan to be signed off by NZTE
- The annual contract to be agreed between NZTE and the industry body
- NZTE Board approval of the contract
- Reporting requirements to be met.

Prior to the 2006/07 financial year, operational funding was released on a quarterly basis for NZBio and HiGrowth and in two stages for the Screen Council. From 2006/07 onwards, NZTE is intending to release funding in two stages for all the industry bodies – with one third of the year's funding released on the signing of the operational contract (by 30 June) and all remaining funding released on delivery of the previous year's annual report (by 30 September).

This is a positive step and should provide the bodies with greater flexibility to commit their resources as they see appropriate.

#### **4.1.2 Underspend of operational funding**

A point of concern is evidence that not all of the operational funding is being expended by the industry bodies and is instead being invested for future use – for example, in 2005/06 one of the bodies had excess revenue of over \$40,000.

This is highly unsatisfactory. The government funding is intended to be the maximum available in any given year for operational requirements. If the funding is surplus to the need of the body then it should be returned to NZTE.

Indeed, the NZTE Board agreed that the funding arrangements between NZTE and the industry bodies would be through a contractual relationship, with clear specification of outputs and reporting requirements to track the spend of any funding.<sup>3</sup> The carryover of unspent funds by the industry bodies is not consistent with these requirements.

NZTE, in discussions with MED, have taken steps to ensure that all future operational contracts will contain 'clawback' clauses for any unspent government funds.

### **4.2 Sustainability of the Industry Bodies**

A key pillar of government support for the industry bodies was that the funding was considered an interim solution to assist the bodies to become self-sustaining. It was expected that, as government support declined, the private sector would recognise the benefits of maintaining the body and would fill the funding gap.

#### **4.2.1 NZBio**

In reality, only NZBio, as a representative organisation, has reached the stage where it could be self-sustaining in the absence of government support. The performance of NZBio is underpinned by the existence of a growth strategy with significant industry support, together with a focus on consolidation of existing groups and improving collaborative effort. This has been further enhanced by having industry membership and funding from day one.

Government support for NZBio was originally scheduled to cease in June 2006. However, as part of the Budget 2006, NZBio will receive a further \$1.200 million over three years to 2008/09. This additional funding recognises the significant industry support for NZBio and the need to maintain NZBio's capability as subscriptions increase.

#### **4.2.2 The Screen Council**

Government support for the Screen Council was also due to end in June 2006, but was extended for a further year at \$0.250 million. The Screen Council has had the shortest duration of government funding and an additional year of support would arguably give it enough time to deliver on the Taskforce recommendations. The review considers that is unlikely the private sector will provide the financial support necessary to maintain the

---

<sup>3</sup> NZTE Board Paper, 9 September 2003, 'GIF Industry Bodies – Framework criteria and method of assessment of performance'.

Screen Council's capabilities beyond this time. However, this should not detract from the expectations of the Screen Council to provide value over the next year.

### **4.2.3 HiGrowth**

HiGrowth embarked on a significant learning curve during the early period of its existence, including an over-committal of funding during its first year of operation and the resignation of its Executive Director. While HiGrowth met all of its KPIs in its first year of operation, it significantly over-committed itself financially. It was therefore necessary to bring forward \$0.1900 million from outyears (made up of \$0.100 million in 2005/06 and \$0.090 million in 2006/07) to meet the forecast shortfall in 2004/05.

HiGrowth appears to be operating very efficiently now and has been particularly effective in securing private sector sponsorship of the projects it has undertaken through the GIF Sector Project Fund.

HiGrowth's funding is scheduled to cease in June 2007, and without further government support it is unlikely it will be able to exist in its current form. HiGrowth's future almost certainly lies in a close relationship with ICT-NZ, the newly established umbrella body for the ICT industry.

### **4.2.4 Learnings**

In retrospect, to secure a sustainable body, a better approach in the case of the Screen Council and HiGrowth might have been to focus in the first instance on achieving improved leadership and coordination outcomes.

Rather than funding new untested bodies, Government could have provided some initial funding for an establishment board made up of key sector representatives. This board could have been tasked with working with stakeholders to establish common support for a body which was truly representative of the sector. It would have been explicit that industry commitment to such a body should be present from day one. Any government contributions could then have been directed at addressing the initial gap between industry funding and the requirements for a viable and effective organisation.

Note: the failure to become self-sustaining does not in any way limit the value of the projects that these industry bodies have undertaken, nor lessen the value of government's investment.

The provision of operational funding to these industry bodies and the issue of ongoing sustainability has prompted further policy work by MED on developing a framework for supporting industry bodies.

