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REGIONAL PARTNERSHIPS PROGRAMME REVIEW - FINAL REPORT

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1. EXECUTIVE SUMMARY

Context

1 The Ministry of Economic Development (MED) undertook a review of the Regional Partnerships Programme (RPP) in 2002/03. This review has included an assessment of regional development policy, as relevant context for this programme. This report summarises key findings of this review and outlines draft recommendations for policy and programme changes.

2 The RPP review's main components are four research projects into key aspects of regional development policy, a pilot programme evaluation, a review of all twenty-six RPP regional development strategies and of capability building spending to date, interviews and workshops with a number of key stakeholders, and analysis of key policy environment documents (outlined in detail in the companion document entitled *Regional Partnerships Programme Review - Background Report*).

Key Findings

3 The review finds that the RPP is performing well against policy objectives. The programme addresses the building of local economic development capability and governance, the development of partnerships and networks, and the building of institutional linkages. While direct attribution of the RPP's performance to regional and national economic growth is not possible (because many other factors are influential in this), early progress results show that the RPP performs against those indicators of success selected to measure impact on outcomes. These are mainly focused on changed economic development partnership behaviours, including:

- a more strategic regional focus and an agreed economic development direction (including key stakeholder buy-in);
- improved knowledge of a region's strengths and advantages and more projects aligned with this;
- strengthened and extended economic development networks and more collaborative approaches to projects;
- improved co-operation and trust between groups and better understanding of other stakeholders' goals and processes; and
- better co-ordination and alignment between central and local government resources.

4 The review also finds that a number of areas presented difficulties. These include:

- all regions experienced a tension between representative governance and workable governance group size and structure; and
- iwi / Maori have engaged less with the RPP for a range of reasons (e.g. resourcing issues, timelines, perceptions that the RPP did not offer a framework that accommodated Maori development objectives).

5 In addition, leadership emerged as a key issue: the evaluation shows that governance groups are more likely to be successful if they have strong and skilled leadership with credibility in a number of arenas (e.g. local government, business, iwi / Maori).

6 There is a regional perception that insufficient funding is allocated to the capability building component of the RPP, and that regions do not have enough resources to develop their capability to the level required to maximise regional economic development and to implement their strategies.

Key Recommendations

7 Two sets of changes are recommended, including those associated with the programme itself, including NZTE delivery, and policy changes or further policy work.

RPP Programme Changes

8 Recommended changes to the RPP include:

- building better information into the next stage of strategy development (where there are regional data and information needs and gaps), to strengthen existing strategies, and, in particular, identified regional specialisations;
- working with RPP partnerships and regional stakeholders to align RPP processes with Local Government Act (LGA) long-term planning requirements;
- a potentially much more active facilitation / brokering role for NZTE in the management and development of some partnerships in regions where partnership governance structures are complex and / or not well developed;
- an increased focus for NZTE on the provision of best practice advice and guidance;
- setting better measures for Industry New Zealand (Industry NZ) / New Zealand Trade and Enterprise (NZTE)ⁱ service delivery performance targets for Major Regional Initiatives (MRIs) and other output specifications based on indicators developed in the pilot evaluation; and
- further development and testing of evaluation parameters and indicators developed in the pilot evaluation, in order to establish baseline measures against which progress can be measured.

Policy Work

9 Policy changes and further policy work include:

- a policy project investigating the relationships and strengthening the alignment between the RPP and the Cluster Development Programme, the Regional Polytechnic Fund, the Regional Initiatives Fund and the Incubator Support Programme;
- the investigation of critical mass and economic development capability concerns associated with the small size of some RPP 'regions' - this may best be explored in

terms of the alignment of RPP processes with upcoming LGA long term council community plan (LTCCP) processes (e.g. piloting merging projects rather than attempting to force changes to RPP boundaries);

- working with NZTE, local government, Statistics New Zealand and other stakeholders on improving regional data sets to strengthen existing strategies, particularly around their identified regional specialisations (e.g. sector growth data, the need for a structured and comparable set of indicators);
- an increased role for MED in enabling better co-ordination of central government participation in strategic planning at the regional level, as well as significant regional initiatives which require inter-departmental collaboration. This may be most successful on a project by project basis and through addressing specific regional problems, particularly where head office buy-in and involvement are key; and
- further research into:
 - private sector motivations for - and barriers to - participation in regional economic development partnerships;
 - how to enable the development of brokering and leadership skills at the regional level (e.g. training programmes, partnership-based workshops);
 - how to improve iwi / Maori economic development outcomes through the RPP process and regional economic development strategies; and
 - whether resourcing partnership development through the RPP (e.g. administrative support for governance groups) is advisable and how this might be delivered.

10 All recommendations have been subject to consultation with stakeholders, which was undertaken in May 2003. MED will embark on a broader round of consultation and communication of the key findings in the second half of 2003, followed by a Cabinet paper consolidating recommended programme and policy changes.

2. INTRODUCTION

11 Regional development policy and programmes became a feature of New Zealand's public policy environment in 1999/2000.ⁱⁱ The then Ministry of Commerce was refocused as a Ministry of Economic Development and established an industry and regional development branch. A new crown entity, Industry NZ, was created and charged with the delivery of the main regional development policy instrument in the economic development portfolio, the RPP.

12 Since then, a number of additional regional development policies have been instituted in a range of portfolios (e.g. social development, Maori development). The RPP's operating environment is affected by this and by the influence of other policy instruments since developed in the economic development portfolio (e.g. the Cluster Development Programme, the Regional Initiatives Fund, the Regional Polytechnic Fund, and also such broadly-based business development programmes as the Business Growth Fund). All of these policies and programmes at central government level aim to add to - or partner with - existing local government and local economic development agencies' economic development efforts.

