Economic development

Assessment of alternative arrangements through re-organisation of councils in the Wellington region

NZIER report to Henley Hutchings

1 September 2014

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Key points

The likely approval and implementation of the WREDA proposal will achieve some of the efficiency and effectiveness benefits of the proposal to merge the Wellington territorial authority councils into a single council.

Effectively the WREDA proposal consolidates about two thirds of the economic development spending under a regionally focused entity tasked with delivering the Wellington Regional Strategy (WRS) agreed by councils in 2012. The WREDA proposal also creates a dominant regional partner that should be capable of efficiently and effectively obtaining co-funding for economic development from both central government and the private sector to achieve the objectives of the WRS.

A merger of the Wellington territorial authority councils into a single Wellington wide council would be expected to provide further efficiency and effectiveness benefits in the use of the remaining one third of council economic development spending by:

* removing any remaining duplication in promotion spending or competition between councils to attract businesses
* expanding the funding base that the region can leverage for co-funding from central government and the private sector.

However the regional entity will also need to preserve some form of local community representation and channels for delivery of business advice to small and medium sized enterprises.

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# Introduction

## Scope

The Local Government Commission has received two alternative proposals for the arrangement of local government in the Wellington Region. These are for a unitary council in the Wairarapa and for a unitary council for the whole of the Wellington Region with a second ‘Board’ tier of local governance.

The objective of this paper is to evaluate the cost and benefit of status quo arrangements for the delivery of economic development promotion services against other options including the opportunities associated with a single regional approach. This implies:

* Assessing existing arrangements, including recent proposals for amalgamation of some of them.
* Exploring the benefits, challenges, issues and lost opportunities associated with the current multi-local government arrangement when compared to other options.

This report is a high level analysis of the drivers of council business development spending as described in council long term plans, key strategy documents and interviews with a small number of council staff.

## Reasonable practical options

This paper is part of an evaluation of the reorganisation of Wellington councils that has received submissions on 17 reasonable practicable options. To make the analysis task more tractable the project manager has identified 9 reasonable practicable options grouped into 4 primary reasonably practicable options) and sub-options within two of those. The 9 options are:

* the status quo
* enhanced local efficiency - territorial authority amalgamations including:
  + one Wairarapa territorial authority
  + one Hutt Valley territorial authority
  + one Western and North Wellington territorial authority
  + one Wairarapa and one Hutt Valley territorial authority plus Wellington City Council (WCC), Porirua City Council (PCC) and Kapiti Coast District Council (KCDC)
  + three territorial authorities
* stronger regional delivery – the transfer of obligations to the Greater Wellington Regional Council
* one Wellington Council with no local boards
* one Wellington Council with local boards.

## Criteria

The success of economic development initiatives is based on efficiently and effectively intervening to leverage opportunities and attributes of local communities to generate business growth that is sought by the region and would not occur without intervention. Using this proposition as a starting point we adopted a subset of the criteria in the Local Government Act evaluation framework that are relevant to economic development spending as the basis for assessing the economic development options as follows:

* Efficiency and effectiveness of the delivery of economic development interventions:
  + Would delivery be more efficient (attract more business activity for the same level of resources)?
  + Would delivery be more effective (deliver activity more closely aligned to the WRS objectives)?
  + Would productivity improvements be possible for the local authority(s)?
* Responsiveness to community requirements:
  + What are the issues currently facing the affected area ?
  + What are the issues that the communities of the affected area must address in the future?
  + To what extent are the issues able to be addressed / being addressed under the status quo?
  + To what extent could they be better addressed under each option?

We use these criteria to consider three over-arching questions about the success of local council economic development spending:

* Are their objectives sufficiently clearly defined and independent to avoid duplication of effort or intra-regional competition for business opportunities?
* Do they have sufficient scale and scope to ssuccessfully intervene to secure business growth opportunities that are sought by their region?
* Do they have sufficient scale and scope to ssuccessfully partner with government agencies and private sector organisations to secure co-funding of business initiatives?

