

**OFFICE OF THE MINISTER  
FOR ECONOMIC DEVELOPMENT**

The Chair  
**CABINET ECONOMIC DEVELOPMENT COMMITTEE**

**BOOSTING THE IMPACT OF REGIONAL ECONOMIC DEVELOPMENT**

**PROPOSAL**

- 1 This paper seeks Cabinet's agreement to refocus the direction of regional economic development policy to support the government's economic transformation agenda. This will build on the regional economic development activity that the Regional Partnerships Programme (RPP) has catalysed, but will require changes to the current programme in order to get a sharper focus on New Zealand's international competitiveness. I intend to signal these changes at the upcoming Economic Development Association of New Zealand (EDANZ) conference on 30 August.

**EXECUTIVE SUMMARY**

- 2 Cabinet has agreed that economic transformation is one of the government's three priorities for the coming decade. Economic transformation will be driven by increases in the productivity of New Zealand firms, and the development of more globally competitive firms. While ultimately any growth in productivity must come from business, a range of factors from macro-economic stability to the science and education system affect the performance of firms. The influence of the local and regional level on business performance has had less focus.
- 3 It is therefore my intention to reshape the way government undertakes regional economic development policy to ensure that we focus on increasing the quality of the business environment in each region, in order to increase New Zealand's international competitiveness. These changes are intended to build on the success achieved through the RPP.
- 4 This can be achieved through a framework based on the core principles of the current policy, namely regions taking responsibility for their own development, with government focusing on building the capability to undertake strategic planning for economic development with some large scale funding. Added to this is a role for government in providing leadership and clear communication of goals, and aligning its activity in regions to support regional economic development.
- 5 This framework builds on what has been achieved so far, but does require some changes. For instance, greater consolidation of regions from the current 26 to about 14; greater contestability and higher quality to be attached to any large scale funding in regions; and government to prioritise its work in regions.

## BACKGROUND

- 6 On 6 March 2006, Cabinet agreed that economic transformation was to be one of the government's three priorities for the next decade (CAB Min (06) 7/22). Transformation of the economy will be driven by improved productivity in firms, but this must be underpinned by a supportive business environment. A sound macro-economic environment is essential, as is the requirement that our national policy settings in areas like science, skills and infrastructure support the government's economic development goals.
- 7 One area that has not had much attention is the influence of local and regional factors on the business environment. This is where I see government's main interest in regional economic development. This paper outlines how existing government mechanisms can be reconfigured to support a regional business environment that will help develop, attract and retain globally competitive firms.

## COMMENT

### *Origins of the Regional Partnerships Programme*

- 8 When government resumed its focus on regional development policy in 2000, the key driver was a sense that some communities and regions were being left behind economically, with negative impacts on their social and environmental well-being. The government's response was that solutions to these problems needed to be found locally, through more productive use of existing resources rather than the transfer of resources from other regions.
- 9 The Regional Partnerships Programme (RPP) was designed to encourage regions to take responsibility for their own development. Under the RPP, 26 regions were formed and funded to develop regional economic development strategies and to build economic development capability. The incentive of a Major Regional Initiative (MRI) was created to catalyse support for a major project aimed at enhancing that regional strength.
- 10 In recognition of the problems that some lagging regions faced, the RPP was backed up with an "acute regions" policy, whereby government worked in a more hands-on manner with some of New Zealand's poorer performing regions to address governance and capability in order for them to access the mainstream programme.<sup>1</sup> The acute regions policy was discontinued after 2002, when it was felt that those regions were in a position to access the RPP as well as other regions could.
- 11 A review of the programme in 2003 found that the RPP was successful in achieving its policy objectives of improving strategic thinking, building collaboration and linkages within a region and implementation of projects to build on regional strengths. MRIs, like Food Hawkes Bay, saw regions identifying key drivers in their economy and encouraging and supporting those industries to work together to overcome shared problems.

---

<sup>1</sup>Tairāwhiti, Northland, South Waikato and the Eastern Bay of Plenty received more intensive government support through this approach.

- 12 In some regions the RPP was the catalyst for a more collaborative approach, while in other regions the programme has enabled existing economic development activity to be expanded and enhanced. This has contributed to a general raising of economic development capability across the country. Further, every region in New Zealand has benefited from the period of economic growth that the country has experienced, and unemployment has been reduced in every region, including those regions that were previously regarded as having acute needs.
- 13 However, the original policy rationale does not reflect policy changes like the Local Government Act 2002 and the development of broader economic development policy. Small policy amendments and operational changes have attempted to address this but have added to confusion and complexity around the programme.
- 14 Meanwhile, the government has established other funds and programmes that will contribute to regional economic development (in areas such as broadband and tertiary education). This has meant that not only are the parameters of the programme less clear now than they could be, but the other funds - with their own objectives - do not necessarily reinforce the behaviour the RPP was intended to promote.
- 15 Accordingly, it is time to refresh our approach to regional economic development to ensure its ongoing relevance. This will include clarifying NZTE's role to better reflect its expertise.