## **4.3 Relationship with government agencies**

Beyond the implementation of the recommendations of their respective Taskforces, the industry bodies have had some success establishing dialogue with government. To varying degrees, each of the bodies has provided advice to government on the key issues affecting their sector (including, education, tax, intellectual property and broadband policies). For example, NZBio played a key role in new legislation to allow companies to elect to carry forward losses on R&D and market development, despite changes to shareholder continuity.

While such lobbying activities are recognised as core activities of industry bodies, there is some incongruity that government is funding bodies to lobby government agencies on policy issues. Indeed, the focus of the industry bodies on changing the environment for growth within their sectors has the potential to result in tension with government agencies – the bodies were developed to work on economic development issues that were previously the domain of government agencies. However, this should not be viewed as problematic – the industry bodies were created to fill an identified gap and were never intended to ‘toe the line’ in respect of government policy.



# GIF Sector Project Fund

## 5. Programme objectives

---

The objective of the GIF Sector Project Fund is to enable the GIF industry bodies to undertake projects aimed at building sector capability and to deliver on their growth targets over and above their operational funding.

### 5.1 Intended outcomes

The objectives of the GIF Sector Project Fund are to:

- build sector capability; and
- assist the industry bodies to deliver on their growth targets.

The industry bodies eligible for support are:

- the HiGrowth Project;
- NZBio;
- the Screen Council; and
- the Better by Design Advisory Board.

## 6. Programme description

---

The GIF Sector Project Fund was established in September 2003, to encourage the industry bodies to take a prominent and proactive role in delivering on the growth targets. The Fund was to be administered as a grant by NZTE, with funding of \$0.888 million in 2003/04, rising to \$1.333 million in 2004/05, through to 2012/13 (all figures GST exclusive).

The key driver behind the establishment of the Fund was to encourage the industry bodies to give effect to their brief by carrying out a range of practical projects. While funding for some of these projects was to be met from the direct funding of the bodies discussed above, it was important that the bodies were not constrained in their endeavours through lack of resources.

The full list of projects is attached as Appendix 1.

### 6.1 Eligible projects

NZTE has established five high level criteria for the GIF Sector Project Fund. To be eligible for funding, the industry body must demonstrate that the project is:

- consistent with the relevant Taskforce's recommendations; and
- a consequence of an industry body business plan.

Secondly, each project must also address one or more of the following:

- will build sector capability; meet sector needs;
- will progress research; or
- will enhance global connectedness; improve the supply of skills and talent; increase levels of innovation.

### 6.2 Grant process

The Cabinet paper establishing the GIF Sector Project Fund noted that regard would need to be given to equitable funding of the industry bodies. To this end, NZTE provisionally apportions the Fund across each of the sectors, with an unallocated amount of \$100,000 set aside to support collaborative projects. To avoid an underspend of the Fund, any unallocated funding is opened up in January of each financial year and the industry bodies are invited to put forward proposals to access this remaining funding. If allocation of funds cannot be agreed through prioritising with and between the industry bodies and Sector Managers/Directors, an independent panel will be convened to assess the projects.

Applications for funding are made through the industry body's NZTE client manager. The client manager assesses the proposal using an assessment matrix, to ensure that all proposals are assessed in a consistent manner. If the project meets the criteria then it is forwarded to the relevant Sector Director, and an Independent analyst for approval. Decisions about funding are made in accordance with NZTE delegation authority.

Once funding is approved, the industry body is required to report quarterly to NZTE on progress. Within three months of the project completion, the industry body must submit a written project evaluation report to NZTE.

## **7. Findings**

---

### **7.1 NZTE Administration**

#### **7.1.1 Prior to July 2005**

The administration of the GIF Sector Project Fund has improved markedly after a lengthy period of establishment. Initially no one within NZTE was accountable for the Fund and the allocation of funding was farmed out to the relevant Sector Directors. While the early projects were consistent with Cabinet criteria, there was no robust process or guidelines in place around the decision making. This lack of direction led to much frustration amongst the industry bodies as applications were delayed and contracts went missing.

The lack of any central administration within NZTE for this grant scheme resulted in an administrative error at the end of the 2004/05 financial year when several approved projects were not entered into NZTE's database. The effect of this was that the projects from 2004/05 had to be funded out of the baseline from 2005/06. HiGrowth was particularly affected – with potentially \$80,000 less available for projects in 2005/06 than if the error had not occurred.

#### **7.1.2 Since July 2005**

Following the report of the Auditor-General on the administration of NZTE grants in December 2004,<sup>4</sup> NZTE implemented changes to the way it administered its grant programmes. In respect of the GIF Sector Project Fund, NZTE introduced new guidelines that were modelled on other NZTE grant application requirements and required a well scoped project and documentation to the level recommended by the Office of the Auditor-General. These changes were in place for the 2005/06 financial year.

