



Future Challenges and Opportunities in Regional Economic Development in New Zealand

A national research project



Report authored by:
Julian Moore, John Hutchings and Geoff Henley

November 2019

Executive Summary

The intention of this report is to share some perspectives on regional economic development across New Zealand, based on in-depth interviews with 18 leading thinkers in economic development and an online survey of 44 EDNZ members.

We consider the effectiveness of the current model – from policy setting through to delivery – and suggest some ideas for improvement.

Any discussion about the potential for different approaches immediately leads to discussion about the negatives, rather than the positives. This is unfortunate. It is important to stress that our respondents welcomed the focus of the current government on regional development. We are now in an era in which regional development is recognised as important – and having the Provincial Growth Fund (PGF) as a funding source has unlocked development opportunities that otherwise would have languished. The question now is how we can make the most of this unprecedented level of commitment.

Key findings

Our key findings, and some questions we think arise from these, are as follows:

1. **There is no common definition of the term ‘regional economic development’**

‘Regional economic development’ means different things to different people, often influenced by the needs of their particular region. There is, though, a clear view that there is a need to go beyond traditional definitions and to include social and environmental factors (a four well-being/quality of life approach).

Questions:

- What is the right definition?
- Should we be talking about ‘Regional Development’ rather than ‘Regional Economic Development’?
- What is the right balance of development activities – between social well-being (equity, inclusivity, addressing deprivation) and economic drivers, such as employment, GDP growth and productivity?

2. **GDP is no longer seen as the ‘one and only’ performance indicator**

The focus on the lived experience of people is growing in importance as an indicator of regional development success. Well-being indicators were strongly advocated by many as more appropriate measures than solely economic indicators.

Questions

- How should ‘quality of life’ be measured?
- What should the new economic development dashboard look like?

3. The consensus was that the current delivery of economic development services is 'moderately successful'

Bright spots and successful projects were identified, but overall there is a lack of 'all of region' vision, strategy and collaboration – a systematic approach to regional development. There is under-investment in infrastructure, with workforce issues (including skills development) generally not being adequately addressed. There needs to be a longer-term focus.

Questions

- What system changes do we need to make to increase success?
- Is there 'low hanging fruit' we could focus on first? Which area is this in - strategy, functions or funding?

4. Infrastructure and skills are the increasing focus as the key enablers of economic development

There were two main camps among respondents: one focused more on infrastructure as the key lever and the other focused more on people (capability and skills development). The two positions were not exclusive. Skills shortages are a major concern.

Questions

- How can we improve performance on infrastructure development?
- Is it clear what the intervention is on skills?

5. There is low engagement of the regions in national economic development policy setting

There is a pressing need to re-set the relationship between central and local government and for the two to work better in

partnership to define and deliver against regional economic development objectives.

Questions

- How should engagement occur with central government on policy development?
- In an era of heightened central government intervention, is the Government up for a 'co-design' approach?
- If so, who should be involved?

6. The relationship between central and local government needs to be recalibrated

A partnership, rather than a top-down approach, is advocated. There is a need for a co-ordinated national plan, demonstrating the distinctive comparative advantage and latent potential contribution of each region to the national economy, with supporting funding and a higher level of delegated decision-making.

Questions

- Are regions prepared to buy into a national strategy?
- Should central government steer regions to focus on areas of comparative advantage in order to build a collaborative and cohesive NZ Inc plan?
- If so, how should this plan be developed?

7. New mechanisms are needed to enable more effective engagement across government

Regions indicate that it is difficult to engage with central government due to the number of ministers and agencies involved

in different aspects of regional economic development. There is a need to make engagement easier.

Questions

- Should dedicated full-time Senior Responsible Officials be appointed as relationship managers for each region, covering all aspects of regional development (i.e. not restricted to the PGF), with responsibility for co-ordinating engagement with all relevant ministers and agencies?
- If so, how can these roles be made effective?

8. The current organisational arrangements in regions lack integration

There is no general agreement on who the players are in economic development and what their roles are or should be. The roles, governance structures, funding and shareholding models of EDAs vary by region and the general view was there are 'too many cooks in the kitchen'. The following view emerged as the ideal EDA model:

- Operates across the whole of a region.
- Has broad shareholding and is not simply 'council controlled'.
- Makes good use of data to inform the best development strategy for the region.
- Facilitates relationships and connections between all the players in the region.
- Facilitates the development of an agreed regional strategy. Develops and markets a 'regional story' to attract visitors, talent and investment.
- Advocates for the region on economic development matters with central government.

- Has the capability to support 'enabler' initiatives that enhance regional performance (e.g. skills and capability building, catalyst projects, transport investment needs, innovation ecosystem).
- Has the funding required to make a difference.

Questions

- Is the EDA organisational model described above the right one?
- What roles should sit within the EDA?
- What is the optimal regional governance structure?
- Is there an opportunity to change the current shareholding models, to ensure all vital stakeholders have an 'ownership' interest?
- Does it matter who does what, as long as everyone is working well together with good spirit on an agreed regional plan?

9. Funding arrangements need to be reviewed

While central government funding is welcomed and has had a positive impact, there is a view that this could be directed more strategically, and that some decision-making could be devolved.

Questions

- Is there an ideal funding arrangement?
- How should central government funding be allocated (both for infrastructure and other regional development initiatives)?
- Should regions be required to develop a regional strategy which all applications for central government funding must align with?
- Should bulk funding be devolved to the regions, for them to distribute within an agreed regional strategy (i.e. a devolved PGF?), provided that appropriate governance arrangements are in place.

10. There are a large number of challenges coming along the track over the next twenty years

Even the list of headings is long...

- Infrastructure adequacy and costs
- Climate change
- Changing demographics
- Inequality
- Skills and talent shortfalls
- Economic resilience
- Tourism dispersal
- Structure/capability/capacity issues within regions

Questions

- Where does 'responsibility' lie for addressing these challenges?
- How prepared are EDAs and government / other agencies for these challenges?
- What actions should EDAs be taking to address these challenges?

11. But there are also many opportunities, both region-specific and cross-region

A long list of opportunities was identified in all regions. There is also seen to be an ongoing opportunity for all regions to shift the focus from volume to value (growing high value, knowledge-intensive jobs), which will increase overall productivity and add value to other key sectors.

Questions

- Are EDAs set up to take advantage of these opportunities?
- If not, what needs to change?
- Should the opportunities be approached regionally or nationally?

KA MUA KA MURI

WALK BACKWARDS INTO THE FUTURE

Our proposition

The learnings that are emerging from this survey and discussions across the economy and community are that some structural changes to our economy are required. In particular, there is a need for further targeted investment in skills and infrastructure to underpin a fast-changing economy. In significant part, this will best be directed through regions in the context of national policies and directions.

Our survey indicates that the regional development sector is maturing fast but has some way to go before it can play a full role in a mixed national/regional development approach.

We contend that Government should focus on:

- **Regional development policy** – work to mature policy thinking around regional development, in consultation with regional leaders
- **Skills and infrastructure** - though not exclusively
- **Evolution of the PGF** – consider the “next generation” PGF for the forthcoming 3-5 years with a view to it operating as a more explicit national regional partnership

We contend that regional leaders (wider than local government) should focus on:

- **Regional institutional arrangements and mechanisms** – identify the optimal arrangements for regional development delivery
- **Planning and resourcing** - engage in ‘all-of-region’ strategic planning and resourcing, as part of an NZ Inc plan
- **Connections with business** – connect the business sector into planning/resourcing in a more effective way
- **Programmes and funding** - ensure that EDAs and local organisations are fit for purpose with appropriate programmes and funding
- **Narrative** – work to create a very clear and comprehensive narrative about regional development in their region that everyone can understand.

Table of Contents

- Executive Summary 2
- Our proposition..... 6
- Table of Contents 7
- Introduction 8
- Methodology..... 8
- Context 10
- What is regional economic development? 11
- Key performance indicators 13
- Current delivery of economic development services 16
- Key enablers 19
- Policy development..... 20
- The role of central government 23
- Engagement with central government..... 26
- Regional roles and responsibilities 28
- Funding..... 31
- Challenges..... 36
- Opportunities 39
- Blue sky thinking 42
- Concluding remarks..... 43

Introduction

The regional economic development landscape is constantly evolving and requires speedy adaptation in order to succeed. Latent opportunities continue to sit in the wings. Regional economic development organisations and agencies need to evolve and adapt to unlock these opportunities.

Because regional economic development is, by definition, regional, each region has adapted and developed in a way which suits their local needs and politics. Economic development agencies around the country therefore have different responsibilities, governance and funding arrangements. There is no regional consistency.