13 MED undertook a review of the RPP and its regional economic development policy context in 2002/03. This report summarises the findings of the review. This includes the context and aims of the review, followed by a discussion of the policy rationale and of the key review findings. Finally, conclusions are drawn and recommendations for changes to the programme and policy are set out. For full details of the pilot evaluation and research reports, please refer to the companion document entitled *Regional Partnerships Programme Review - Background Report*.

New Zealand's Regions: Trends and Problems

14 New Zealand's regions are affected by several related trends. Technological innovation and increased competition lead to business centralisation and specialisation, requiring skills and networks that are not readily available in rural centres, and encouraging businesses to locate in major cities. In addition, agricultural restructuring, industry rationalisation and market deregulation have encouraged skilled people to leave rural regions for broader educational and employment opportunities in major cities.

15 Technological progress in communications and improved transportation networks have widened the geographical markets that can be accessed and the range of goods and services that can be delivered directly from large cities rather than through branches or businesses in rural centres. The available range of consumer and business goods and services and government services in rural centres has declined as technology-driven rationalisation of services has occurred. Improved personal transportation options and greater consumer choice have also encouraged inhabitants of smaller rural centres to look to larger regional cities to supply their goods and services.

16 This, combined with the fact that enhancements and upgrades of other physical infrastructure in rural centres have not kept pace with technological progress (due to small market sizes, lack of critical mass and little or no population growth in rural regions) has led to further population outmigration.

17 Over half of New Zealanders (52%) were living in four urban centres (Auckland, Hamilton, Wellington and Christchurch) in the year ending September 2002. Fourteen territorial authority areas (six cities and eight districts) had population growth rates at or close to the national average of 1.5% (Christchurch City, Western Bay of Plenty and Hurunui Districts at 1.5%, and Nelson City and Banks Peninsula District both at 1.4%). Among the remaining 55 territorial authorities, 24 recorded positive growth below the national average (eight cities and 20 districts), six had no change and 25 recorded estimated decreases ranging between -0.1 percent (Opotiki District and South Wairarapa District) and -3.0 percent (Ruapehu District).

18 Population projections to 2021 estimate that 88% of New Zealand's population growth will occur in the four northernmost regions which already contain more than half of New Zealand's total population (Northland, Auckland, Waikato and Bay of Plenty had an estimated 2,020,000 residents in the year ending 30 June 2002). Over half of New Zealand's 74 territorial authorities will have fewer residents in 2021 than in 2001.

19 These trends have combined to pose a number of problems for some of New Zealand's rural regions. Technology driven centralisation leads to business restructuring which leads to skilled resident migration which leads to closure of other businesses. This in turn reduces employment opportunities and feeds back into a cycle of skilled resident migration. This has broader social and environmental implications in that it affects quality of life and is associated with growing income disparity and attendant social issues. These problems are interrelated, have multiple effects, and can lead to a vicious cycle of decline in some predominantly rural regions.

20 Quite different problems are evident in some urban regions. Continued strong urban migration can lead to pressures on urban infrastructure and to congestion and pollution. New Zealand cities also have low income areas and pockets of deprivation that impact on urban economic growth. For example, high levels of deprivation in parts of its city and congestion-related transport problems are a major feature of the Auckland economy. Auckland is a major part of New Zealand's economy, and economic development impediments there have major implications for the national economy.

21 Common to both urban and rural regions is the under-utilisation of regional assets and resources and the resulting impact on regional and national economic performance.

Regional Development

22 In view of these trends and problems, regional development became a new policy dimension for central government in New Zealand in 1999, following the election of the then Labour/Alliance Coalition Government. Regional development policies are common in most Western developed countries. The Organisation for Economic Co-operation and Development's (OECD) establishment of a Territorial Development Service (TDS) in 1994, for example, reflects the growing importance governments are according to regional economic development (OECD, 2001). These policies were, however, relatively new for New Zealand.

23 In common with many "third way" administrations, regional development policy in New Zealand draws on policy work variously described as an institutionalist perspective on regional development or as new regionalism.ⁱⁱⁱ In essence, this approach tends to

favour bottom-up and region-specific policy actions, based on locally-determined and governed development and aiming for regional innovation based on local strengths and advantages. It is aimed, therefore, at enabling more autonomous and less dependency-based sustainable regional development. It steers away from inter-regional transfer policies or large scale investment incentives to focus instead on fostering local innovation and local investment with flexibility for local people to make decisions based on local factors and needs. Such local factors generate the context for regional strengths and advantages and for local innovation.^{iv}

24 Particularly important in this is the growing importance of institutions (e.g. firms, financial institutions, trade associations, development agencies, but also less tangible institutions such as rules, norms, routines, practices, often referred to as “untraded interdependencies”^v) in the process of regional development. While it is clear that most innovation occurs in firms, firms’ networks with other organisations and the framework of existing institutions influence innovation.^{vi} It is these factors that regional development policy should address. The primary concern of policy makers, therefore, should be with levels of institutional support and inter-firm collaboration, the strength of a consensus on a common purpose, and with structures that encourage innovation, and skills and knowledge transfer.

Policy Instruments

25 Using the conceptual basis for regional development policy outlined above, a suite of policy instruments addresses various aspects of the key factors identified in the literature. The Cluster Development Programme, for example (see Appendix 1 in the companion document), aims to incentivise networking and collaboration between firms, and the Regional Polytechnic Programme addresses the necessary linkages between educational institutions and regional industries and labour markets. The RPP is the main programme in this suite, and is modelled on the OECD LEED (Local Economic and Employment Development) programme.