#### *A business environment for growing globally competitive firms*

- 16 The RPP was established against a backdrop of lagging regions. However, regional economic development policy can also be thought of as providing a base for New Zealand's international competitiveness. By thinking about the spatial influences on economic development, and in particular firm performance, we round out the set of external factors that influence the ability of New Zealand to grow, retain and attract globally competitive firms. The regional level has not necessarily been thought of as one of the influences, yet:
  - the local environment affects the behaviour of firms, e.g. through networks and knowledge exchange, provision of infrastructure or location of firms around distinctive resources (clusters);
  - the ability of firms to attract quality skilled employees and investment is at least partially related to the quality of life and quality of the labour market where they are based;
  - many regulatory and resource allocation functions have been de-centralised to the regional and local level (e.g. the Resource Management Act); and
  - local and regional government has the potential to directly and indirectly affect the implementation of government's economic strategy; it is ideal if they buy into the strategy and have the capability to execute their part of it effectively.

- 17 This approach to regional economic development requires a shift of emphasis for regions and government. It would build on many of the networks and linkages established through the RPP.

*Why is there a role for central government?*

- 18 While regions are best placed to take responsibility for their own development, the necessary strategic, outward focus will not always be achieved because of the difficulties of bringing together a range of diverse actors. Due to its size and scale, central government is well placed to facilitate this activity.
- 19 Government also has a key role to play because of its presence and activities at the regional level. Many government functions require either local buy-in for their delivery or require local knowledge or networks to inform their delivery. Better alignment of this activity would support the work initiated under the RPP.
- 20 The benefit of addressing this through a regional economic development approach is that it enables regions to buy-in to national level goals. Regions can then address those factors under their control, like planning and infrastructure which will influence the business environment.

*Key principles for regional economic development*

- 21 The strong focus of the RPP on a bottom-up process, to ensure wide participation in regional development activity, meant that many regions tended towards an inward focus. In order to keep regional policy closely aligned with the government's overall economic development approach, I want to focus on how regions can support a business environment for the development of globally competitive firms.
- 22 Therefore, it is my intention to reshape the way government undertakes regional economic development policy in order to increase New Zealand's international competitiveness.
- 23 There are some key principles that I want to underpin how we think about regional economic development:
- local buy-in and local decisions are critical, so we need to maintain an approach that enables regions to collaborate and share a strategic view on how to build regional competitiveness;
  - regional economic development is not just an activity for local or central government, it is about the linkages between all actors in a region;
  - where national priorities can be addressed through regional action, then I want the government to be able to recognise and support that; and
  - regional economic development is not a quick-fix process and our interventions need to reflect this.
- 24 Regional action for national benefit is a cornerstone of what I intend to achieve through regional economic development. This will require greater collaboration

within and between regions and much clearer linkages to central government's economic development priorities.

### **A refreshed framework for government intervention**

25 In order to achieve this, I propose to redevelop the government's role in regional economic policy around the following framework:

- supporting the capability of regions to undertake economic development activity;
- ensuring that strong collaboration and national goals underpin regional activity;
- prioritisation and focus from central government on what it can achieve in the regions; and
- regional economic development is not a function for one agency alone.

### *Regional Capability*

26 Government cannot and should not undertake economic development activity on behalf of regions. However, I consider that government needs to do more to support the development of regional capability for economic development. Government can help to build capability through encouraging greater size and scale of regions; clearer translation of national level information and goals; and funding to support strategic planning for economic development.

27 Regional economic development activity (as separate from community or local development) is dependent on a level of scale. The RPP has not achieved this in some regions. To address this I intend to move from the existing 26 RPP regions to about 14 regions.<sup>2</sup> While it would seem sensible for these to align with regional council boundaries, in some cases other arrangements may be the best way of achieving greater mass, due to other established linkages and relationships. Because of this, and given that scale is all important, if regions can come up with better ways of reaching about 14 regions then this would be encouraged through a mixture of funding tools and facilitation.

28 This does not affect the role of the EDAs in these regions per se, and currently EDAs work at both the regional and local level. In some regions, arrangements such as a "hub and spoke" approach may be taken to ensure that a regional strategy can be implemented locally.

29 Our experience has been that regions have not always well understood the key drivers for economic development, or what action they can take to progress them. Clearer communication of national priorities and alignment of funding will help to support and improve capability.

---

<sup>2</sup> This provides better alignment with regional council boundaries. There are 12 regional councils, and four unitary authorities (Gisborne, Marlborough, Nelson and Tasman). Currently 8 of the 26 regions reflect regional council boundaries.

