

Better economic development in local government

A discussion paper

July 2017



**We are.
LGNZ.**

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What did the survey ask and who did it cover?

All councils were invited to respond to the survey, which ran between 6 September and 1 November 2016.

The survey asked a range of questions related to economic development, including the types of economic development services councils undertake, what institutional arrangements they use to deliver these services, and the way the value or impact of these services are measured.

Completed responses were received from 69 councils, with partial responses from a further three councils. Six councils declined to participate. This provided the survey with a response rate of 88 per cent.

This survey provides for the first time a comprehensive picture of local government's investment in economic development services. It provides a solid platform to identify any issues within the sector, and will help stimulate strategic discussions about how greater value can be delivered in the future.

Introduction

Local Government New Zealand (LGNZ) is working with its member councils to develop a better understanding of the state of local government economic development services so we can ensure these services deliver strong value to local regions and communities. This involves a dialogue with the sector about opportunities to improve transparency, accountability, and measurement of the return on investment from spending on economic development.

As such, a survey of councils was undertaken in late 2016 to create a stocktake of local government's investment in economic development services.

This paper highlights some of the key results from the survey, and poses some key strategic questions to help explore these results further. An objective is to understand the insights they hold about economic development interventions in local government, and what changes (if any) may be useful.

Why is LGNZ interested in economic development in local government?

For the 2014-2015 financial year, New Zealand's local government sector spent and estimated \$248 million on the delivery of economic development services. These services span a wide range of activities and are governed and delivered through a diverse set of institutions (eg stand-alone economic development agencies, regional tourism organisations, and council business units). The delivery system has a high degree of complexity which could suggest an opportunity for greater efficiencies.

Building our understanding through this research represents a collaboration opportunity to share information throughout the sector and exchange ideas about best practice.

LGNZ is keen to explore the issues and engage the sector to reach consensus on what a well-performing local government economic development system might look like. We will also be using our sector knowledge to generate innovative thinking about how we might get there.

Why is there such variation in economic development services in local government?

The context for economic development includes key, large scale trends, as articulated in LGNZ's discussion paper *The 2050 Challenge: future-proofing our communities*.

These trends include:

- increasing urbanisation, changing demographics and the need for liveable cities;
- a growing understanding about the importance of the stewardship of New Zealand's natural environment;
- the need to respond to the effects of climate change;
- the changing nature of work, including increased automation; and
- increasing pressure on equality and social cohesion in communities.

These challenges are not uniform across LGNZ's cities, districts and regions. They are playing out in different ways and require different responses.

Economic development services (activities and interventions) used by councils developed organically in response to challenges from the early 1980s to 2002. The introduction of the four "well-beings" (social, economic, cultural and environment) in the Local Government Act 2002 (LGA 2002) mandated councils to further develop services under the economic well-being setting. This legislative setting was deliberately broad, enabling councils to explore innovative ways to address issues impacting on local economic well-being.

In 2012 central government removed the four well-beings from the LGA 2002. Many councils have continued with activities despite the changes in regulatory settings. However, as financial pressures for councils increase so does the requirement for greater accountability and transparency for investment of public money. This is particularly so for councils trying to maintain and renew economic infrastructure such as roads and potable, waste and stormwater. This pressure makes decisions on how limited financial resources are applied even more acute.

LGNZ recognises economic issues facing local communities and the need to continue to lift the value of services and investments that councils make. We think it is important to have a discussion with the sector to identify and agree strategic issues and explore innovative ways of delivering an appropriate range of services to facilitate the growth of local economies.

1

Key survey themes

Definition of economic development

The survey asked whether councils have a specific definition of “economic development” (or similar) that was documented or widely known.

This question was driven by the fact that economic development is in many ways a less tangible and clearly defined service than others provided by councils, such as the provision of roads or three waters infrastructure and services.

Given this context, a goal for the survey was to understand to what level there is an agreed and common definition of services and interventions being offered, and whether those activities which councils included in their definition varied widely or not.

Over half (51 per cent) of the responding councils indicated that they did not have a specific definition for economic development that is documented or widely known.

Figure 1: Council has a definition for “economic development”