26 The RPP is a three stage programme which part-funds regional economic partnerships for regional economic development strategies (\$100,000 per 3 stage cycle), capability building (\$100,000 in any one year) and for a major regional initiatives (MRI) (up to \$2 million per 3 stage cycle). The RPP has now been in operation for more than 2 years. Twenty-six regional partnerships have been established, and implementation of the RPP is at various stages in New Zealand’s regions.^{vii}

Context and Aims of the Review

27 After two years of programme experience and further regional development policy work, MED initiated both a review of regional development policy, and of the RPP as the main programme. This review had the following aims:

- to further refine the regional development rationale in the New Zealand context (including better understanding of where central government can best add value to the regional development process);
- to identify the RPP’s relevant objectives: This examined which regional development policy objectives the RPP addresses and which are covered or not by other regional development work;

- to identify the programme's strengths and weaknesses in view of current and desired policy objectives;
- to identify whether there are better ways of achieving these objectives, including an investigation of the possibility of additional policy instruments (e.g. programmes), boundaries with existing programmes and/or amendments to the RPP; and
- to propose policy and programme changes, if appropriate, and evaluation parameters.

28 The review was therefore aimed not solely at evaluating the performance of the RPP as a programme, but also at the assessment of the policy rationale for central government involvement in regional economic development and at the RPP's relationship with this. The review's findings, therefore, are not simply about proposed programme changes, but also about policy and programme support changes.

Scope of Work

29 The review utilised a qualitative methodology (see Appendix 6 in the companion document) and contains a number of subcomponents. These include:

- a review of the original regional development policy objectives;
- a pilot evaluation of the RPP's performance against its original objectives;
- four research reports into key aspects of the RPP, including studies of:
 - regional economic development planning benefits and best practice;
 - best practice for, and barriers and constraints to, economic development capability building;
 - the nature and key elements of public private partnerships for economic development; and
 - the concept of regional innovation systems and their relative position vis-à-vis the RPP;
- an analysis of key relevant central government policy documents (including the State Service's Commission's (SSC) *Review of the Centre*, the New Zealand Institute of Economic Research (NZIER) *Maori Economic Development Report*, the new Local Government Act (LGA), the Prime Minister's Regional Hui Report) and other related MED and Industry NZ research;
- a review of all 26 regional development strategies;
- an analysis of how the RPP capability building grants have been spent to date; and
- workshops and interviews with the consultants and local government / economic development agency representatives closely involved in the development of strategies, as well as with Industry NZ regional development advisers, national managers and assessment panel members.

30 The remainder of the report outlines the review of policy rationale and highlights key findings of the review prior to drawing conclusions for policy and programme design.

3. REVIEW OF POLICY RATIONALE AND OBJECTIVES

31 A review of regional development policy rationale and objectives was undertaken to re-assess original policy objectives based on work undertaken since then. This included the potential identification of additional policy objectives and / or the refinement of existing ones.

Original Policy Rationale

32 The original policy rationale for a central government role in regional development (DEV (00) 21, 15 May 2000) is included in Appendix 2 in the companion document and had three main elements:

- central government activities impacting on regional development were poorly coordinated with one another and with local government activities impacting on regional development, with resultant duplication, overlaps and inefficiencies;
- because of New Zealand's small size, geography and dispersed population, and the relatively high number of local government entities, central government needed to take a leadership role in co-ordination of activity and strategy formulation to attempt to overcome insular development thinking and projects and direct competition between local communities, and
- existing resources in regions were under-utilised and there was a lack of strategic focus on sustainable development.

33 There were implicit linkages to the concept of regional comparative advantage or specialisation in the concept of "making the most of what a region has to offer", and of not being a means to "transfer resources" between regions. The critical role of networks of firms and institutions at a regional level was also outlined.

34 A whole of government approach was a strong focus, and regional development was seen as the co-ordination mechanism for a whole of government approach to sustainable development issues in regions. The level of regional development expenditure is small relative to the levels of government expenditure on other economic development related services, such as training assistance, employment assistance and community assistance, and so it was anticipated that some of the largest gains might be obtained through regional development programmes catalysing the redirection of these services to better meet regional needs.

Original Policy Objectives

35 The original policy objectives of the RPP (DEV (00) 38, 26 June 2000) were:

- to facilitate and promote sustainable regional development to help regions respond to local opportunities;
- to facilitate learning and co-operation among regional groups; and
- to improve [regional groups'] understanding of the value of locally driven strategic development processes.

36 A further key objective was to provide Maori and Pacific peoples with opportunities to control their own development and to achieve their own objectives. There was also a desire to ensure that a regional perspective is incorporated in national policy development where such policy differentially affects regions.

Refinement of Policy Rationale

37 Since then, further work on the policy rationale has been undertaken. This has been informed by related policy development, particularly around growth and innovation (the Growth and Innovation Framework (GIF)), sustainable development (the Sustainable Development Programme of Action) and local government (the new Local Government Act).

38 The GIF, for example, has provided focus for economic development policy, including industry and regional development policy, in four key areas:

- enhancing the existing innovation framework;
- developing, attracting and retaining people with exceptional skills and talents;
- increasing global connectedness; and
- focusing government resources to maximise the impact of innovation across the whole economy.

39 A major factor in building the conditions for long-term and sustainable economic growth is productivity growth. The economics literature suggests that increasing returns on labour and capital inputs and improving technology are major contributors to economic growth and improved living standards.