# Current situation

## Economic development arrangements

Local government support of economic development is delivered through two channels in the Wellington region:

* regional implementation of the Wellington Regional Strategy (WRS) through Grow Wellington funded by a regional rate augmented by central government funding
* business development spending by individual councils within their boundaries generally funded by their own rates.

Currently business development spending by councils within their boundaries dominates the spending to implement the WRS. (Council long term plans indicate council operational economic development funding of about $33 million per year. Of this total about $4 million is spent by Grow Wellington on the regionally focused of WRS. Business development spending by some of the other councils may have regional spill-over effects.)

Wellington City Council is the main funder of economic development activity in the region with both an operational and capital budget for economic development. (In addition to the operational spending Wellington City Council has identified approximately $16 million of capital funding over the next 10 years. We have not identified capital expenditure allocations by the other councils. However the Hutt City Council listed a number of projects and funds for the 2012 financial year.)

The other councils support economic development primarily through operational spending on advisory staff and resources. Some of these councils also either offer some of this funding as grants or budget separately for rates remission for some types of business development.

The following table is based on the long term plan for each council and lists the projected operational spending on economic development and the focus of that spending for each of the councils in the region as stated in their long term plan.

As can be seen from the table:

* spending on region-wide activities is less than one fifth[[1]](#footnote-1) of local council spending
* the purpose of the business development spending is similar for all councils and usually includes tourism promotion and advice to local business and incentives to attract business
* is generally not directly linked to co-funding from either government or private sector organisations.

Table 1 Economic development budget

Council operational budget for the year ended 30 June 2014 ($000)

|  |  |  |  |
| --- | --- | --- | --- |
| **Council** | **Operational** | **Co-funding** | **Council activities** |
| Wellington City | 19,805 | Some co-funding for tourism promotion | Business development advice and support  Partnership Wellington Trust – tourism promotion  WCC Events Team – attracting events that promote tourism visits  Wellington Venues Ltd – attracting businesses |
| Hutt City | 3,330 | Not material | Expansion and creation of local businesses and employment  Increasing tourism and events in Hutt City  (Supported by rates remission for business development projects in the CBD.) |
| Upper Hutt | 949 | Not material | Business liaison and information to retain businesses  Expansion and creation of local businesses and employment  Promoting tourism and events in Upper Hutt |
| Porirua | 2,125 | Not material | Management of the i-SITE Porirua Visitor Information Centre, the Sister Cities programme, the Council's Economic Development Strategy, marketing in line with Visitor and Events strategies, and maintaining a strong working relationship with the Chamber of Commerce. |
| Kapiti Coast | 1,334 | Not material | Funds direct services to support business development and retention, wider economic analysis and opportunities for development of a new economic focus.  Tourism support services, including iSITE management and business support services |
| Greater Wellington Regional Council | 4,600 | Yes | Grow Wellington – lead agency for four of the six WRS focus areas; ‘commercialisation of innovation’, ‘investment mechanisms for growth’, ‘attracting business, investment and talent’, and ‘education and workforce development’ |
| Masterton | 669 | Not material | Promotion of economic growth and tourism potential in the district. |
| Carterton | *368est* | Not material | Promotion of economic growth and tourism potential in the district. (Includes community support.) |
| South Wairarapa | 181 | Not material | Destination Wairarapa plus administration costs. |
| **Total** | **33,361** |  |  |

Source: NZIER analysis of council long term plans

The similarity of purpose of the funding for each council and the provision of funding incentives could be due to a combination of the following:

* a focus of the spending on local business initiatives – representing an exercise of local community choice –to be maintained after regional consolidation
* duplication of spending to attract visitors or businesses from outside the region to different locations within the region and potentially intra-regional competition for business –to be eliminated by regional consolidation.

These two drivers of spending are at opposite ends of a continuum of potential benefit from regional co-ordination of economic development spending. We cannot tell from the high level spending data where economic development spending sits on the continuum. The estimate of merger benefits depends in part on this assessment as under regional co-ordination of economic development spending:

* spending on localised advice is probably likely to continue
* avoidance of duplication offers the main opportunity for savings.