There was also recognition of the need for administration to be centralised within NZTE. The tightening up of this process sparked complaints from the industry bodies that the process was too onerous and went against the spirit of supporting these key sectors.

Following consultation with the industry bodies and MED, NZTE implemented further changes. The end result is a system of administration that is outcome focused rather than process driven. The annual business plans for each industry body are now used as the basis for the grants. Sector Managers are designated to each body and work with them in the production of the business plans, which are signed off by NZTE in May of each year. Each business plan identifies which projects will need funding in the upcoming year. This means that the application process is focused on the delivery and the outcome of the project rather than having to revisit why it should be undertaken in the first place.

#### **7.1.3 Grant Process**

The process put in place by NZTE provides a degree of consistency and certainty for fund applicants. NZTE has also taken steps to provide greater transparency about the status of the fund and allocations between bodies. NZTE has struck a delicate balance between ensuring accountability for the use of public funds and recognising that prompt decisions

---

<sup>4</sup> Controller and Auditor-General, 'New Zealand Trade and Enterprise: Administration of Grant Programmes' 1 December 2004 ([www.oag.govt.nz](http://www.oag.govt.nz)).

about funding are vital for the industry bodies that the government has tasked with implementing the Taskforce strategies. The criteria developed for the grants are consistent with Cabinet's intention in establishing the GIF Sector Project Fund.

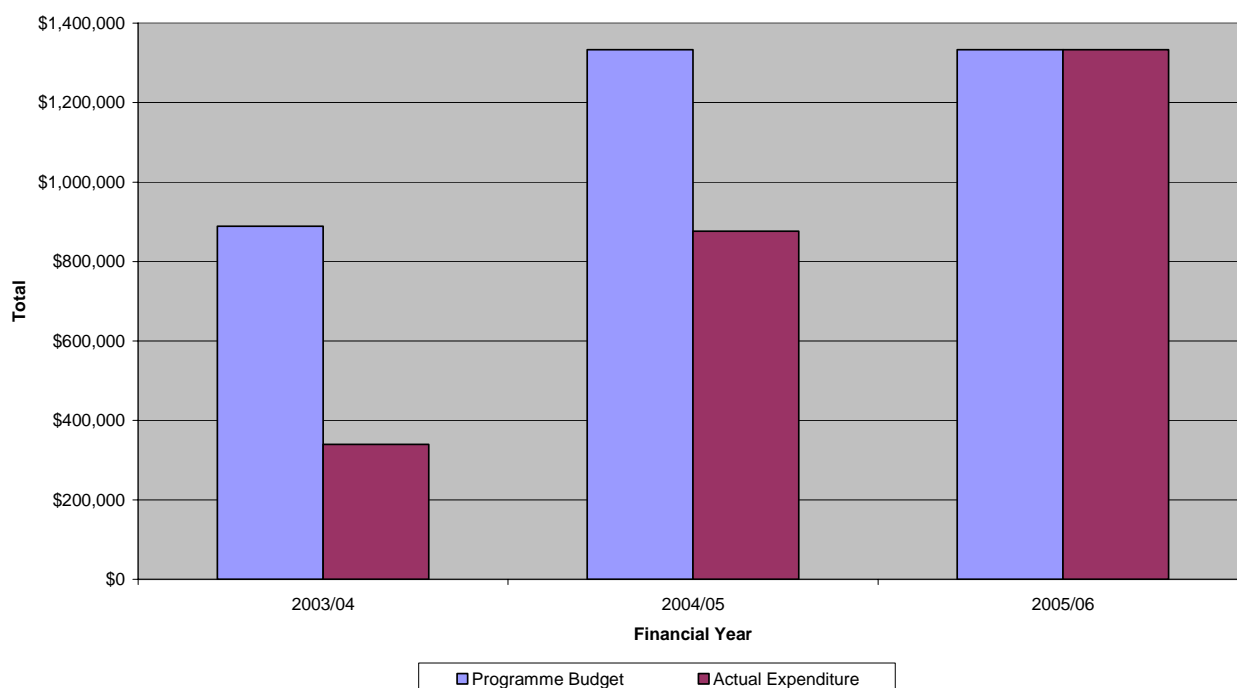
### 7.1.4 Programme efficiency

It is important to note that NZTE was never provided with funding to administer the GIF Sector Project Fund, and that it is currently being administered by the team responsible for administration of the Enterprise Skills and Activities Fund (ECSA Fund). The value of having a central point of contact for the GIF Sector Project Fund is evident in the vast improvement in the process since July 2005.

As NZTE has absorbed the costs of administering the GIF Sector Project Fund, it has not been possible to determine the efficiency of delivering the programme.

## 7.2 Programme spend

The GIF Sector Project Fund is funded through NZTE Output Class 1.3 and has a budget appropriation of \$1.333 million in 2005/06. Figure 1 shows the level of expenditure since the creation of the Fund.