40 Productivity growth is underpinned by a wide range of factors including technological change, accumulation of human and physical capital, firm organisation, institutions and resource allocation. Innovation is a key contributor to productivity growth, because the generation of knowledge and ideas and their commercialisation is a fundamental source of increasing returns. Building effective innovation is therefore central to sustainable economic growth, particularly in the context of a rapidly changing global environment and the challenges associated with New Zealand's size and distance from major markets.^{viii}

41 Innovation is often an iterative process, and this broadens the focus of economic development from individual entrepreneurs or firms to consideration of how all the elements of society contribute to technological change derived from ideas and knowledge. Innovation in firms is influenced by a broader system that includes the network of institutions in the public and private sectors whose activities and interactions initiate, import, modify and diffuse ideas and knowledge. Good networks between firms and customers and strong linkages between firms and institutions that take advantage of collaborative efforts and geographical proximity to produce new or improved goods and services are essential for the effective exploitation of ideas and knowledge through innovation and technological change.^{ix}

42 Research indicates that innovation is also often location-based – it occurs in a specific geographic locale and displays a strong regional component.^x Firms draw on a mix of location-specific characteristics and resources, such as the natural environment, the labour force, physical infrastructure, local institutional routines and the tacit knowledge embedded in local linkages. Regional characteristics have the potential to be important differentiating factors in an increasingly global marketplace, where non-mobile factors of production, such as distinctive regional identities and institutions, form important elements of a firm's competitive advantage (e.g. Central Otago Pinot Noir or Kapiti cheeses).

43 The quality of local institutions, including those that deliver education, finance and bylaws, is therefore important, and a level of responsiveness at a local level is essential if innovation in firms is to occur in a region.

44 In the New Zealand context, a number of significant constraints on the effectiveness of local and regional economic development institutions and activities exist. These include their overlapping functions and small scale and the resultant lack of critical mass and sometimes capability. If profitable commercial projects exist, but they are not taken up due to a lack of economic development support, such as inadequate linkages between firms and institutions, a lack of infrastructure, an excessive regulatory burden, a lack of skilled employees, and so on, then regional and national growth opportunities will be foregone.

45 Given New Zealand's size, geographically dispersed population and many small firms, central government may have a role in co-ordination of interdependent economic development activities and processes. At the regional level, problems of size and distance from major markets are also of concern. It will often be necessary for groups of firms, supported by public sector institutions, to work together to access export markets, and to identify - and build upon - regional areas of comparative advantage or specialisation. Co-ordination of local and regional economic development activities is therefore essential to ensure that significant development opportunities that require the participation of multiple firms and institutions are not missed.

46 In this context, policy work should encourage local government and other stakeholders to aggregate their decision-making and development activities, rather than seeking to 'go it alone' in terms of economic development. Also important is encouraging a focus on regional areas of comparative advantage and specialisation and improving stakeholders' understanding of a region's strengths and advantages. Central government's role in this is primarily facilitative, and commitment and drive for the initiative will be required from the host region.

47 As a result of this understanding of the regional component of economic development policy, five regional economic development roles for central government have been identified in MED policy work. Central government can add value to regional economic development by:

- working with regional stakeholders to put in place the foundations and preconditions for the take-up of commercially driven economic development opportunities in regions;

- facilitating the building of regional economic development capability, including increased responsiveness to changing market conditions and the identification of regional specialisations and strengths and advantages;
- facilitating improved governance and building leadership capability to improve the quality of decision-making and to generate economic development critical mass;
- providing advice and guidance on regional development best practice from a sustainable economic development perspective; and
- addressing whole of government co-ordination issues that affect regional development.

48 The RPP, as the Government's major regional development programme, addresses all of these roles, and the review was undertaken based on this understanding of central government's role in regional development.

The RPP Contribution to Regional Economic Development

49 Direct attribution of the RPP's performance to regional GDP growth or regional employment growth is not measurable for a number of reasons. For example, multiple factors influence regional GDP and employment, time lags exist, and the RPP investment is modest in terms of regional and national economic aggregates. Measures of success for the programme, therefore, are focused on intermediate indicators, which have been developed as part of the first pilot evaluation, drawing on international experience with similar regional development programmes.^{xi}

50 This international literature indicates, for example, that better linkages between economic development institutions and firms and improved trust can lead to more jointly funded development projects and better understanding of - and synergies from - previously disjointed economic development initiatives and processes. This can ultimately lead to a more regional outlook, better economies of scale and less duplication of resources.

51 The literature also indicates that improved understanding of regional strengths and advantages is likely to lead to economic development projects that are better aligned with this and build on a region's comparative advantage, which is likely to lead to a stronger position from which to compete in a global market where differentiation matters.

52 It is such intermediate factors, therefore, that the RPP addresses and where performance needs to be benchmarked through a set of criteria (e.g. improved trust between partners in RPP partnerships, agreed economic development direction and stakeholder buy-in, improved understanding of regional economic development context and direction, see Appendix 4 of the companion document for further detail). The pilot evaluation's use of these intermediate factors in evaluating RPP performance and the findings from the RPP research projects were aimed at developing a frame of reference and benchmarks for future evaluations of RPP performance.

4. KEY FINDINGS

53 This section assesses overall RPP performance in light of key findings of the review and presents some recommendations for policy development and the programme itself. As stated above, full details of the findings of the individual review components are outlined in the companion document entitled *Regional Partnerships Programme Review - Background Report*.