That's not to say that the current arrangements are necessarily bad, as regional approaches can encourage innovation; a 'one size fits all' approach also does not recognise the significant differences between regions.

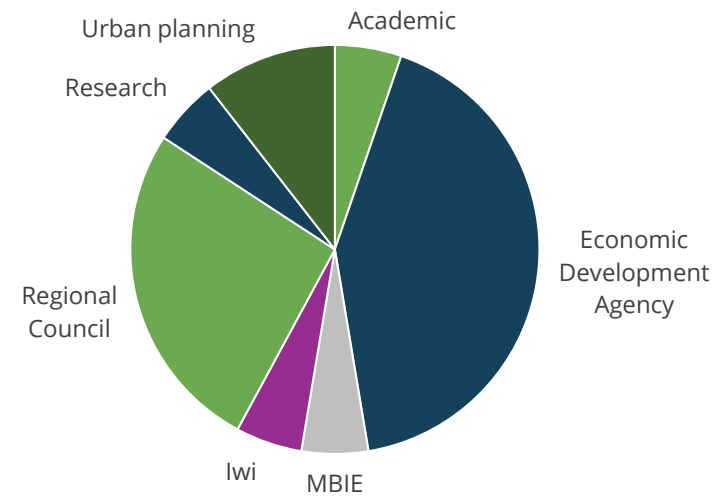
The purpose of our study and this report is to facilitate and report on a 'self-assessment' of whether the current arrangements are fit-for-purpose and future-proof. We identify what participants view as working well and what is not.

Our intention in this report is to share differing perspectives to enable healthy and constructive discussions within regions, between regions, and between local and central government about possible ways to improve overall system performance.

Methodology

We conducted 18 one-on-one in-depth interviews with a range of chief executives of local authorities and regional economic agencies, academics and leaders in the regional development field between May and September 2019 (see Figure One below).

Figure One: Interviewee spread



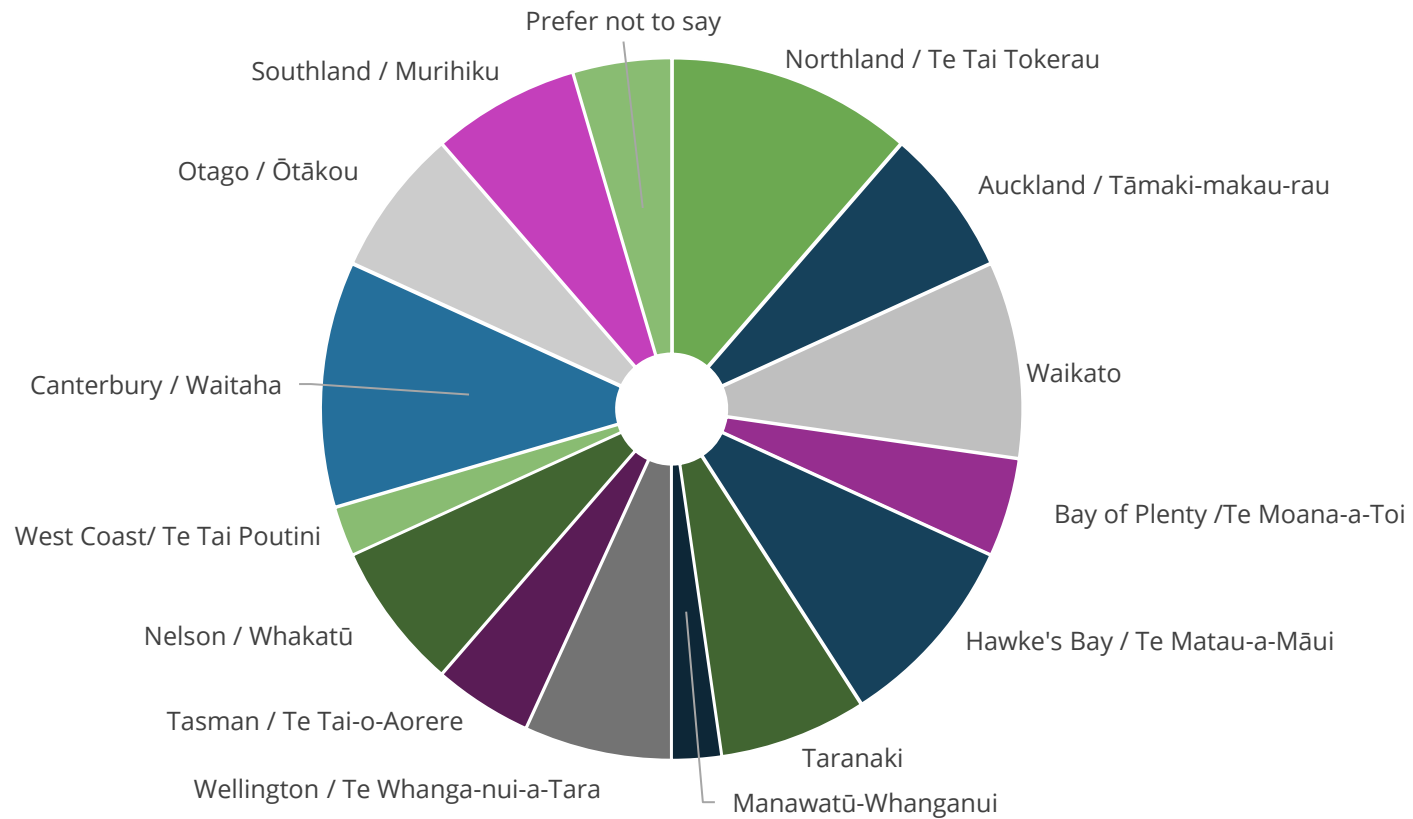
The full list of interviewees is listed in the appendix.

Our interviews were supplemented with an online survey distributed via the EDNZ newsletter. We had an excellent response, with 44 people taking part, representing a broad geographical spread. 14 out of the 16 regions were represented in the responses we received, with two respondents preferring not to give their region (see Figure Two below).

In some cases, we asked exactly the same question from the two groups (for example, asking respondents to score delivery of regional economic development services in their region). In other areas, such as key

indicators of success, we developed a tick list of options in the online survey, based on the areas that were identified by the interviews. This enabled us to get a quantitative assessment of the various views.

Figure Two: Regional spread of 44 online survey respondents



Context

Regional development has come in and out of fashion in various forms over recent years.

It first became highly prominent politically under Jim Anderton in the early 2000s through the Regional Partnerships Programme. This included funding for projects (Major Regional Initiatives) in support of identified areas of regional strength. Some of these initiatives continue today and are flourishing (the Waikato Innovation Park and the Marlborough Wine Research Centre are two examples).

Specific focus on the regions waned under the National-led government, although support was provided to several regional strategies and action plans, and this increased over the term of the National Government. The emphasis shifted toward urban centres and national strategies, such as the Roads of National Significance, as the engine room of economic growth, and much of the discussion became Auckland-centric. Over this period, Auckland gradually became more and more overcrowded and overpriced, whilst population growth in rural towns slowed. There appeared to be an unwritten view that urban drift was inevitable and irreversible, and that smaller provincial centres were doomed to either wither away or become retirement lifestyle destinations.

It was these very factors that motivated the establishment of the Provincial Growth Fund (PGF). There was a recognition that the trend of depopulation of provincial New Zealand could continue or even accelerate relative to main centres, similar to the Australian experience. In parallel, there have been changes in community attitudes to economic growth and lifestyle choices, driven by environmental and social justice concerns. The concept of more support for the regions has been welcomed around the

country. Ironically, this swing of the political pendulum has left some metropolitan leaders feeling that their economic importance is not being sufficiently recognised and that they are now the victims of underinvestment.

Whichever view one might take, it seems (and our respondents tended to endorse this) that there is a rebalancing going on between the support and resourcing of regions and metropolitan centres in the context of changed attitudes to economic growth.

Over a period of a number of years, the Treasury developed its Living Standards Framework to capture public sentiment around 'real' indicators of development into government policy. How changing attitudes to development, quality of life and environmental improvement play out in the regions is behind the whole question of regional development. Put simply, the belief is emerging that economic performance alone will not make New Zealand prosper. There is acknowledgement that quality of life is about more than GDP. For example, if housing is unaffordable, employees have to spend four hours travelling to and from work, and economic output comes at the cost of our natural environment, then the 'real' price of economic development is too high.