A key challenge for the merger process is to how to balance the preservation of business development spending that reflects local community choice with ensuring efficient and effective delivery of the WRS.

## Wellington Regional Strategy

The Wellington Regional Strategy (WRS) and its implementation agency Grow Wellington is the current baseline for regional co-ordination of economic development spending.

### Development of the WRS (2004 -2007)

The Wellington Regional Strategy was developed during 2004 to 2007 in consultation with businesses, education providers, and central government agencies. The WRS project team built up an information base of the drivers of economic activity in the region and council policies and practices. This allowed councils to identify common opportunities and development objectives but also highlighted differences between the councils in their approach to economic development, spatial planning and provision of infrastructure.

Also, at the time of development of the WRS there were strong indications from central government that regional economic development funding would be made available to councils that could organise themselves to deliver regionally focused initiatives.

The objective of the WRS was to make the Wellington region internationally competitive, a great place to live, with excellent career opportunities and a strong vibrant economy[[2]](#footnote-2). The councils agreed to implement the strategy by:

* requesting the Greater Wellington Regional Council to collect a regional rate (around $4 million) with councils foregoing some of their rates.
* establishing the WRS committee (6 mayors from the individual councils[[3]](#footnote-3) plus 5 independent directors and an independent chair) and Grow Wellington the organisation charged with both using the funding to implement the objectives of the strategy and attract co-funding.

The development of the strategy was successful in creating a regional consensus on elements of a growth strategy and shared funding. However because the development of the WRS was a collaborative and voluntary effort between the councils it appears that:

* councils still retained direct control of the bulk of the spending on economic development with a focus on the needs of their territorial area
* opportunities for co-ordination that required resolution of differences between councils such as common approaches to spatial planning or infrastructure standards were not resolved.

### WRS review and refresh (2011 -2012)

The WRS was refreshed in 2012 following a review by Martin Jenkins in 2011. The current version of the strategy has six focus areas paraphrased[[4]](#footnote-4) as follows:

* Commercialisation of innovation - supporting successful businesses to innovate and championing a supportive business environment.
* Investment mechanisms for growth - attracting international investment, using existing investment networks and ensuring businesses are in a position to realise investment opportunities.
* Building world-class infrastructure - connected and resilient
* Attracting business, investment and talent to the region including businesses, potential investors, skilled migrants and students to the region.
* Education and workforce development to service regional economy needs
* Open for business - councils delivering business services with a “can do” attitude and facilitating a business environment where smart, innovative firms can flourish

Grow Wellington is defined as the lead agency with support from local councils for four of the six focus areas: ‘commercialisation of innovation’, ‘investment mechanisms for growth’, ‘attracting business, investment and talent’, and ‘education and workforce development’. Councils are the lead agencies for the focus areas ‘building world-class infrastructure’ and ‘open for business’.

The emphasis of the strategy is on working with the external partners listed for each focus area to deliver the objective of the strategy. A key argument for regional delivery of the strategy is that partnerships with central government agencies, education providers and private sector organisations will be much easier to develop and contribute more effectively to the growth of the region if these organisations can partner with regional local government rather than individual councils.

The WRS provides an agreed strategy for regional business development activity and allocates responsibility for leading each of the focus areas to either Grow Wellington or specific councils. However, at face value the allocation of economic development spending between individual councils and regional delivery arms such as Grow Wellington does seem to match the regional emphasis suggested by the focus areas of the WRS.

For most councils spending on the provision of advice to local businesses, attraction of investment and tourism promotion seems to be concentrated on local activities rather than supporting a regional approach. Of individual council spending, Wellington City Council tourism and events promotion seems to be most likely to have regional spill-overs, but this spending seems to occur in parallel to, rather than be co-ordinated with, Grow Wellington spending on the focus areas ‘attracting business, investment and talent’ and to a lesser extent ‘investment mechanisms for growth’.