Overall RPP Performance

54 The review had a number of aims relating to the development of policy rationale, the examination of the RPP's relevant objectives, and the RPP's strengths and weaknesses in delivering on those objectives, as well as its relationship with other regional development policy and programmes. The findings with regard to policy rationale have already been detailed in this report, and five central government roles in regional development have been set out.

55 With regard to RPP performance, the RPP is delivering in a satisfactory way against policy objectives by addressing the collaboration and co-ordination aspects of successful regional economic development. These include the building of local economic development capability and governance for economic development, the development of partnerships and networks, and the building of institutional linkages. As outlined above, research shows that these factors play an important role in regional economic development. Direct attribution of such factors to economic growth in the regions is fraught with difficulty, and intermediate measures, drawn from the literature, have been used to evaluate success, including:

- improved trust between partners (and improved understanding of the benefits of working together);
- an agreed direction or strategy for economic development (and multi stakeholder endorsement of this);
- improved knowledge of a region's strengths and advantages and potential areas of specialisation (and efforts to build on this, e.g. better targeted use of resources, or an MRI and other development projects that are aligned with this); and
- better co-ordination and alignment between central and local government resources in the regions.

56 The pilot evaluation of the programme was a key part of the review. It utilised a theory of change for the programme focused on better regional governance for economic development and increased focus on regional strengths and advantages or specialisations (see Appendix 4 of the companion document for a full list of the indicators).

57 As with other economic development partnership programmes, early results are very much focused on changed partnership behaviours. Partnership development is an evolutionary process, and change is incremental. The pilot evaluation shows that a more strategic regional focus and increased collaboration between groups on regional projects are evident, and that strategies have been developed that are considered to be

in line with potential regional specialisations that could be developed over time. There is growing evidence of an understanding of the benefits of collaboration, and evidence of increased understanding of others' perspectives and ways of working between business, community, iwi / Maori and local government.

58 Forecasts for the numbers of MRIs per year were consistently too high (e.g. 8 were forecast in 2002/03, but 4 at most will be developed). Overseas experience with similar programmes shows that partnership development is a long-term process, with often lengthy lead-in times before major development projects get under way (the OECD, for example, specifies 5-10 years lead-in times). A focus on early results can lead to a rushing of process, leading to risks in terms of the long-term sustainability of partnerships.

59 The RPP has been successful in not sacrificing the quality of partnership development and the long-term focus on strategies for early results on MRIs. Unrealistic expectations for MRI delivery have repeatedly been revised in accordance with regional needs and capabilities. MED is now working with NZTE to revise output agreements and service delivery targets to reflect the length of time required for partnership development, the building of institutions and the development of quality projects aligned with a solid analysis and understanding of regional strengths and advantages. It is much more important, in the long run, to deliver on key strategy outcomes than it is to focus on MRI projects.

60 Lastly, with regard to the RPP's performance in relation to other economic development policy instruments, this review has identified a degree of overlap between the capability building component of the RPP and other programmes, including the Cluster Development Programme. In addition, the review has also shown the emerging and continuing key importance of solid linkages between regional education and training policy and regional industry and employment matters. The Regional Polytechnic Fund, therefore, has a key relationship to the RPP.

61 In view of these relationships, MED will undertake a policy project in 2003/04 to further research the programme boundaries in the regional field of economic development policy.

Suggested Programme Changes

62 In addition to these general findings, a number of issues regarding the relative position of the three RPP components emerge from the review. These suggest a number of changes to the programme.

Strategy Development

63 The importance for regions of accessing and interpreting relevant data and information on their economies has emerged as a key finding of the RPP Review. Now that initial regional development strategies have been developed for all regions, there is a need to identify regional information needs and, where weaknesses are identified, build better information into the next stage of strategy development to strengthen existing strategies, and, in particular, identified regional specialisations. Many of the regional development strategies prepared to date are not underpinned by a detailed regional understanding of the resources, firms and institutions that are most likely to

catalyse future development of the sectors with greatest growth potential. Strengthening the existing data set is a key component of improving regional development strategies through more rigorously analysed and prioritised actions to support development.

64 With respect to access to this data, Statistics New Zealand currently produce regional data on a user pays basis. Users must pay their share of the development as well as the dissemination costs. This represents a significant barrier to access to data for some councils.

65 In addition to Statistics New Zealand, a number of private sector consultants as well as local government produce their own regional and local data, to varying methodologies and standards. In some instances, this has undesirable outcomes, such as:

- inefficient use of resources through duplication of effort and lack of information sharing between authorities (or incomparability of data, due to methodological differences);
- the lack of a structured and comparable set of indicators;^{xii}
- lack of capability to interpret / analyse data and the need to pay for outside expertise;
- a number of critical gaps in the data, particularly economic data (e.g. access to estimates of regional GDP; economic activity by industry; contribution of sectors/industries to local economies); and
- boundary issues and the need for flexible data analysis to permit a focus on user areas of interest (e.g. economic development data for the Bay of Plenty may be less meaningful for the Eastern Bay of Plenty RPP partnership).

66 In addition to this, the new LGA requirement for long term planning and monitoring will increase the need for reliable data at sub-regional levels. The monitoring and evaluation of economic development programmes, as well as the monitoring of major planning efforts under the new LGA, are critical to the success of either. Central government may have a role in improving access to quality information and advice available to regions. MED will work with Statistics New Zealand, the Department of Internal Affairs, Local Government New Zealand and regional stakeholders to further scope the regional needs in this context.