Against this shifting backdrop, it is perhaps not surprising there is some confusion about what good economic development policy is. Add to this the complexity of local politics, competing organisations and differing governance arrangements and things look even more challenging.

There are some clear areas for improvement. We set these out in the following sections of this report.

1. What is regional economic development?

No common definition emerged of what the term 'regional economic development' means – not even close. Not surprisingly, people tend to define it in terms of their specific regional needs.

Key needs that emerged were:

- Strong local leadership on economic development.
- A common vision across multiple agencies and business in a region.
- An agreed strategy, regional plan and work programme across agencies.
- Good regional data.
- Measurement and feedback processes that are clear and applied.
- Strong connections – between agencies and businesses, the education sector and business, and international trade partnerships.
- Effective promotion – developing and telling the regional story to support visitor, talent and business attraction.

A broad range of components were considered to be within the scope of 'regional economic development'. Capability and skills building, jobs, infrastructure, investment and talent attraction, business support and a 'sense of place' featured strongly. Collaboration between education,

sectors and businesses was also mentioned frequently as an important component.

Most respondents expressed a need for the inclusion of social and environmental factors (a four well-being/quality of life approach).

While the term was not often used, there was an underlying theme of interventions needing to be in response to market failure. Definitions of 'market failure' ranged from the environmental consequences of market economics through to sectors growing more quickly than the available talent pipeline.

Successful economic development was seen as requiring an understanding of changing demographics and a more holistic view than just generating economic output. These interpretations have led to the common substitution of the term 'regional development' for the term 'regional economic development'.

All the elements of a coherent regional development narrative seem to be present in the current situation, but no consistent narrative has yet emerged, as a result of which quite different interpretations of vision, goals, values and priorities exist between regions.

2. Key performance indicators

If we had asked this question ten years ago (or even more recently), we suspect that the answers would have almost totally focused on GDP growth.

It was interesting to see that GDP scored very lowly across all our interviewees, with only one exception, who scored it as moderately important. It was also only ranked fifth in the online survey (see Figure Three).

In contrast, quality of life, employment and the natural environment featured strongly, reflecting the contemporary focus on broader well-being, rather than economic growth alone.

Our interviewees considered the following measurements relevant. They show the breadth of factors covered by the well-being umbrella:

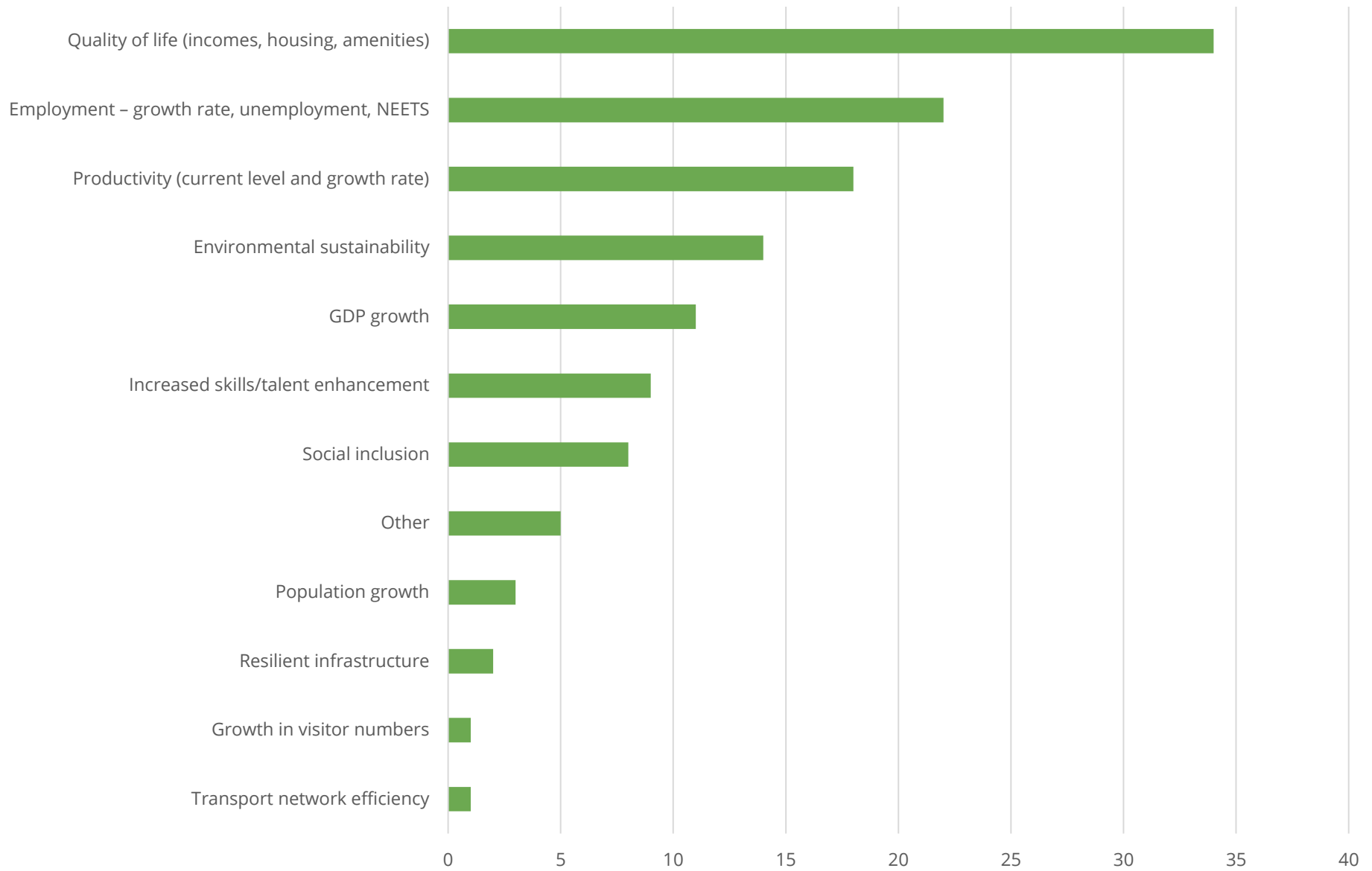
- Quality of life:
 - Average incomes
 - Housing availability
 - Wages compared to cost of living – better paying jobs, not just more jobs
- Employment – overall participation, and knowledge intensive workforce participation
- Productivity
- Wellbeing / Social inclusion:
 - Work life balance
 - Crime
 - Health

- Inequalities – particularly regarding Māori
- Reduced homelessness / more affordable housing
- Regional loyalty and pride, social cohesion, less violence
- Community
- Environment
 - Sustainability
- Contributions not usually counted:
 - Non-paid work
- Talent
 - Skills and talent – they are the number one contributor to prosperity
 - Regions need to position themselves as ‘the place where talent wants to live’

One respondent suggested that the UN’s 17 sustainable development goals may be a good model to follow.

Some interviewees expressed frustration at the expectation of some stakeholders that the EDAs should be held accountable for regional performance against macro-economic measures such as GDP, jobs and productivity. While these may be indicators of overall economic performance, EDA activities will not be able to move the dial significantly on them. EDAs should just be held responsible for the outcomes of programmes and projects they are expected to deliver.

Figure Three: Rankings of key indicators of success from online survey



3. Current delivery of economic development services

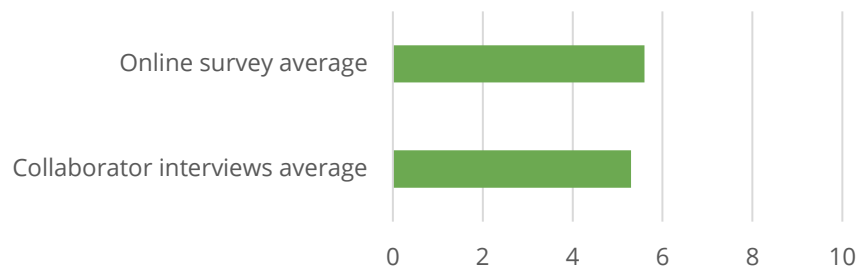
We asked interviewees how successful they think the current delivery of economic development services is in their region on a scale of 1-10 (where 10 is most successful). The scores across the board were low – an average of 5.3. The highest score given was 7 and the lowest was 4.5. The online survey scores on this issue clustered around a score of 6, with a low of 2 and a high of 8 – see Figure Four.

Successes

Destination development for the visitor or tourism sector was noted as a particular success by five interviewees. Other successes were programme, sector or region specific (e.g. NZTE Regional Business Partner programme, film sector development, incubators, regional investment attraction and collaboration).