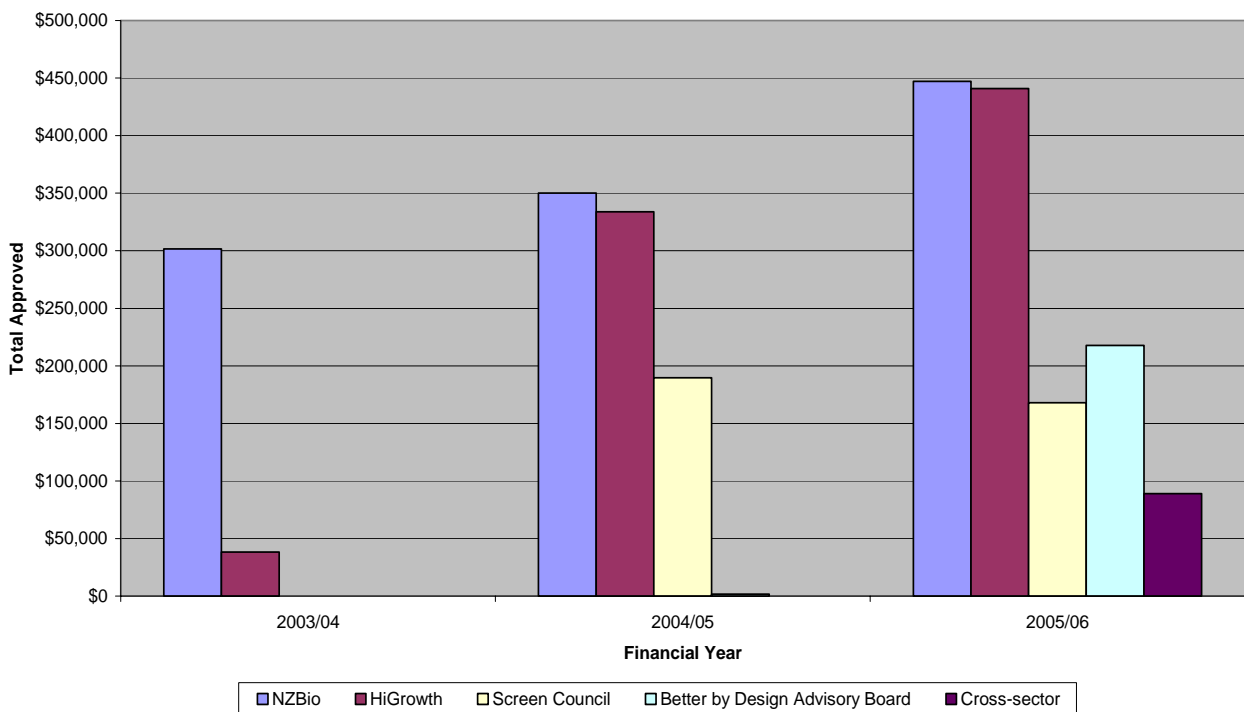
**Figure 1: Actual Expenditure compared with budgeted**

The initial period of underspend can be partially attributed to the fact that it was not until June 2004 that all four industry bodies were up and running. Furthermore, each body had to initially focus on developing their internal structures before they could look to undertake strategic projects. Coupled with the aforementioned administration error that resulted in projects being carried from the 2004/05 financial year into 2005/06, the underspend is understandable. The full allocation of the Fund in 2005/06 indicates that underspend is unlikely to be a problem in the future.

Indeed, the capacity of the Fund is likely to be a problem in 2006/07. The extension of NZBio’s operating funding of \$0.400 per annum for three years is being sourced from the GIF Sector Project Fund. This means that the Fund will now only have \$0.933 million (GST exclusive) available each year to support projects.

The full list of projects that have been supported through the GIF Sector Project Fund is attached as Appendix One.

The GIF Sector Project Fund has been utilised by the industry bodies to varying degrees. As Figure 2 illustrates, NZBio and HiGrowth have accessed the most funding, with each claiming progressively more each year. By contrast, the Screen Council has accessed a much smaller portion of the Fund and actually utilised less in 2005/06 than it did in the previous year.



**Figure 2: Breakdown of grants by industry body**

### 7.3 The Better by Design Advisory Board

As illustrated by figure 2, the Better by Design Advisory Board accessed the GIF Sector Project Fund substantially for the first time in 2005/06 – claiming \$217,718 for Regional ‘Pump Classes’. This raises concerns for two reasons. The first is that as the Advisory Board is not a legal entity (unlike the other 3 bodies) the funding is effectively granted by NZTE to its own Better by Design Team. However, the risks associated with the Design Manager approving a grant to their own team are minimised by NZTE’s risk management system. The Chairman of the Advisory Board must advise NZTE on the need for the funding, and the design grants are kept separate from the rest of NZTE’s design budget.