67 With respect to the interpretation of data and information, many of New Zealand's less densely populated regions do not have the capability or capacity to undertake in depth economic analysis or interpretation of material relating to the key sectors and trends in their region. While making strategy development funding available to undertake these activities aims to improve the quality of information available to governance groups and to regional decision-making, it is necessary to monitor the quality of this analysis.

68 There is also a need to assess existing strategies vis-à-vis their relationship to social development strategies and the yet to be developed local government LTCCPs

which are likely to play an important role. International research suggests that strategies that are too narrowly focused on economic factors without wider consideration of social issues and / or linkages with other key strategies are likely to fail, particularly in disadvantaged regions, where economic strategy development cannot be divorced from social conditions. Both regional and sectoral strategy development processes have highlighted the need to include social factors when considering business growth.

69 A key task for MED is to assess the risks around this and to work with NZTE and other parties to provide best practice for a way forward in the form of a number of pilot planning exercises that attempt to integrate local government requirements for long term planning with existing economic development strategies. The SSC's work on the *Review of the Centre*, in particular outcomes from one of the report's implementation measures, 'mandated regional networks'^{xiii}, will inform this work.

70 Such pilot planning partnerships may also address another key concern emanating from the review: the size and number of regional partnerships. International evidence suggests that it is important not to change partnerships early in the process, just as trust and collaboration have begun to emerge. However, there is concern about the sustainability of 26 regional partnerships in New Zealand, given the lack of critical mass and capability in some of these partnerships. Rather than imposing programme changes that would force further consolidation, it may be best to work through these issues as part of pilot planning partnerships that look across boundaries. A more intensive NZTE brokering / facilitation role may be required here in some regions.

Capability Building

71 The capability building component plays a key role in partnership development and in addressing key regional development strategy issues. This component needs to retain its current flexibility to address regional needs as they arise.

72 Analysis has shown that capability building grants have supported key aspects of partnership development, as well as the building of institutional capability and research into key sectors in support of a MRI. The review has also shown that, in regional perceptions, capability building grants are important for achieving early results on a few selected projects that no individual partner may have achieved alone. International research and other aspects of the RPP review show that this is a key contributing factor to the success of long term partnership development. Also, early results on practical, region-wide projects are extremely helpful in building credibility for the regional economic development process and in learning how to work together across traditional boundaries. In addition, the evaluation indicates that the capability building component is instrumental in delivering on broader strategy outcomes.

73 However, clarification of the boundaries of what capability building and MRIs can and cannot fund is necessary, in order to manage regional expectations and to achieve consistency in administration.

MRI

74 Over the past two years, four MRIs have been implemented. Industry NZ service delivery performance targets for the RPP this year were initially focused on eight MRIs,

but have since been revised to a lesser number. It is important to re-focus service delivery performance targets for the RPP on the outcomes sought from the programme and the likely success indicators for such outcomes. Over the past two years, experience has shown that quantitative service delivery targets set for the MRI component of the programme have been too focused on pushing for a certain number of MRIs per year. Such delivery performance targets can divert attention away from the qualitative nature of RPP outcomes sought, which bear little resemblance to the number of MRIs established in any one year. Performance targets for the programme need to be revisited in light of the lessons learned about the time it takes to develop partnerships. This is currently under way with the work on output agreements for the integrated crown entity NZTE.

75 In addition to this issue, there is also a perception in regions that the criteria for the MRI are too strict and too focused on a limited interpretation of what might contribute to regional development. For example, questions have been raised about funding infrastructural needs through a MRI, if this builds the foundation for economic development in regions. Infrastructure can be funded through an MRI, but it is important this be approached through a whole of government lense, as infrastructure is funded through a variety of other government funds, both centrally and locally.

76 There have also been continuing tensions between 'bottom-up' processes and the regional determination of what might be a MRI project, and national economic development objectives (e.g. alignment with GIF sectors). This is a key issue. Partnership research shows that tensions between 'top-down' and 'bottom-up' objectives and processes are a difficult aspect of public-private partnerships for economic development. In the long run, more autonomy at the regional level may be appropriate (e.g. innovation seems to be a key feature of 'bottom-up' processes), but this has to be carefully balanced with existing capability and scale. The scale envisaged by regional policy in New Zealand is much smaller than that generally referred to in the international literature. Lessons from the international literature in regard to regional autonomy and devolution of authority may therefore have to be tempered. Further research on the levels of critical mass required may be needed in the New Zealand context.

77 The focus of the MRI may change over time from encouraging regional collaboration and co-ordination to being more directly aimed at economic development projects that are in line with regional specialisation. This review has shown that, in the early stages of partnership development, the MRI is often most important as an incentive for partnerships to group together and begin working together on regional projects. Over time, as partnerships become stronger and experience positive outcomes, the focus of MRIs may become more strongly aligned to identified regional growth projects.

78 In addition to addressing the programme components, a number of programme support changes are also needed. These relate to changes to NZTE's role in the RPP.

More Active Brokering / Facilitation in Some Regions

79 NZTE needs to be more active as a broker of better partnership models in some regions. This will require a more active role, akin to MED's early role in regions with acute needs, and greater on the ground resourcing, in regions where this is necessary.

80 The RPP review has shown that a key risk factor for regional partnerships and governance is the different timelines and resources that stakeholders face in partnerships. For example, business needs for early results in some cases do not sit well with local government and iwi structural and process requirements. As partnerships get closer to the implementation of their first MRI, this issue becomes exacerbated, and there is evidence that iwi / Maori become distanced from the partnership.