In the online survey, strategy and planning and collaboration were the top scoring elements viewed as contributing to successful delivery, followed by specific programmes.

Figure Four: Averages from both groups on the question – ‘How successful do you think the current delivery of economic development services is in your region?’



Weaknesses

The key weakness identified by interviewees was the lack of regional vision, strategy and collaboration (‘despite the rhetoric’).

This was echoed by the online survey respondents, who ranked this just behind a lack of forward planning to deal with the transport infrastructure issues created by rapid population growth.

There is a clear need for a bigger picture, connecting all the elements of economic development - housing, transport, skills, co-investment with the private sector to reduce their investment risk etc. The focus was viewed as being too strongly on individual TLAs, with everyone competing for the same ground. There is a need for councils to think regionally or even inter-regionally and for regions to think nationally. There is a lack of regional leadership.

While skills development was seen as a key lever for regional economic development by interviewees, this was generally not considered to be adequately addressed, nor were broader ‘people based’ issues.

Demographics are a major determinant of regional development. There is a need to look beyond just job creation – a more holistic view is required.

There was some discussion about the difficulties of EDAs being ‘council controlled organisations’ and some negative comment about the undue intrusion of local politics. The three-year election cycle was also considered to lead to short term thinking. PriorityOne and Great South were held up as examples with broader and more effective shareholding structures with the freedom to operate more independently.

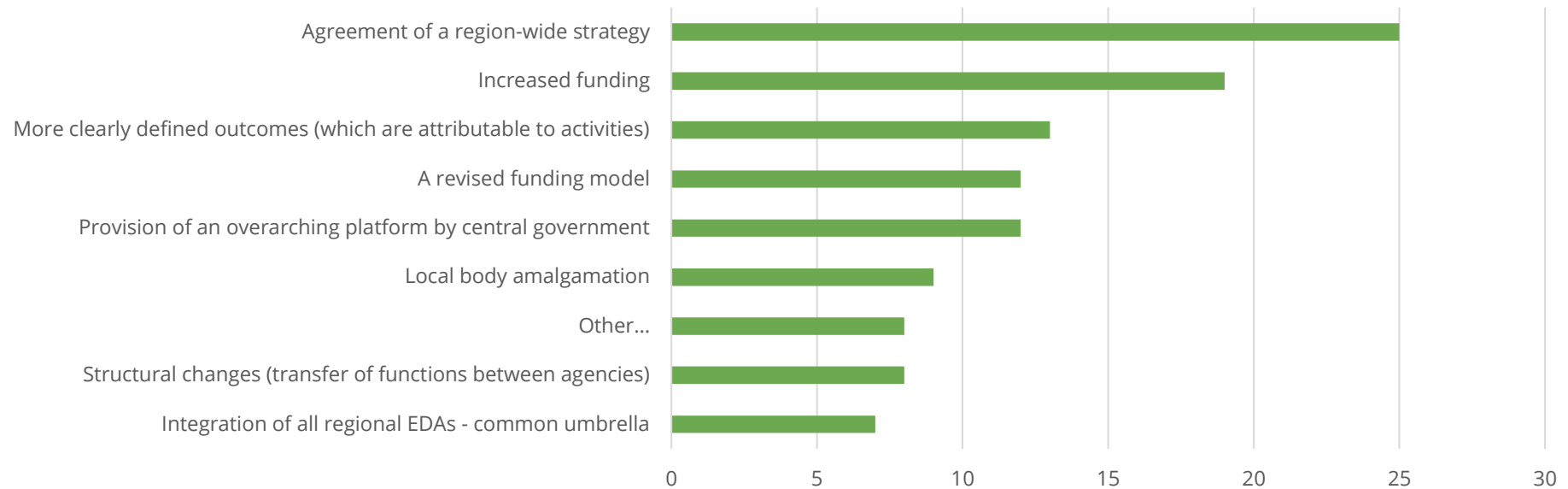
There was seen to be insufficient focus on infrastructure and the longer-term picture. Regions reported having significant infrastructure deficits, with limited capacity to respond. One respondent told us that infrastructure investment wasn't always considered in the context of the impact on the whole region and cited the West Sydney deal as a better model.¹

Nearly all interviewees talked about the need for more funding. A long-term Government regional investment plan was considered to be required.

Areas for structure and system improvement

We provided the online survey respondents with a tick list of structural and process elements that could increase the delivery of regional economic development. Agreement of region-wide strategy came out on top (see Figure Five).

Figure Five: Online survey responses to the question 'What structural elements could increase the effectiveness of delivery of regional economic development in the future?'



¹ <https://www.nsw.gov.au/improving-nsw/projects-and-initiatives/western-sydney-city-deal/>

3. Current delivery of economic development services

Key take-outs

The consensus was that current delivery of economic development services could be described as 'moderately successful' but:

- There is a lack of regional vision, strategy and collaboration
- There is under-investment in infrastructure
- Workforce issues are generally not being adequately addressed
- There is no long-term focus

Questions

- What system changes do we need to make to increase success?
- Is there 'low hanging fruit' we could focus on first? Which area is this in - strategy, functions or funding?

4. Key enablers

Infrastructure and skills were given equal weighting by interviewees with average scores of 8.5 out of 10 (see Figure Six).

There seem to be two main camps when it comes to key enablers: one focused on infrastructure and spatial planning (on the basis that 'everything flows from good transport, then housing') and the other focused on people (capability and skills development).

The following other enablers were regarded as important:

- Political will – this was regarded by one or two as a key enabler; lack of political courage was highlighted.
- Housing – no housing, no people.
- Connections between public and private capital.
- Collaboration – this was meant in a holistic, region-wide or even nationwide sense, not just in immediate transactions.
- Enterprise development.
- Regulatory settings.
- Global connections – how we fit into global supply chains.
- Talent (as distinct to skills).
- Immigration policy.
- Future planning / scenario building.

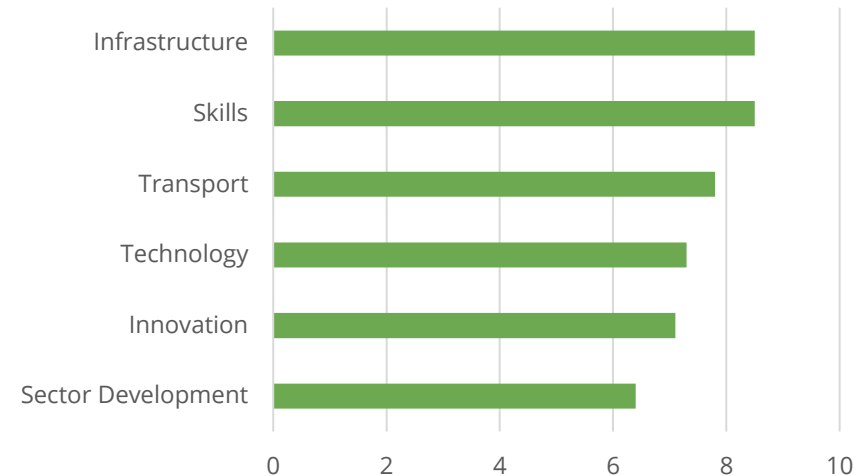
There was a lot of discussion around skills development and the need for connections between educators, students and businesses. There was concern about the lack of adequate education and training, particularly in vocational areas. It is noted that the emerging 'Reform of Vocational Education' agenda is intended to address this.

The lack of depth and capability shortfalls in regional workforces was regarded as a serious matter. The workforce in main centres strengthens and deepens at the expense of the regions.

One region reported an acute shortage of skills in the IT sector. The importance of immigration as an enabler in this context was highlighted. Another region reported there weren't enough people of working age, that the region can't get enough people and can't pay them enough.

One person suggested that it is not clear what the intervention is on skills and that a conversation is needed on that.

Figure Six: Rankings from the one on one interviews on the importance of enablers



5. Policy development

If regional development is a long-term direction for the country, and if it is agreed our approach to growth and development is to be significantly directed through regions, then regional tools, capability and focus are required.

No one that we interviewed regarded themselves as having been consulted in any significant way on central government regional economic policy development. There had been engagement around the mechanics of the PGF, but this was seen as largely operational rather than policy related. It was viewed as being more about the 'recipient' of systems developed at the centre than any sense of 'co-design'.

6. The role of central government

There was general acknowledgement that central government has a major role to play in regional economic development, as the regions cannot generate sufficient revenue to fund all that is required to be done (particularly in the infrastructure area). The relationship between central and local government needs, however, to be recalibrated.