A second concern is that by accessing the Fund, the Better by Design Advisory Board is limiting the funds that the other bodies can access. In its response to the Design Taskforce, the government provided \$11.300 million over 4 years to NZTE to undertake initiatives to inform firms about the importance of design (\$3.350 million over 4 years) and to enable firms to be design-led (\$7.950 million over 4 years). The level of this funding has led to complaints from the other industry bodies about the Better by Design Advisory Board also having access to the GIF Sector Project Fund.

There is no need to restrict the Better by Design Advisory Board from accessing the GIF Sector Project Fund. Access to this project-based funding provides the Advisory Board with a valuable flexibility to undertake projects that may not be covered by NZTE's current programme funding.

## **7.4 Industry body collaboration**

As the GIF sectors were targeted due to their horizontal enabling impacts across the economy, the GIF Sector Project Fund was also designed to encourage collaboration between the industry bodies. The rationale was that the bodies would examine issues that are common to their sectors and a possible end result would be the application of technologies beyond their sector.

To this end, in the first six months of each financial year, NZTE sets aside \$100,000 to provide an incentive for the industry bodies to undertake joint projects together. To date, one collaborative project has been undertaken – with \$88,889 provided to HiGrowth and NZBio to undertake a joint tax project.

The industry bodies have a good relationship with one another, with the lack of collaborative projects being due to their differing priorities. Collaborative projects should not be an end in themselves and will occur whenever the industry bodies see synergies between their work. Therefore, it is not necessary for NZTE to allocate a portion of the Fund to encouraging collaboration. Freeing up this funding will help to lessen the impact of the decrease in total funding available from 2006/08 onwards.

## 8. Conclusions and Recommendations

---

NZTE is currently administering the GIF Industry Governed Bodies Fund and the GIF Sector Project Fund in an efficient manner. There were initially a few teething problems as NZTE developed and then altered the criteria for the grant process. However, these issues have been resolved and the application process and monitoring systems are working well. There has been a notable improvement since NZTE centralised its administration in respect of the industry bodies.

Although the GIF industry bodies have had some success in pursuing their economic development objectives, there is a risk of government becoming financial guarantors of these and future bodies. There is a role for government in facilitating the formation of industry bodies in specific circumstances; however, Cabinet approval of criteria is necessary to guide future decisions on operational funding for industry bodies.

Providing funding to the GIF industry bodies has provided valuable learnings for future policy: most notably that any future operational funding should be targeted at achieving greater collaboration within a sector. Government operational funding for HiGrowth and the Screen Council is scheduled to cease in June 2007. Although both will continue to exist as charitable trusts, it is unlikely they will be in a position to be fully-functioning industry bodies. NZBio has received an additional three years funding in recognition of its success in generating industry buy-in. The Better by Design Advisory Board has been founded on a unique model and has proven effective in championing the design strategy.

No evidence was gathered to determine whether the projects undertaken by the industry bodies were having a positive impact on their industry. This is due to the relatively small time since their inception and because they are all undertaking strategic projects that will take some time before the benefits are realised. The implementation of the Taskforce recommendations are reported through the annual GIF progress reports submitted to Ministers, with the next report scheduled for November 2006.

### 8.1 Recommendations: policy

1. MED seek Cabinet approval of a framework to guide any future decisions about the provision of operational funding to industry bodies, drawing on the learnings from the GIF industry bodies:

As a general principle, operational funding should only be provided where there is a clear economic benefit in terms of lifting sustainable growth in a sector. While there can often be a role in supporting industry bodies, there is a significant risk of government becoming financial guarantors of such bodies.

Recognising that this is an evolutionary process, future operational funding for industry bodies should only be considered where there is a demonstrable gap between the funds the industry body can reasonably derive from member subscriptions and other sources and the level of funding required for the body to build the necessary capability to implement its growth strategy. Other suggested criteria include:

- there is industry contribution towards funding the body (other than sponsorship / in kind funding), e.g. subscription based, levy, accreditation fee etc;



- the body has a realistic business plan, directed at implementing the sector's strategic plan and taking into account available resources;
  - there is a plan in place, with milestones to be met, for the transition to full industry funding;
  - funding is for a fixed period of time; and
  - in the case where the sector is fragmented (including where there are multiple industry bodies), funding will be contingent on there being an agreed process for the sector to address the fragmentation, eg the body is an umbrella organisation supported financially by other bodies in the sector; or there is a commitment on the part of existing bodies to merge.
2. MED review which industry bodies should be able to access the GIF Sector Project Fund beyond June 2007. The original ten-year timeframe for the GIF Sector Project Fund was established on the basis that the industry bodies would develop widespread industry support and eventually become self-sustaining.