- 30 I also intend to make some changes to the existing funding streams for strategy development and capability building to focus more strongly on the development of substantive regional economic development strategies. In practice, the RPP has a heavy emphasis on MRI projects. I consider that this kind of large scale funding can be an important catalyst for regional activity. However, if regions are to positively influence their business environment, it will be important for strategy implementation to move beyond one-off projects.
- 31 Different regions will identify different priorities for improving the business environment. In some regions, the key economic development challenge might be workforce participation in certain groups or districts. In other regions it might be poor industry-science linkages. I would not expect that all of these projects would be appropriate for NZTE to fund, and this is where the role of other agencies and programmes becomes important. I intend to report back by 1 December 2006 on the detailed programme changes that will be required for the strategy and capability building components.

#### *Incentives for strong collaboration*

- 32 Experience with the RPP shows that collaboration within and between regions does not come easily. The original role of the MRI was to provide an incentive for collaboration within the region.
- 33 I consider that there remains a need for some incentive to promote such collaboration. However, in order to ensure that regional projects are the best possible investment from a national perspective, I would like to see a different approach taken. I intend that the following high-level criteria will guide the development of a new larger scale funding mechanism:
- A MRI or large scale project may not be the most critical action for a region to undertake. However, in some regions and some sectors there will be opportunities that are not realised because of the difficulties of co-ordinating a range of actors with divergent focus. This is where some form of larger scale funding can play a role.
  - In order to achieve more effective use of government resources and clearer alignment with national priorities, greater contestability is required. I see this consisting of better filtering of proposals at an early stage.
- 34 Further detailed work will be required by officials before this can be progressed. In particular, there is the need to ensure that this is the best way for addressing barriers to collaboration, and secondly this large scale funding needs to align with other government funding that is delivered regionally. As I noted earlier, since the RPP was established a variety of funding streams have been established with a regional focus.
- 35 Redeveloping this large scale funding means that it is timely to consider the decision making process for this. At present, the board of NZTE makes the final approval of MRI grants. I consider that because of their size, the prospect of high competition for these grants, and the need to be cognisant of facilities, CORE, Partnership of Excellence and broadband decisions, it could well be appropriate for the final decision to be made by Cabinet. This process would

recognise that in practice, grants in the regional area do cover a wider set of issues than business assistance grants.

- 36 The change to have Cabinet make the final decisions does have some implications for the implementation of the programme. It would mean that there is some potential for these grants to misalign with other NZTE activity, e.g. in the sector area. It would also dilute the role of the NZTE board, and their knowledge and experience in making commercial assessments is not replicated elsewhere in government. To mitigate against this, I expect NZTE would provide robust advice to ministers on the priorities from their perspective. This advice would draw on both NZTE's strategy and the expertise of its board.
- 37 Such a change may be inconsistent with NZTE's current legislation and payments may need to be routed through MED. These issues will need careful consideration and will be reported back by 1 December 2006.
- 38 There is a contrary view that these decisions are best left to a crown entity and a change might cause some tension with the NZTE Board.

#### *Prioritisation of government engagement*

- 39 As discussed above, there is a key role for central government in providing leadership to overcome some of the co-ordination failures that prevent regions from achieving an optimal business environment. As we look to deepen the level of collaboration within and between regions there may be some cases where this will require more intensive work by government. It is not feasible for the government to engage in a co-ordinated way with 26 or even 14 regions from the centre. Therefore government needs to think carefully about how it prioritises its actions. NZTE funding will still be available for all regions, however, officials will consider whether there is scope for government to engage with other regions in a more co-ordinated way, and what the triggers for this engagement might be.

#### *Regional economic development is not the role of one agency alone*

- 40 Since the inception of the RPP, a range of other government activity has been established in regions. This means that regional economic development should not be seen as the domain of a single agency, let alone a single programme.
- 41 At present there is a range of government activity which operates at the regional level, addresses drivers of regional economic development and depends on regional buy-in for it to be effective. Feedback from some regions suggests that this activity is not as well co-ordinated and aligned as it could be.
- 42 I consider that tightening and clarifying the focus of the NZTE programme will enable other government agencies and activities operating at a regional level to play a more significant and better integrated role in regional economic development. Along with consideration of key regions (paragraph 39) officials will undertake further work to identify particular issues or activities in regions that would benefit from a greater level of co-ordination and will report back by 1 December 2006.