The current 'top down' approach is not seen as appropriate. As one respondent said, "There is a real problem with central government believing it knows better than we do locally". Another respondent referred to central government 'reaching across' the regional economic development mechanisms through the PGF process.

Other comments included: "There's no line of sight" or "There's no invitation to help shape central government policy." There was also a desire to see shared decision making: "We need a core and subsidiary, with decision making delegated to all levels where it needs to be: central government, regions, community boards, EDAs."

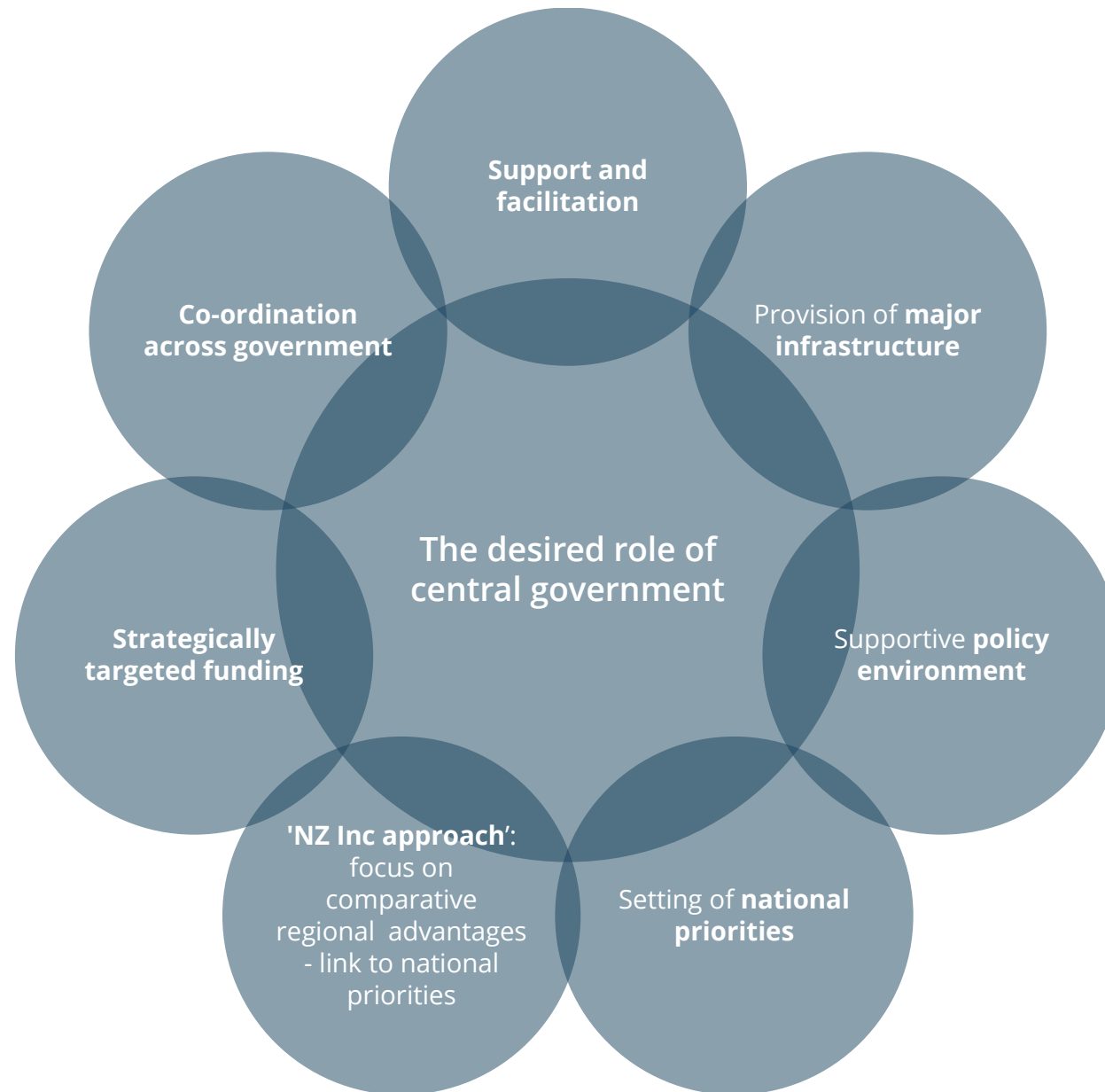
It was generally agreed that a revised, partnership-based approach is required.

The following is what is seen to be required from central government:

- Support/facilitation.
- Provision of major infrastructure that cannot be funded through rates.
- A supportive policy environment for enterprise and innovation.
- Setting of national priorities.
- Development of a national plan which reflects each region's strengths and differences and how they support national regional development priorities.

- Provision of strategically targeted funding assistance / co-investment to support implementation of the plan.
- Facilitation, knowing the gaps in each region's capabilities.
- A co-ordinated approach across government.
- Facilitation of engagement across relevant Government Ministers and agencies.

Figure Seven – The desired role of central Government



7. Engagement with central government

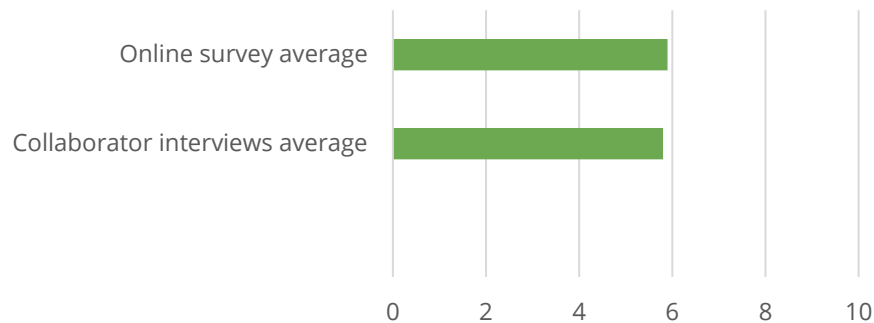
A number of respondents complained about the difficulty of engaging effectively across central government due to the number of ministers and agencies involved. In an environment where economic development is seen to encompass the four well-beings, not just the economy, this is becoming an increasingly important issue.

8. Regional roles and responsibilities

Effectiveness of current arrangements

When asked to rate the level of effectiveness of the current arrangements for the delivery of regional economic development on a scale of 1–10 (where 10 is very effective and 1 is not effective), the average score for this question from interviewees was only 5.8. Scores from the online survey were higher, with a quarter of respondents giving a score of 7 out of 10 and the majority clustering around the mid to upper range. There was, however, a wide range of scores and a significant number between 1 and 6. See Figure Eight below:

Figure Eight – Average scores from both groups on the question – ‘How well do you think the organisations and agencies delivering economic development services in your region work together?’



There is no general agreement on who the players are in regional economic development and what their roles should be.

Respondents referred to the fragmentation of effort between councils and the lack of a clear narrative about the EDA role. External stakeholders

reported variable levels of confidence in EDAs, and alignment and involvement with the business community was also seen to be variable. Most respondents agreed that there are too many cooks in the kitchen:

- “There is a cluster of players all fighting for space – without enough galvanisation”
- “There are a lot of them. If you got them all in the same room, it would be a bloody big meeting. We have tried to do that.”
- “There is little coherence”

The following were some of the reasons given for this:

- It’s not clear where responsibility for economic development sits.
- Regional councils, all the local authorities in a region and EDAs are not aligned, not “aboard.”
- There are real concerns around the quality of regional economic development leadership.
- Organisations tend not to have the grunt to deal with the big issues.
- Insufficient trends analysis as the basis of priorities.
- No clear narrative about what regions are trying to achieve.
- EDAs are not given sufficient mandate to think ‘big picture’ and are under resourced.
- Complexity of the authorising environment.
- No sufficiently shared and cohesive strategy.
- Treaty partners are not lined up – they are ‘partial participants’.
- Patch protection.

Suggestions for improvement

The following are some of the things that respondents thought could increase the effectiveness of delivery of regional economic development:

- Agreement on regional strategy / a single plan supported and understood by central government.
- Increased funding.
- More clearly defined outcomes, attributable to activities.
- A revised funding model.
- Local body amalgamation.
- A clearer, better structured regional agency of some sort.
- All councils being required to fund the EDA.
- Using a community trust structure for the EDA, with councils being just one funder alongside private enterprise and other business organisations, so as to avoid them being council (and therefore politically) controlled.
- Removal of duplication between organisations.
- Creation of a standalone urban development and transport agency.
- Government taking a long-term perspective.

Note that the above is just a list of all the ideas mentioned by interviewees. This does not represent a consensus view.