## **8.2 Recommendations: operations**

1. NZTE insert 'clawback' clauses into future contracts with the GIF industry bodies to ensure that all operational funding that remains unspent at the end of each financial year is returned to NZTE.
2. NZTE should continue to provide funding for collaborative projects between the bodies, if and when they arise; however, a portion of the GIF Sector Project Fund should not be set aside to fund such projects.
3. NZTE should continue the centralised administration of the GIF Sector Project Fund.

## Appendix One: Grants made under the GIF Sector Project Fund

Projects Undertaken	Description	Industry Body	Date Approved	Budget
<b>1 July 2003 – 30 June 2004</b>				
Economic Modelling	Development of an Economic Growth Model of the NZ ICT Sector	HiGrowth	23/03/2004	\$38,304
Accessing International Investment		NZBio	28/01/2004	\$24,000
Innovation Interface	This project is designed to provide a mechanism for aligning NZ research and company activity with the needs of the global market and to facilitate increased collaboration and partnering with key global players in areas where NZ has a competitive advantage.	NZBio	1/05/2004	\$25,000
Review of past recommendation		NZBio	23/06/2004	\$14,400
Development of New Website	Development of this website will create a tool for establishing and promoting NZBio, provide infrastructure that can be used by the regions and profile the NZ Biotech industry internationally.	NZBio	18/06/2004	\$60,000
Australia/NZ CEO leaders forum	Funding to run the first inaugural Australia/NZ CEO Forum	NZBio	30/03/2004	\$35,000
Horizontal Investment Fund	Stimulate the development of commercially viable biotechnologies.	NZBio	4/02/2004	\$61,500

<b>Projects Undertaken</b>	<b>Description</b>	<b>Industry Body</b>	<b>Date Approved</b>	<b>Budget</b>
AusBiotech 2004 Diamond Sponsorship	AusBiotech 2004 Diamond Sponsorship	NZBio	28/05/2004	\$81,778
<b>1 July 2004 – 30 June 2005</b>				
Improving Access to Investment Funds	Improving access to investment funds for NZ Biotechnology Companies	NZBio	3/03/2005	\$100,000
Improving the Operating Environment	Commission tax advice & investigation of a risk based framework implementation	NZBio	3/03/2005	\$50,000
World Class Learning Opportunities	Develop a programme for the biotechnology sector on "best practice" information	NZBio	3/03/2005	\$100,000
Enhancing National Networks	Identify and support the establishment of Special Interest Groups.	NZBio	3/03/2005	\$100,000
Website Development / integration / promotion	Website development, integration and industry promotion	HiGrowth	1/07/2004	\$95,000
Research into ICT Tax Losses	Research into the treatment of ICT tax losses	HiGrowth	14/07/2004	\$30,000
Tax Treatment of Employee Share Options	PWC to undertake research in the area of tax treatment of employee share options plans	HiGrowth	17/11/2004	\$40,000

<b>Projects Undertaken</b>	<b>Description</b>	<b>Industry Body</b>	<b>Date Approved</b>	<b>Budget</b>
	(ESOP)			
ICTNZ Establishment Funding	Support the development of a single consolidated industry body (ICTNZ) for the NZ ICT Industry	HiGrowth	30/03/2005	\$80,000
Industry Mapping Phase 1	A joint project between HiGrowth, Microsoft and NZTE - to provide research to determine the true nature of NZ's ICT landscape. Mapping the organisations that serve it, the means it has to access funding, external view of where NZ's ICT company strengths lie.	HiGrowth	9/06/2005	\$49,250
Fluency in IT	Establish a work programme to develop a framework of ICT Programmes in schools for year 11-13 and pathways to their employment in ICT	HiGrowth	29/06/2005	\$39,580
NZ Film Business School	To fund the Film Business School Residential course (Wairarapa 12 -16 April 04)	Screen Council	20/07/2004	\$40,000
Enterprise Tasman	To advise and assist successful producers with building their companies into strong and flourishing enterprises	Screen Council	5/08/2004	\$55,000
International Travel - LBSPG	Travel to USA and UK to complete work the Council is undertaking for MED on the Large Budget Screen Production Grant and to forge networks with sister organisations.	Screen Council	18/04/2005	\$22,222
Internet Connectivity in the Screen Production Industry	Commission a report on the high speed internet requirements of the screen production sector including opportunities and current constraints to growth in an international	Screen Council	29/04/2005	\$4,250