81 There is evidence that NZTE needs to play a more active role in the management and development of partnerships in some regions through greater levels of advice and support to individual partners and to potential regional leaders. However, this needs to be carefully targetted to regions where such support is necessary, and taking care not to duplicate regional economic development agencies' or others' work.

Best Practice

82 The RPP review shows that better access to best practice guidance and more support for regions in developing strategies, building capability and developing a MRI may be needed. NZTE may need to take a much more active role in this, but further work on understanding NZTE's roles in line with those of regional economic development agencies is needed.

Policy Changes

83 It is a key finding of this review that, unless policy changes to support the RPP are implemented, there are likely to be adverse effects on the RPP in the long term, in particular with regard to its whole of government objectives.

Boundaries / Other Programmes

84 The RPP Review has shown that a number of Industry NZ / MED programmes (notably the Cluster Development Programme, the Incubator Support Programme, the Regional Polytechnic Development Fund, and the Regional Initiatives Fund (RIF)) contribute to regional economic development outcomes, but that much closer alignment of programme boundaries and sought outcomes is needed.

85 Apart from the RIF, these services have already been incorporated into the regional facilitation component of the Enabling Services range in NZTE, and MED will work with NZTE to assess the relative position of cluster development within the broader regional economic development context. This is on MED's work programme for the next financial year.

Size of Regions / Critical Mass

86 There is evidence that the RPP partnerships in some of New Zealand's regions are too small to be viable and that some partnerships would benefit from amalgamation with adjacent regions. While this is an important issue going forward, no fundamental change should be imposed from central government, given the partnership development process and the importance of trust and stability. Instead, it is likely that NZTE will need to take an active brokering role in convincing partnerships of the merits of working across boundaries to achieve critical mass and a broad regional outlook.

Some of this may be achieved through a proactive focus on piloting relationships between the new LTCCPs' strategic planning processes and the RPP. It may also be useful to scope the potential of joint projects through the capability building funding component of the RPP.

87 Conversely, there is also a view that some of the RPP regions are too large and complex. Such concerns have already been addressed in Auckland through more flexible funding allocations (e.g. the capability building and MRI caps for Auckland were raised to reflect the size of the region, its complexity, and the level of the local contribution). A similar situation may be evident in Canterbury, where complexity and clear urban / rural demarcation make it unlikely that a single MRI will suit the partnership's economic development strategy of the region.

Whole of Government - Regional Co-ordination

88 It is clear from a raft of policy projects and reviews, including this review, the work of MED and Industry NZ over the past two years and the SSC's work on the *Review of the Centre*, that achieving collaboration between central government services and key local stakeholders is important to removing constraints to significant development opportunities at a regional level. For example, collaboration between large manufacturing and processing firms, education and training providers, infrastructure providers (including central government in some cases) and local councils is critical to ensure that resource management planning provides for the future expansion of those firms and their related service industries. Collaboration between regional polytechnics and local businesses is critical to ensure that the courses being delivered in a region will provide the skilled employees required by local industry. Given New Zealand's geography, low population density, relatively large number of local government units and relatively large number of small businesses, there is a strong argument for central government to take on a leadership role in facilitating these co-ordination activities.

89 Such co-ordination was a key policy objective for the RPP when the programme was first implemented, but this has achieved only project-based success. For example, departments continue to focus on core business delivery rather than whole of government approaches, there are a diversity of regional boundaries across different departments, and there is division of resources into a large number of small funding pools.

90 Economic development policy and the relationship between central agencies and local and regional counterparts need to be aligned and proactively managed, on a project by project basis. Research shows that where MED, Industry NZ or others have taken the initiative in bringing together a number of government agencies to meet with regional partnerships (wood processing in Tairāwhiti is one example), some progress towards aligning government services to help facilitate strategy implementation has been made. While some projects have therefore achieved agency collaboration in the interests of broader regional outcomes, more of this is needed.

91 The findings of the RPP review further underline the pressing need for whole of government collaboration and co-ordination. Regional co-ordination is a critical success factor for regional economic development. Equally important is a coordinated, committed approach to partnership development from central government and local

government agencies, as well as better analysis of the implications that the RPP's non-contractual form of partnership has for agency resources.

92 Strategies contain a raft of issues and proposed actions, most of which cannot be addressed by a MRI and most of which require the support of other departments or agencies' help to action and implement. Without mechanisms to align the expectations of RPP partnerships with delivery by central government, many of the actions proposed in strategies may never be implemented, and this is likely to have a detrimental impact on ongoing stakeholder commitment to the programme.

93 In the absence of structural change to address the regional co-ordination problem, MED considers that project-based collaboration may be the best approach to achieving better collaboration at a regional level. This may entail working with particular government departments in particular regions on particular projects. For example, MED is currently engaged in discussions with TPK about better co-ordination of funding resources for improving Maori outcomes in the regional development process. MED may have to take a larger role in efforts to collaborate, particularly as many collaboration and co-ordination issues will become the focus of the new LGA's requirement for long-term council community plans.

94 The nature and shape of this role will be worked through with relevant departments and mindful of the way a mix of policies impacts at the point of implementation, as costs and benefits of different arrangements fall differently on different actors.

95 Ultimately, there are short and long term trade-offs among factors such as economies of scale / critical mass, the efficiency advantages of specialisation, and the economies of scope tempered by the transaction costs of 'joined up' or 'whole of government' policies.