Structural change, local body amalgamation and the integration of EDAs under one umbrella were tested in the online survey but did not score highly.

EDA functions

There were differing views as to what the specific functions for regional economic development agencies should include, possibly influenced by the specifics of current regional arrangements.

The following were some of the key requirements that emerged from the discussions:

'Joining the dots'

The EDA is the 'glue', the organisation that 'joins the dots' of all the agencies, sector groups and investors involved in the various aspects of regional economic development. Facilitation and consensus building are key skill requirements.

Advocacy

The EDA should advocate for the region on economic development matters with central government.

Creating a supportive environment for enterprise

EDAs should focus on building the 'innovation ecosystem' (incubators, fostering collaboration).

Being data driven

There needs to be more focus on using data to reveal insights, drive strategy and measure performance. This requires economic analysis skills. Regional strategies need to be 'evidence based, not wishful thinking.'

Promoting the region's strengths to stimulate growth

EDAs should develop the regional 'narrative' and weave this into regional promotions for

- Talent attraction.
- Investment and business attraction.
- Visitor attraction.

Inability to influence key economic levers such as transport infrastructure

Several EDAs referenced transport as a key economic enabler but lamented that they had little influence over transport related planning and decision making.

8. Regional roles and responsibilities

Key take-outs

- The current organisational arrangements in regions lack integration.
- There are 'too many cooks in the kitchen'.
- The following view emerged as the ideal EDA model:
 - Operates across the whole of a region
 - Has broad shareholding and is not simply 'council controlled'
 - Makes good use of data to inform the best development strategy for the region
 - Facilitates relationships and connections between all the players in the region
 - Facilitates the development of an agreed regional strategy
 - Develops and markets a 'regional story' to attract visitors, talent and investment
 - Advocates for the region on economic development matters with central government
 - Has the capability to support 'enabler' initiatives that enhance regional performance (e.g. skills and capability building, catalyst projects, transport investment needs, innovation ecosystem)
 - Has the funding required to make a difference.

Questions

- Is the EDA organisational model described above the right one?
- What roles should sit within the EDA?
- What is the optimal regional governance structure?
- Is there an opportunity to change the current shareholding models, to ensure all vital stakeholders have an 'ownership' interest?
- Does it matter who does what as long as everyone is working well together with good spirit on an agreed regional plan?

9. Funding

As would be expected, funding was raised as a major issue by several respondents. There were three major complaints:

1. There is not enough funding.
2. There is not the right balance between the various parties.
3. The funding available is not well-spent.

Arguably, complaint number one will never go away. There will always be a need to prioritise activities to fit within the available funding, particularly where large infrastructure investments are involved. The question is perhaps the extent of the role of regions in central government funding in their region.

There was some divergence of view on funding mechanisms (complaint number 2). The general consensus was that there should be a three-way split between local government, central government and the private sector (although the percentage contributions may vary depending on the local context). There was some frustration that not all councils in a region were contributing funding directly to the EDA.

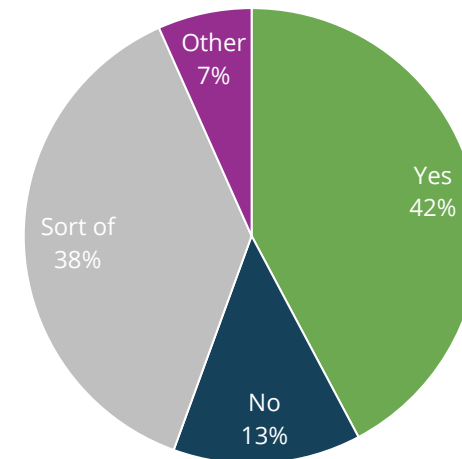
The Provincial Growth Fund fell into complaint category 3 (available funding not being well-spent). We had expected those regions that have been the major beneficiaries of PGF funding to be positive about the PGF. Conversely, we had expected the 'metropolitan' regions and those who had received less funding to be critical. Surprisingly, all regions had some criticisms of the Fund.

On the positive side, no one disagreed that it was good for Government to be investing more in the regions (particularly those that have low levels of internal funding). The PGF has brought a greater awareness of the need for regional development, it has brought communities together and

stimulated some economic activity. It has put money to projects that have either languished for years or would never have attracted regional money due to lack of availability of sufficient funds and competing priorities. It has also enabled private sector investment by de-risking projects that would otherwise have been deemed too high risk to proceed. The opportunity to fund previously unfundable initiatives was highlighted.

In the online survey, 80% of respondents thought the PGF has been a good or 'sort of good' policy instrument (see Figure Nine below):

Figure Nine: Responses from online survey to 'Do you think the Provincial Growth Fund has been a good policy instrument?'



We interpret the 38% score for 'sort of', as indicating the policy idea is good, but that there is scope for improvement in the implementation. People reported that there has been too much political interference, criteria have been inconsistently applied, decision making has been

'scattergun' and there has been insufficient coherent national strategy. One person commented that a focus on regional ecosystems is required, not just individual projects.

There was a feeling from some in the metropolitan centres that the political pendulum had swung too far to the 'provinces' and that the

importance of the urban centres in driving regional economic growth was being overlooked.

Figures Ten and Eleven below show the views of the interviewees in graphical format. The size of the box represents the frequency of mentions:

Figure Ten: Graphical representation of interviewee responses re the positives of the PGF