<b>Projects Undertaken</b>	<b>Description</b>	<b>Industry Body</b>	<b>Date Approved</b>	<b>Budget</b>
	environment.			
Education & Training Website	Develop a one-stop-shop of information about tertiary training courses and industry training opportunities for the screen production sector	Screen Council	29/06/2005	\$26,751
Market Development Website	Develop a market development sub-website that provides industry practitioners with comprehensive, current information on markets and marketing	Screen Council	30/06/2005	\$44,391
<b>1 July 2005 – 30 June 2006</b>				
Communications Part A	This project will assemble a package of collateral drawn from New Zealand biotechnology companies to demonstrate the New Zealand biotechnology value proposition. The core collateral will be assembled in a range of formats to raise profile and target investors and the business community through a range of media.	NZBio	25/10/2005	\$70,000
Communications Part B	This project will assemble a package of collateral drawn from New Zealand biotechnology companies to demonstrate the New Zealand biotechnology value proposition. The core collateral will be assembled in a range of formats to raise profile and target investors and the business community through a range of media.	NZBio	25/10/2005	\$70,000
National Networks Part A	The Biotechnology Taskforce identified that the development of clusters and new networks was important for growth of the industry. There is an opportunity to bring together the respective strengths of individuals and organisations throughout the country with the	NZBio	25/10/2005	\$60,000

<b>Projects Undertaken</b>	<b>Description</b>	<b>Industry Body</b>	<b>Date Approved</b>	<b>Budget</b>
	co-ordination of regional groups to create greater scale and leverage resources and activities			
National Networks Part B	The Biotechnology Taskforce identified that the development of clusters and new networks was important for growth of the industry. There is an opportunity to bring together the respective strengths of individuals and organisations throughout the country with the formation of groups of national special interests to create greater scale and leverage resources and activities	NZBio	25/10/2005	\$40,000
Tax Environment	The tax initiatives are intended to make the environment for biotechnology companies more conducive to growth. Guiding companies on the best techniques to transfer technology will increase the value captured within NZ from biotechnology companies	NZBio	25/10/2005	\$25,000
Capability	The Biotechnology Taskforce identified that the development of clusters and new networks was important for growth of the industry. A related need has also been identified for a formal link between users and useful resources and capabilities within the New Zealand biotechnology sector. Existing ad hoc networks can be of varying quality and in some instances result in duplicate capability within the NZ industry	NZBio	25/10/2005	\$50,000
Access to Capability	Providing access to national and regional capabilities and infrastructure	NZBio	17/08/2005	\$30,000

<b>Projects Undertaken</b>	<b>Description</b>	<b>Industry Body</b>	<b>Date Approved</b>	<b>Budget</b>
Building Business Awareness	Building greater business awareness	NZBio	17/08/2005	\$27,250
Strategic Communications Plan		NZBio		\$78,359
Joint Tax Project	Joint Tax Project - Improving the Operating Environment for NZBio and HiGrowth	NZBio / HiGrowth	1/07/2005	\$88,889
HiGrowth Research Project	AREU - Lincoln Uni will be used to carry out approx. 100 structured interviews with selected ICT companies in the main centres of Auckland, Wellington, Christchurch - to gather industry intelligence working towards a review of the ICT taskforce report.	HiGrowth	25/08/2005	\$49,300
ICTNZ Stage 2	To continue / build on ICTNZ Stage 1 outcomes.	HiGrowth	30/09/2005	\$36,305
Industry Mapping Phase 2	To continue / build on Industry Mapping Phase 1 outcomes.	HiGrowth	5/09/2005	\$88,810
Actv8 Magazine	Actv8 Magazine aims to encourage teenagers aged 13-15, their teachers, principals and parents to become passionate about the positive benefits that technology can have on their lives and their careers.	HiGrowth	1/07/05	\$86,250
Actv8 Magazine – Stage 2	Actv8 Magazine aims to encourage teenagers aged 13-15, their teachers, principals and parents to become passionate about the positive benefits that technology can have on their lives and their careers.	HiGrowth	27/04/06	\$86,250

<b>Projects Undertaken</b>	<b>Description</b>	<b>Industry Body</b>	<b>Date Approved</b>	<b>Budget</b>
Regional Pump Classes (Nov 05)	Support Better by Design regional 'Pump Classes' to be held in Auckland, Wellington & Christchurch	Better by Design	14/11/2005	\$70,000
Regional Pump Classes (March 06)	Support Better by Design regional 'Pump Classes' to be held in Auckland, Wellington & Christchurch	Better by Design	15/02/06	\$74,500
Regional Pump Classes (June 06)	Support Better by Design regional 'Pump Classes' to be held in Auckland, Wellington & Christchurch	Better by Design	19/05/06	\$59,910
ScreenMark	A quality assurance system, called ScreenMark, will provide a seal of approval to courses that provide well-trained, employment-ready graduates for New Zealand's film and television production businesses.	Screen Council	27/03/06	\$44,000
Business and Marketing Training	Working with relevant organisations to promote, develop and/or modify business tools for companies involved in screen production.	Screen Council	23/02/06	\$79,900
Enterprise Tasman	To advise and assist successful producers with building their companies into strong and flourishing enterprises	Screen Council	21/01/06	\$44,011