Local Government Act

96 The LGA 2002 and its requirement for LTCCPs mandates each local authority to consult with communities and stakeholders in local and central government on long term community outcomes, including social, economic, environmental and cultural well-being of communities (Section 10, LGA 2002). The LTCCPs will have a significant role in regional development, and RPP partnership aims and objectives need to mesh with their strategic aims. There are risks of extensive competition for scarce resources, if consultations on economic, social, environmental and cultural health and well being of communities do not work in harmony with existing regional RPP processes. However, there is also potential for gains if existing partnership strengths can be built upon. MED needs to take a more proactive role in working with local government and other central government agencies in piloting how such long term planning might benefit from existing partnership structures and/or how these might best be aligned.

97 Further work is also required on understanding three key aspects of partnership development and governance arrangements for economic development:

- private sector participation in regional economic development partnerships;

- how to improve iwi / Maori economic development outcomes through the RPP process;
- how to enable the development of brokerage and leadership skills at the regional level (e.g. training programmes); and
- whether resourcing partnership development through the RPP (e.g. administrative support for governance groups) is advisable and how this might be administered.

ⁱⁱ Industry NZ will be integrated with Trade New Zealand on 1 July 2003 to become the integrated Crown Entity New Zealand Trade and Enterprise (NZTE). In this document, when describing past policy, the name Industry NZ will continue to be used. Looking forward, policy recommendations use the name NZTE.

ⁱⁱ Notwithstanding earlier versions of regional development policy in place in New Zealand in the 1970s.

ⁱⁱⁱ Amin, A. (1999). An institutionalist perspective on regional economic development. *International Journal of Urban and Regional Research* 23: 365-78.

Cooke, P. & Morgan, K. (1993). The network paradigm: new departures in corporate and regional development. *Environment and Planning D: Society and Space* 11: 543-564.

Danson, M.W. (2000a). Regional development and the 'new regionalism' in England. *Regional Studies* 34(9): 857-873.

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Gibbs, D.C., Jonas, A.E.G., Reimer, S. & Spooner, D. J. (2001). Governance, institutional capacity and partnerships in local economic development: theoretical issues and empirical evidence from the Humber sub-region. *Transactions of the Institute of British Geographers* 26: 103-119.

Morgan, K. (1997). The learning region: institutions, innovation and regional renewal. *Regional Studies* 31: 491-503.

^{iv} Edquist, C. (2001). Innovation policy - A systemic approach. In Archibugi, D. & Lundvall, B.A. (Eds), *The globalizing learning economy* (219-238). Oxford: Oxford University Press

OECD (2001a). OECD territorial outlook. Paris: OECD; Thomas, K. (2000). Creating regional cultures of innovation? The regional innovation strategies in England and Scotland. *Regional Studies* 34(2): 190-199.

^v Untraded interdependencies include institutional norms and values such as trust, reciprocity and co-operation, as well as regional conventions inherent in labour markets and public institutions. These interdependencies are vital to economic and organisational learning and co-ordination. They are often based on tacit, rather than codified, knowledge and therefore cannot be removed from the human, cultural and social context in a particular geographical location.

^{vi} Dickens, P., Forsgren, M. & Malmberg, A. (1994). The local embeddedness of transnational corporations. In Amin, A. & Thrift, N. (Eds), *Globalization, institutions, and regional development in Europe* (23-45). Oxford: Oxford University Press

Granovetter, M. (1985). Economic action and social structure: the problem of embeddedness. *American Journal of Sociology* 93(3): 481-510

Raco, M. (1998). Assessing 'institutional thickness' in the local context: a comparison of Cardiff and Sheffield. *Environment and Planning* 30: 975-996.

^{vii} A fuller description of the RPP (and of the Cluster Development Programme / Regional Polytechnic Fund) is attached in Appendix 1 of the companion document. Also attached in Appendix 1 is a table detailing funding under the RPP to date.

^{viii} Lundvall, B. (1992). User-producer relationships, national systems of innovation and internationalisation. In B. Lundvall (Ed.). *National Systems of Innovation - Towards a Theory of Innovation and Interactive Learning*. London: Pinter.

^{ix} Innovation Systems Research Network (2002). *The Innovation Systems Research Network: An Experimental Design for Knowledge Management*. ISRN Working Paper No. 2002/1. Available from: <http://www.utoronto.ca/isrn/working-papers.htm>.

Edquist, C. and McKelvey, M. (2000). The systems of innovation approach and its general policy implications. in C. Edquist and M. McKelvey (Eds.). *Systems of Innovation: Growth, Competitiveness and Employment*. Volume 2, Cheltenham: Edward Elgar.

^x Edquist and McKelvey, op cit.

^{xi} See, for example:

OECD (1999). *Best Practices in Local Development*. LEED Notebook 27. Paris: Organisation for Economic Cooperation and Development.

OECD (2001a). *Local Partnerships for Better Governance*. Paris: Organisation for Economic Cooperation and Development.

OECD (2001b). *Cities and Regions in the New Learning Economy*. Paris: Organisation for Economic Cooperation and Development.

^{xii} Regional input-output tables, for example, have been developed by two or three private sector companies in New Zealand, using different methodologies and assumptions, which make comparison difficult in some instances.

^{xiii} Mandated regional networks are currently being piloted in a number of New Zealand's regions. They aim to inform integrated service delivery and test a new way of co-ordinating regional activity. The network currently involves the New Zealand Police, the Ministry of Social Development, the Housing New Zealand Corporation, the Ministry of Education, Child, Youth and Family Services, District Health Boards and the New Zealand Fire Service Commission. It is envisaged that, over time, the Ministry of Maori Development, the Accident Compensation Corporation, the Internal Revenue Department, the Department of Corrections, the Department of Labour's Community Employment Group and the Career Service will become involved, as appropriate.