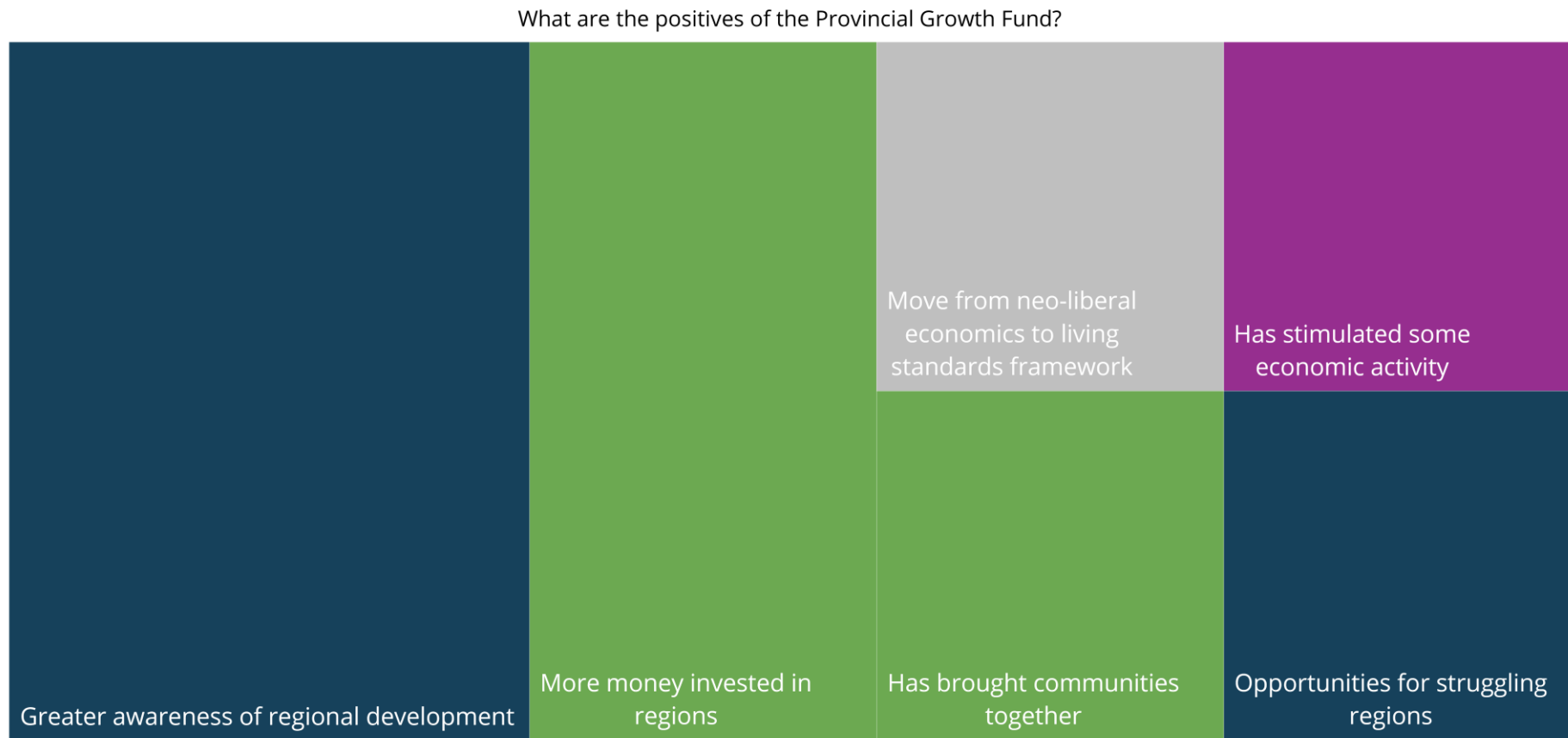
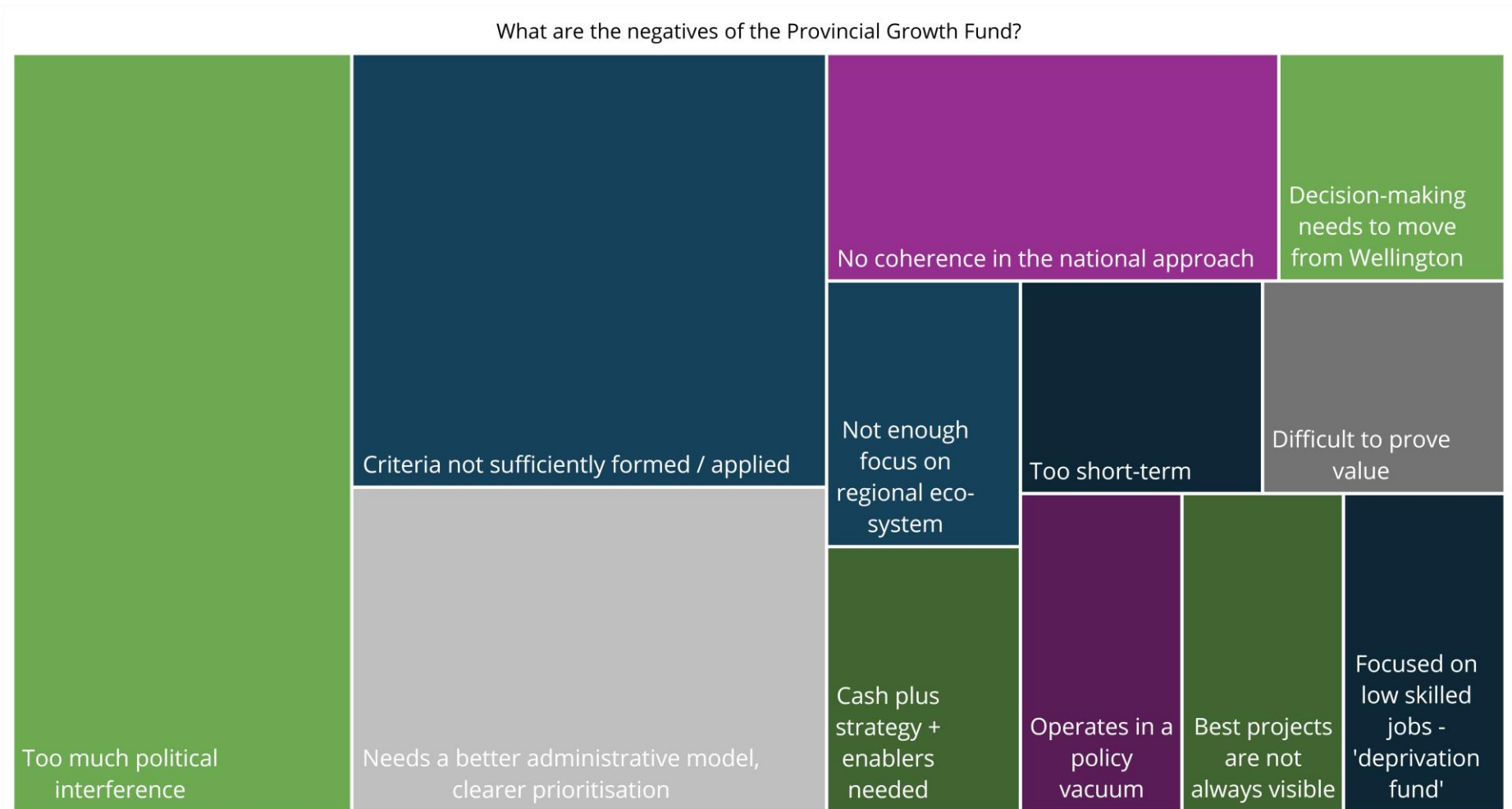


Figure Eleven: Graphical representation of interviewee responses re the negatives of the PGF



In considering the above comments, it is important to bear in mind that the PGF continues to mature and that comments may not reflect the current 'state of play'. The amount of funding available meant there was significant political pressure to 'get runs on the board'; there was little time available for consultation and strategising.

HenleyHutchings has dealt with the Provincial Development Unit on a number of projects and our view is that the assessment process is now much more consistent and tightly applied than it was earlier in the early days of the fund. We have also seen projects approved recently which support 'less visible' projects such as capability building.

9. Funding

Key take-outs

- Funding arrangements need to be reviewed:
 - There is not enough funding.
 - There is not the right balance between the various parties.
 - The available funding is not well-spent.
 - Central government funding decisions need to be made in the context of a national strategy and wider regional eco-systems.
 - Some funding decisions need to be devolved to regions, working within agreed parameters.

Questions

- Is there an ideal funding arrangement?
- How should central government funding be allocated (both for infrastructure and other regional development initiatives)?
- Should regions be required to develop a regional strategy which all applications for central government funding must align with?
- Should bulk funding be devolved to EDAs, for them to distribute within an agreed regional strategy (i.e. a devolved PGF), provided that appropriate governance arrangements are in place?

10. Challenges

Some of the regional economic development challenges that are envisaged over the next twenty years are region specific (e.g. the recovery of the Christchurch CBD), but there were some common challenges facing all regions which emerged from the interviews:

Infrastructure adequacy and costs

- Transport infrastructure.

Climate change

- Transition to a low emissions economy.
- Water storage and irrigation for climate change resilience.

Changing demographics

- Ageing population.
- Outward migration from provincial centres.
- Managing growth in Auckland and Wellington.

Inequality

- There is a need for more equity in communities – better sharing of regional gains.

Skills and talent shortfalls

- Workforce gaps.
- There is a need for more, higher-value jobs.
- Global competitiveness – competitive advantage to attract talent.

Economic resilience

- The NZ economy is still not sufficiently diverse to be resilient against shocks – it has too much of a primary sector focus.
- There is a need to grow a higher value economy.

Tourism dispersal

- Regional dispersal.
- Seasonal dispersal.

Structure/capability/capacity issues within regions

- Competition between agencies – who does what / duplication of effort.
- Capability of regional economic development practitioners.
- Fragility of relationships between regional leaders.
- The need for:
 - more partnerships within regions and with central government.
 - improved alignment about regional priorities; and
 - longer term funding contracts.

Figure Twelve below show the views of the interviewees in graphical format. The size of the box represents the frequency of mentions:

The above themes were generally reflected in the online survey: 13% of all mentions were around infrastructure, with funding and ageing population at 7% and 6% respectively.

Figure Twelve: Challenges identified through the interviews

What are the key challenges in the next 20 years?



11. Opportunities

The key opportunity identified through the interviews, that was not region-specific, was to shift the focus from volume to value—growing / high value, knowledge-intensive jobs, which will increase overall productivity and add value to other key sectors.

The specific opportunities for selected regions were as follows:

Wellington region

- The 'city-region' liveability proposition – selling the region as people are looking for a good place to live.
- Developing strong niches such as food manufacturing (e.g. Whittaker's, Farrah's Wraps, Rosa Foods).

Christchurch

- Super nodes: Areas of future economic opportunity:
 - Future transport and aerospace.
 - Health-Tech and Well-being.
 - Food, Fibre and Agritech.
- Christchurch as a viable alternate hub of New Zealand's economic activity to Auckland:
 - New infrastructure – resilient attractive buildings.
 - High amenity value – parks, rivers, ocean, mountains, playgrounds, pools, libraries, galleries, culture etc.
 - Strong tertiary base – four tertiary institutions, major tertiary hospital.
 - Affordable housing and favourable rent-income ratio.
 - Low traffic congestion.
 - International connectivity – airport, port.
 - Ease of doing business and affordable office space.

Manawatū-Whanganui

- Tourism.
- Centre of a distribution network – logistics for freight – with rail and road and potentially air.