## Appendix Two: Progress of the Industry Bodies

---

As mentioned above, MED has provided regular progress reports on the performance of the GIF industry bodies and the implementation of the Taskforce recommendations. Beyond the specific projects undertaken by the bodies, the following is a brief summary of their operations:

### NZBio

- NZBio established a board and appointed a CEO and began operations in December 2003.
- NZBio supports regional biotechnology networks and maintains close links with government, providing a conduit for advice and communications between government and the biotechnology industry.
- Auckland Bio has now formally become a part of NZBio as NZBio/Auckland. A series of special interest groups is now being formed to broaden the appeal of NZBio to sectors of the industry (such as AgBio) that traditionally did not belong to the legacy organisations, BIOTENZ and the NZBA.
- NZBio appears to have high credibility with the industry and has built its membership to 60% of the core industry players.
- Government's investment has assisted the development of a peak industry body with a professional staff with the capability to deliver a range of services to the sector. The goal of improved co-ordination and leadership of the sector appears to have been achieved.
- NZBio has provided an effective communication point for government (particularly with MoRST) in the development of biotechnology policy and engagement with the sector as a whole.

### HiGrowth

- HiGrowth was never intended to be a representative peak industry body that competed with or replaced existing bodies. Instead it was intended to be an independent industry-governed *implementation* body for the ICT Taskforce's growth strategy, with a ten year life.
- In trying early circumstances, HiGrowth can still be acknowledged for meeting all of its KPIs in its first full operational year.
- Following the resignation of the Executive Director, the Board decided to reposition HiGrowth. A new business plan indicates a firm focus on the growth goal of achieving 10% of GDP, with growth spread more comprehensively across all of the industry's revenue bands.
- HiGrowth will now adopt a 'helicopter view' as gatekeeper of the ICT Taskforce Report. It will not act as a delivery agent. Instead HiGrowth will identify projects that need to be implemented and either engage a third party to deliver the project

(through the GIF Sector Project Fund) or ensure that another agency is empowered to deliver the project on the industry's behalf.

- In hindsight it was perhaps too high an expectation that HiGrowth would garner significant resources from industry in an environment where multiple organisations are soliciting membership fees and where HiGrowth appealed to only a portion of the sector.
- HiGrowth has learned from its mistakes, rectified its early management difficulties, worked with NZTE to improve the relationship and trimmed its budget. It has now identified the niche (advocacy and catalysing) where it can play a useful role in line with the original vision.
- A key success of HiGrowth has been to stimulate the formation of ICT-NZ, an ICT umbrella organisation which does have ownership and buy-in of the industry as a whole, and which has been supported by some funding via HiGrowth.

## **Screen Council**

- The Screen Council was the last of the GIF Sector Bodies to be established. The three years of Government funding will run out in June 2007.
- Even more than the ICT sector, the screen production industry in New Zealand has a history of being highly factionalised and politicised, with a plethora of industry organisations. Hence the Screen Council operates in an environment in which there is even more potential for role overlap than ICT.
- A clear role exists for the Screen Council (as outlined in its trust deed) as a peak body that provides leadership for the sector as a whole and which can act as facilitator of co-ordinated action, particularly on growth issues.
- The Screen Council is unlikely to be able to establish its value with the wider screen sector to be self-sustaining beyond June 2007
- The Screen Council has provided value by focusing on training and capability issues in the screen sector (and work around developing a ScreenMark stamp of quality).

## **Better by Design Advisory Board**

- The Design Taskforce identified a single problem – very few New Zealand firms utilise design and design processes in product development and marketing. The Design report was not focused on growing the design sector, but was focused on promoting the use of design by New Zealand firms generally (horizontal enablement).
- The Design Taskforce proposed that a body be established to guide the implementation of the Taskforce's strategy. This body would provide continuing advice - to Government; NZTE; business organisations; and the design industry - on employing design as a fundamental business enabler.
- The Better by Design Advisory Board is a reference group, and is not a formal legal entity. It has no authority for expenditure of money. The seven member board is responsible for overseeing the implementation of the Better by Design programme. Administrative services are provided by NZTE and funded out of the \$250 000

appropriated to run the board. Board members were nominated by the Design Taskforce. Board members are paid for their services according to the Cabinet Fees Framework.

- The Better by Design Advisory Board is generally regarded as being an effective entity. All feedback and indications are that the progress of the design strategy is working well. The Better by Design Advisory Board appears to be successfully championing the strategy with business and providing oversight and strategic input into the implementation of the initiatives.