### *Role of NZTE and MED*

- 43 I intend to clarify the role of NZTE in the regions to provide greater certainty for both NZTE and those in the regions. NZTE's role is to facilitate regions to develop projects and then provide funding for these projects, as assessed against programme criteria. It is the role of the region to set priorities for regional economic development. In many cases the region has chosen an economic development agency (EDA) as its 'administrative agent' to liaise with NZTE.
- 44 This role for NZTE will continue, but as part of the work outlined above, MED in conjunction with other agencies will look at what programmes or activities currently being delivered in regions can be better aligned to support the work NZTE is doing. This recognises that regional economic development cannot be supported by NZTE alone.
- 45 Two further areas that need addressing are the ability for government to clearly communicate national priorities to the regional level, and for information that is held in the regions to be fed back to inform national policy.
- 46 MED is best placed to provide clear communication of the government's economic development priorities to the regional level. In the first instance it will do this through ensuring that there is clear policy direction on what government wants to achieve in national and regional economic development, and more narrowly, that the NZTE administered programme has clear policy objectives.
- 47 NZTE is the appropriate agency for feeding back issues that arise within the regions. It will do this through its network of regional advisors and regular communication with MED, who are well placed to assess the national implications of the information gathered.

### *Transition path*

- 48 The move from 26 regions to about 14 will be disruptive for some regions, and is a significant change from the RPP. I want to build on the momentum for regional economic development that the RPP has helped to create, therefore the transition from the existing programme and maintaining buy-in is crucial. I see two elements to this.
- 49 The first is to provide a clear signal to regions on how government is intending to refresh its approach to regional economic development. I intend to do this through a speech to the EDANZ conference on 30 August. I will follow this up with some regional visits to further explain the rationale.
- 50 The second element is for NZTE, supported by MED, to actively manage the transition. I expect these changes could take up to two years to be finally put in place. It will be important to ensure that the programme tools are able to incentivise this transition. As part of the report back on detailed programme tools, officials will consider whether there is scope to use the programme more flexibly in certain cases to promote greater regional co-operation.

## CONSULTATION

- 51 Treasury, Te Puni Kokiri, Ministry of Social Development, Department of Internal Affairs, Department of Labour, Local Government New Zealand and New Zealand Trade and Enterprise were consulted. Discussions were also held with EDANZ on the general direction proposed in this paper.

## FISCAL IMPLICATIONS

- 52 There are no immediate fiscal implications from this paper. However the review of business assistance programmes is assessing every programme in the Vote, and this is the subject of a separate cabinet paper.

## HUMAN RIGHTS

- 53 There are no human rights implications.

## LEGISLATIVE IMPLICATIONS

- 54 There are no legislative implications.

## REGULATORY IMPACT AND COMPLIANCE COST STATEMENT

- 55 A regulatory impact and compliance cost statement is not required.

## PUBLICITY

- 56 I intend to signal the general direction for regional economic policy at the EDANZ conference in Dunedin on 30 August. This Cabinet paper will be released on the MED website on the same day. This is part of a wider communications strategy that is being developed.

## RECOMMENDATIONS

- 57 It is recommended that the Committee
- 1 **Note** that our approach to regional economic development policy requires refreshing to ensure that it remains aligned with the government's overall goals for economic development;
  - 2 **Note** that the key aspects of this refreshed approach are:
    - 2.1 local and regional decisions will have a bearing on the economic competitiveness of New Zealand and the success of government policy, particularly the economic transformation agenda;
    - 2.2 neither the market nor local government will deliver an optimum business environment without central government involvement due to barriers to co-ordinating multiple objectives and market failures;
    - 2.3 government has a key role in communicating national level priorities to regions; and

- 2.4 government support should be focused on building the capability of regions and ensuring that centrally funded activity is aligned with national priorities.
- 3 **Agree** to this refreshed approach to regional economic development policy;
- 4 **Note** that a number of changes will be required to give effect to this:
- 4.1 the number of regions for the purposes of NZTE funding will be consolidated from 26 to about 14;
- 4.2 strategy and capability funding will be revised to get more of a focus on building capability to undertake strategic planning for economic development;
- 4.3 the MRI should be revised to generate higher quality large scale projects through contestability; and to ensure alignment with other funding streams;
- 4.4 the role of government agencies other than NZTE will be increasingly important for regional economic development, and where possible activities should be aligned with the regional economic development strategy; and
- 4.5 because of the importance of maintaining local buy-in, the transition path to the refreshed framework will be critical. It could take up to two years to complete, and some flexibility in funding may be required to incentivise this process.
- 5 **Agree** that ministers should make final decisions on the large scale regional grant following advice from the NZTE board;
- 6 **Agree** that officials will undertake further work on each of the items in recommendations above and report back to Cabinet by 1 December 2006 with detailed proposals, including a detailed transition and communication plan;
- 7 **Agree** to release this Cabinet paper on the MED website; and
- 8 **Note** that I intend to signal these changes at the EDANZ conference on 30 August 2006.

Hon Trevor Mallard  
Minister for Economic Development