Northland

- Marine sector – repair/refit/dry dock – possibility of Navy moving north.
- Primary sector – agriculture and horticulture (avocados, hydroponics).
- Extension of 350 programme to improve farm productivity.

Waikato

- Hamilton to Auckland corridor.
- Artistic and cultural tourism – investment ready projects.
- Untapped potential in the South Waikato – e.g. tourism.

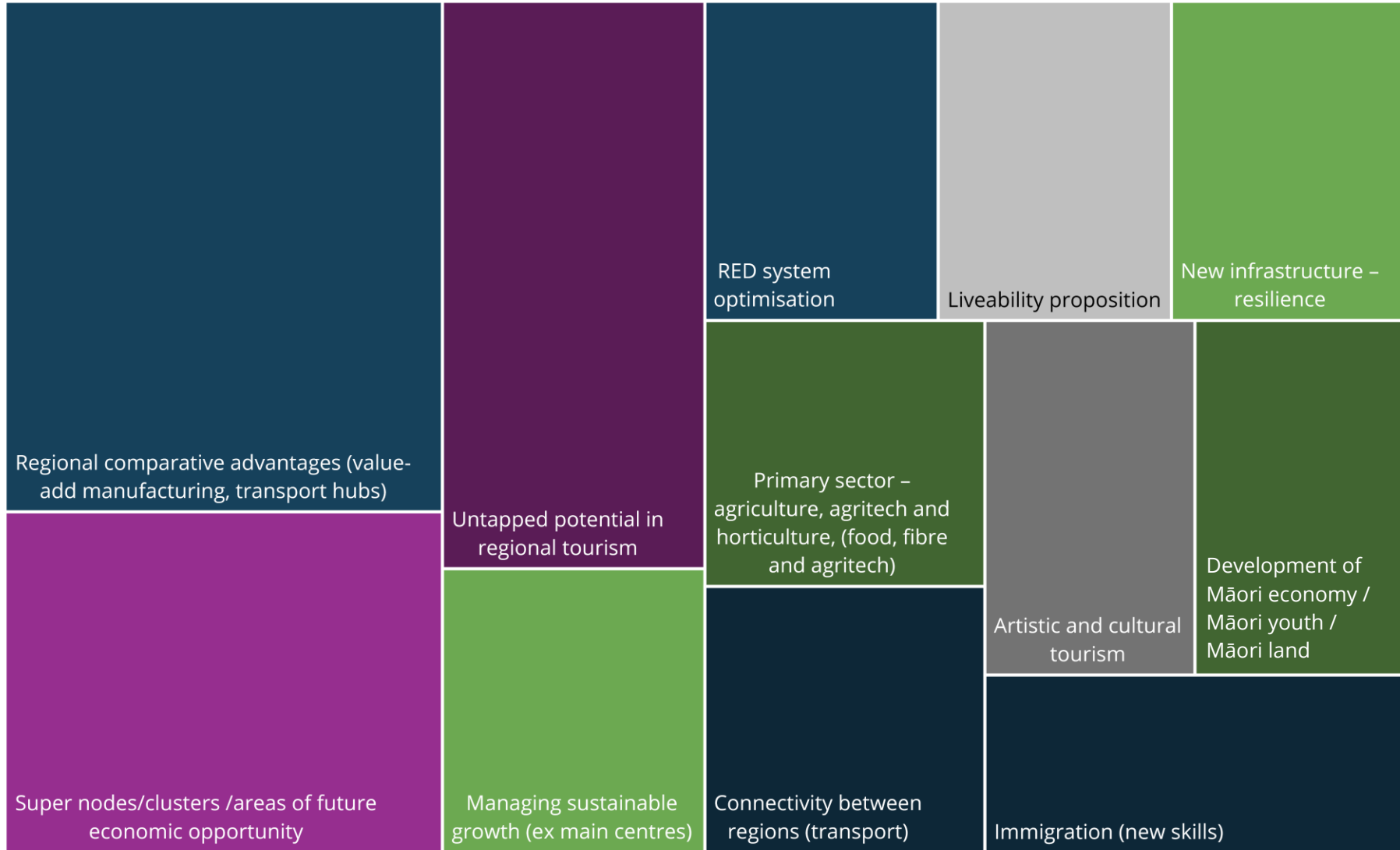
Bay of Plenty

- Engaging Māori youth in local businesses.
- Port of Tauranga and link to inland port/rail.

Figure Thirteen below show the views of the interviewees in graphical format. The size of the box represents the frequency of mentions. In the online survey, 17% of mentions were opportunities around tourism. Following that, development of the Māori economy and agriculture garnered 9% of mentions. However, if we combine mentions around agriculture, agri-tech and aqua-culture together, this "super theme" takes the lead at the top of the table.

Figure Thirteen: Opportunities identified through the interviews

What are the key opportunities in the next 20 years?



12. Blue sky thinking

We asked respondents to come up with some blue-sky ideas for policy and programmes, if funding were not an issue. The following were the things that emerged:

Central Government investment in infrastructure

The need for more infrastructure investment by central government was the topic that came up most frequently. Connectivity was seen as the biggest challenge for regional NZ – rail, air, digital and road connections to urban centres. Infrastructure is the key enabler of connectivity - both digital and physical. It is the lack of connectivity which is primarily holding regions back, but the investments required are too large to be funded locally.

Skills development

A sector-based plan for skills development was proposed (there are changes now happening in this area through the Reform of Vocational Education).

One respondent noted that the Canadian government provides support for internships to get students engaged with businesses – the ‘Super Cluster Fund’. Under this arrangement, the Government pays for interns, and, in some cases, internships are a course requirement. This was considered to be a model worth considering.

Funding models

Local government needs new ways to fund economic growth. One respondent proposed an investment fund in the region sustained over time similar to the West Coast Development Fund. Central government would be represented on the investment panel.

Other ideas were a local visitor levy, funding for regional smart specialisations / clusters as in Europe and Canada, transferring a portion of the GST take back to the regions to develop infrastructure etc.

Agency collaboration

New multi-agency approaches are required to realise large areas of potential.

New agencies

A Māori economic development agency.

Concluding remarks

While every region has its own unique challenges, there were some key themes that emerged from all our interviews and the online survey.

Distilling all the information into key themes leads us to the following conclusions:

1. **Regional development is all about creating quality of life – being a place that people want to live.** It's about more than the numbers of jobs or GDP increases.
2. **Start with people.** It is people with skills and talent and an innovation culture that 'drive the machine' and create prosperity. There is scope for EDAs to do much more in this space.
3. **Connectivity is a key enabler, particularly transport infrastructure.** There is an urgent need for additional central government funding to support this.
4. **There is a need for a (long-term) national regional development strategy and plan.** This should incorporate a strategy and plan for each region.
5. **Greater collaboration is required – within regions and between regions and central government.** There is too much silo thinking, competition and patch protection.
6. **Value is more important than volume.**

Appendix - Our list of interviewees

Thank you to our those who spent time sharing their thoughts with us – both in one on one interviews and in the online survey. Our outtakes were based on these rich discussions and input from around the country.

Who	Area
Al Morrison	MBIE
Bill Shepherd, (Past) Chair Northland Regional Council	Regional Council
Chris Wilkinson, Managing Director, First Retail Group	Retail consultant
Distinguished Professor Paul Spoonley, Pro Vice-Chancellor - College of Humanities and Social Sciences, Massey University	Academic
Fiona McTavish, Chief Executive Bay of Plenty Regional Council	Regional Council
James Palmer, Chief Executive Hawkes Bay Regional Council	Regional Council
Joanna Norris, Chief Executive ChristchurchNZ	Economic Development Agency
Justine Gilliland, Chief Executive Venture Taranaki	Economic Development Agency
Lance Walker, Chief Executive WREDA	Economic Development Agency
Mavis Mullins	Iwi Representative
Michael Bassett-Foss, Chief Executive Te Waka	Economic Development Agency
Mike McCartney, Chief Executive Horizons Regional Council	Regional Council
Nick Hill, Chief Executive ATEED	Economic Development Agency
Nigel Tutt, Chief Executive, Priority One	Economic Development Agency
Rob Phillips, Chief Executive Environment Southland	Regional Council
Sam Seath Greater Wellington Regional Council	Economic development specialist and past Chief Executive of EDANZ
Shamubeel Eaqub, Sense Partners	Economist
Vaughan Cooper, Acting Chief Executive Northland Inc	Economic Development Agency



HenleyHutchings

Level 4, 276 Lambton Quay
Wellington 6011

info@henleyhutchings.co.nz

021 180 1886

www.henleyhutchings.co.nz