## WREDA proposal

The Wellington Regional Economic Development Agency (WREDA) proposal addresses some of the issues around co-ordination of the Grow Wellington and Wellington City Council (WCC) efforts in the focus area ‘attracting business, investment and talent’. WCC has proposed a merger of Grow Wellington with WCC tourism and major event promotion entities into a regional economic development agency. The new entity, WREDA would include the following entities:

* Grow Wellington
* Partnership Wellington Trust (Positively Wellington Tourism)
* Wellington Venues Limited
* WCC Events Team

The governance of WREDA would be based on a two tier model with:

* political oversight provided by a restructured WRS committee comprising:
  + four representatives from WCC
  + one representative from each of Lower Hutt City, Upper Hutt City, Porirua City, Greater Wellington Regional and Kaptiti Coast District Councils
  + one representative from the three Wairarapa Councils
* governance of operations provided by an independent board of eight directors, appointed for their specific business expertise and experience.

WREDA would be funded by the WCC and the existing WRS funding for a period of 5 years. The proposal anticipates that this funding would be augmented by funding from other sources as shown in the following table. As part of the WREDA proposal WCC have indicated that they will be seeking either greater value for or a reduction in the amount of the regional WRS rate that is received by the GRWC (currently $0.6 million) in return for operating the office of the WRS.

Table 2 WREDA funding proposal

Annual funding for year ended June 2015 ($000)

|  |  |  |  |
| --- | --- | --- | --- |
| **Council** | **Council funding** | **Other sources** | **Total** |
| WCC | 16,100 | 20,600 | **36,700** |
| GRWC | 4,000 | 2,100 | **6,100** |
| Total | **20,100** | **22,700** | **42,800** |

Source: WREDA proposal released for public consultation

(We have not been able to confirm the nature of the ‘other sources’ of funding listed in the above table.)

At face value the WREDA proposal reallocates the bulk of WCC business development spending to an agency that has a regional focus therefore greater capacity to partner with central government and large businesses than individual councils. Also the proposed funding arrangement gives WREDA a longer term funding commitment than is provided under the current long term plan process (which councils can review annually). This increased certainty about funding levels should enable WREDA to plan longer term initiatives with more certainty than under the current funding arrangements.

The WREDA proposal does not cover an estimated $12.6 million of council economic development spending:

* WCC business development spending of at least[[5]](#footnote-5) $3.7 million
* business development spending by other councils of about $8.9 million.

The WREDA proposal was launched with the support of the Mayoral forum. The period for public consultation on the WREDA proposal finished on 6 August and we understand the majority of the feedback was positive. WCC staff that we spoke to expect the proposal to be approved later this year.

# Reasonable practicable options

## What are they?

The project manager for this evaluation has identified nine reasonably practicable options for the evaluation of the benefits of the council merger proposal. For economic development spending we suggest that the existence of local boards is unlikely to have a material impact on how a single Wellington Council would allocate regional business development spending.

The likely approval of the WREDA proposal modifies the range of practicable options. On the basis that the WREDA proposal is approved this would become the new status quo. The reasonable practicable options would then collapse to how individual councils would consolidate the estimated $11.8 million of economic development spending not allocated to WREDA across territorial authorities either into:

* clusters such as Lower Hutt/Upper Hutt, Porirua/Kapiti Coast, Wairarapa councils
* WREDA (which makes the reasonable practicable options of ‘stronger regional delivery’ and ‘one Wellington council’ equivalent for this evaluation).

Based on the above discussion the reasonable practicable options for the consolidation of business development spending collapse to:

* modified status quo – WREDA is established and the remaining councils continue to spend their economic development budgets independently
* modified status quo with clusters – WREDA is established and the remaining councils form clusters to co-ordinate the spending of their economic development budgets
* all of the economic development spending is co-ordinated through WREDA.

## In-principle benefits

The primary ‘in-principle’ benefits of the merger of business development spending into a regional fund potentially are:

* increased capacity to obtain co-funding from central government and the private sector by being a credible regional partner[[6]](#footnote-6)
* avoidance of inefficiencies from:
  + bidding wars to attract business from one territorial authority in the region to another
  + duplicated spending on attempting to promote individual territorial authorities to communities and businesses outside the region such as sister city relationships, trade missions etc.

Secondary in-principle benefits include:

* improved capacity – a larger organisation would be expected to have more and better quality resources to apply to regional development projects
* simplification of governance structure and measures of success.

We cannot quantify these benefits with the information available. In the following section we provide a qualitative assessment of the likely benefit of our suggested reasonable practicable options and the expenditure base to which that these benefits might apply.

## In-principle risks

Consolidation of individual council business development initiatives into a single regional entity carries two main in-principle risks:

* reduced representation of local voice and reduced efficiency and effectiveness of business development initiatives that require ‘local knowledge’
* loss of contestable advice on approaches to business development due to the creation of a dominant single source of advice.

In respect of representation of local voice on local government we suggest the risk can be managed by separating the question into two parts:

* what characteristics should business development activity have to be part of the WRS?
* how should business development activities currently provided by councils or requested by communities be assessed?

The management of this issue should be part of the transition arrangements from the status quo to the preferred option (if the preferred option is not the status quo.)

In respect of the loss of contestable advice, we suggest that the risk is mitigated by the following:

* the governance arrangements proposed for WREDA and the involvement of external partners to deliver the WRS provide a cross-check on performance of the entity implementing the WRS
* council(s) can easily obtain independent reviews of the entity implementing the WRS or require it to out-source tasks to other providers, or reset its objectives or organisational structure.

## How do they compare?

### Modified status quo

The benefits of the modified status quo are covered in the discussion of the WREDA proposal and seem to centre on the expectation of increased match funding from the central government and large businesses, and a more co-ordinated approach to tourism promotion activity.

We have not found any evidence of Grow Wellington and WCC bidding against each other to attract business or tourists and both of these organisations are large enough to already have capable teams. Therefore we do not anticipate efficiency gains in these areas.

### Modified status quo with clusters

The additional benefits from this proposal compared to the modified status quo are most likely to be avoidance of:

* the cost of competitive bidding for businesses between councils within the clusters
* duplication in tourism promotion spending.

These savings are likely to be a small percentage of the total economic development spending of the councils in each cluster. None of the clusters would be large enough to either position themselves as an alternative to WREDA and are therefore unlikely to be any more successful in attracting central government or private co-funding than they are now.

### All spending through WREDA

This option offers the highest potential additions benefits of the three reasonable practicable options as it:

* allows WREDA to provide one unequivocal economic development voice for the region strengthening its ability to seek co-funding from central government and the private sector while also increasing the funding base it can leverage by up to 50 percent.
* eliminates duplicated spending on tourism, promotion and business attraction incentives between the councils.

## Conclusion

The WREDA proposal consolidates about two thirds of the business development expenditure by councils in the region, into a regionally focused organisation and establishes a regional economic development entity that is likely to be able to effectively obtain central government and private sector co-funding. This entity also provides a foundation for realising efficiency gains from consolidation the economic development spending by other councils in the region.

Consolidation beyond WREDA is likely to enable further efficiency and effectiveness gains for the delivery of the WRS. However we cannot quantify these gains on the available information. Also transition from the WREDA option to further consolidation of business development spending would require the issue of representation of local voice to be considered and addressed.

1. This proportion is difficult to estimate precisely because some of the WCC spending has spill-over benefits for the rest of the region. The point of the comment is that the focus of economic development spending is on council spending within their boundaries rather than on the delivery of the WRS. [↑](#footnote-ref-1)
2. See ‘’Wellington Regional Strategy Internationally Competitive Wellington, June 2007, ‘About this document’ and also p4. [↑](#footnote-ref-2)
3. The three Wairarapa councils were represented by one mayor. [↑](#footnote-ref-3)
4. See ‘‘Wellington Regional Strategy 2012 —growing a sustainable economy, p7. [↑](#footnote-ref-4)
5. The WREDA proposal does not include enough information to compare the WCC funding of WREDA with the economic development spending in its long term plan. [↑](#footnote-ref-5)
6. The funding estimates for WREDA suggest an expectation that ‘other funding will match the direct contribution from councils but the make-up of this contribution is unclear. [↑](#footnote-ref-6)