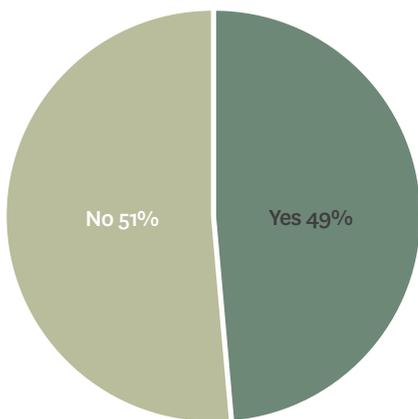
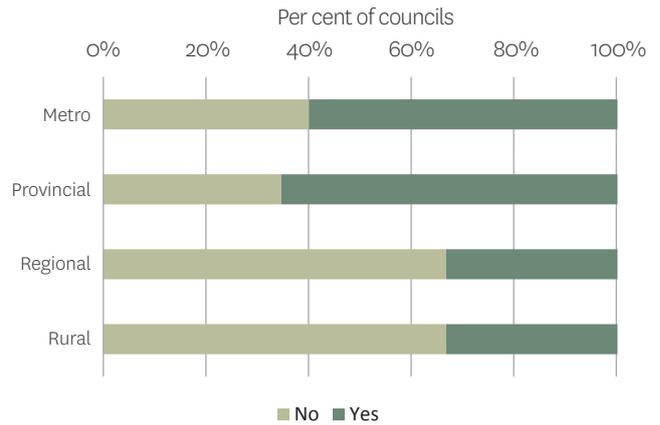


Figure 2: Council has a definition for “economic development”, by sector

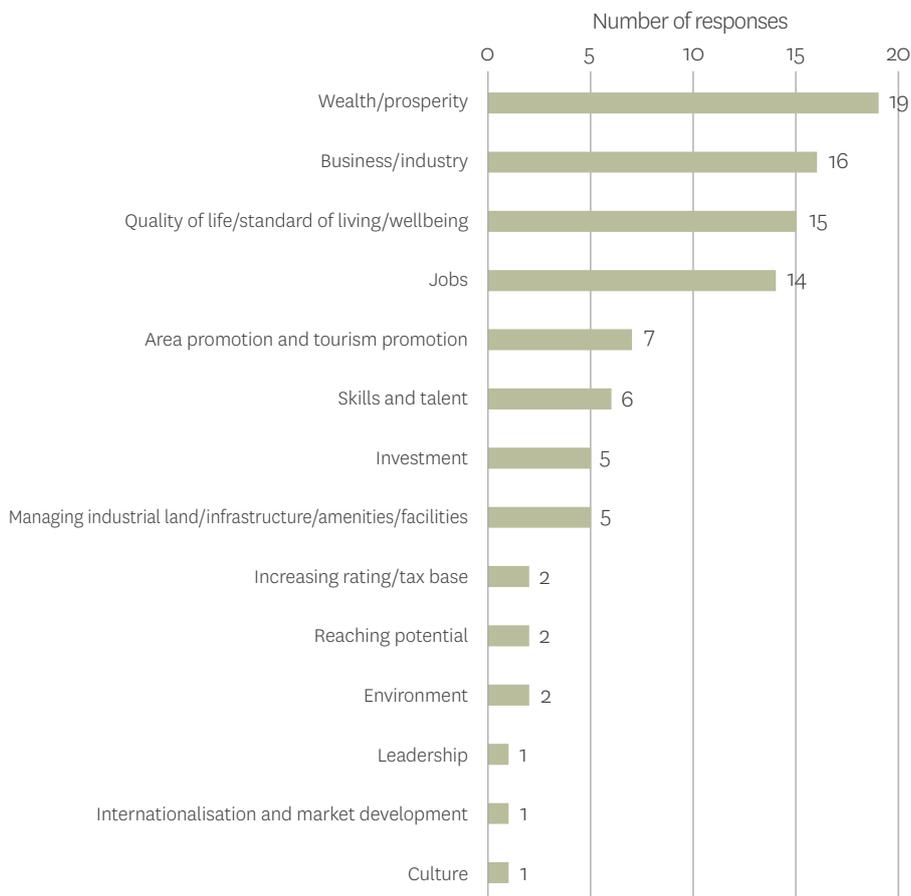


In addition, amongst those councils who did have a specific definition of economic development, the definitions varied widely from council to council. Some provided definitions which included broad action statements or objectives (eg “we facilitate and enable initiatives that boost the region’s economic performance”), while others included community vision statements (eg “creating a better future with vibrant communities and thriving business”).

Within these definitions, councils also mentioned a range of activities to support the wealth and quality of life of their communities, with a focus on business development, attraction and retention, and job growth. Over half of councils mentioned economic wealth or prosperity in their definitions.

This combination of services, objectives and future aspirations in the definitions of economic development reflect a high degree of variation in the ways councils are approaching this area of investment. This may create problems for governance in monitoring and reporting on outcomes from the investments within this activity area.

Figure 3: Definition of economic development



Note: Economic development definitions provided by councils were coded to a range of actions and outcomes as part of the survey. Some definitions were coded to multiple actions and outcomes.

Key questions for discussion

- What does the absence of a definition, or variation in definitions, tell us about local government’s involvement in economic development? Is it an issue?
- Should we have a consistent definition of economic development? What would be the pros and cons of having a more standardised approach?
- Does the lack of definition and variation in activities make it difficult to measure and monitor performance? If yes, why and what could we do differently?
- How does the way that councils are defining economic development services compare to other council provided services?

Economic development related activities

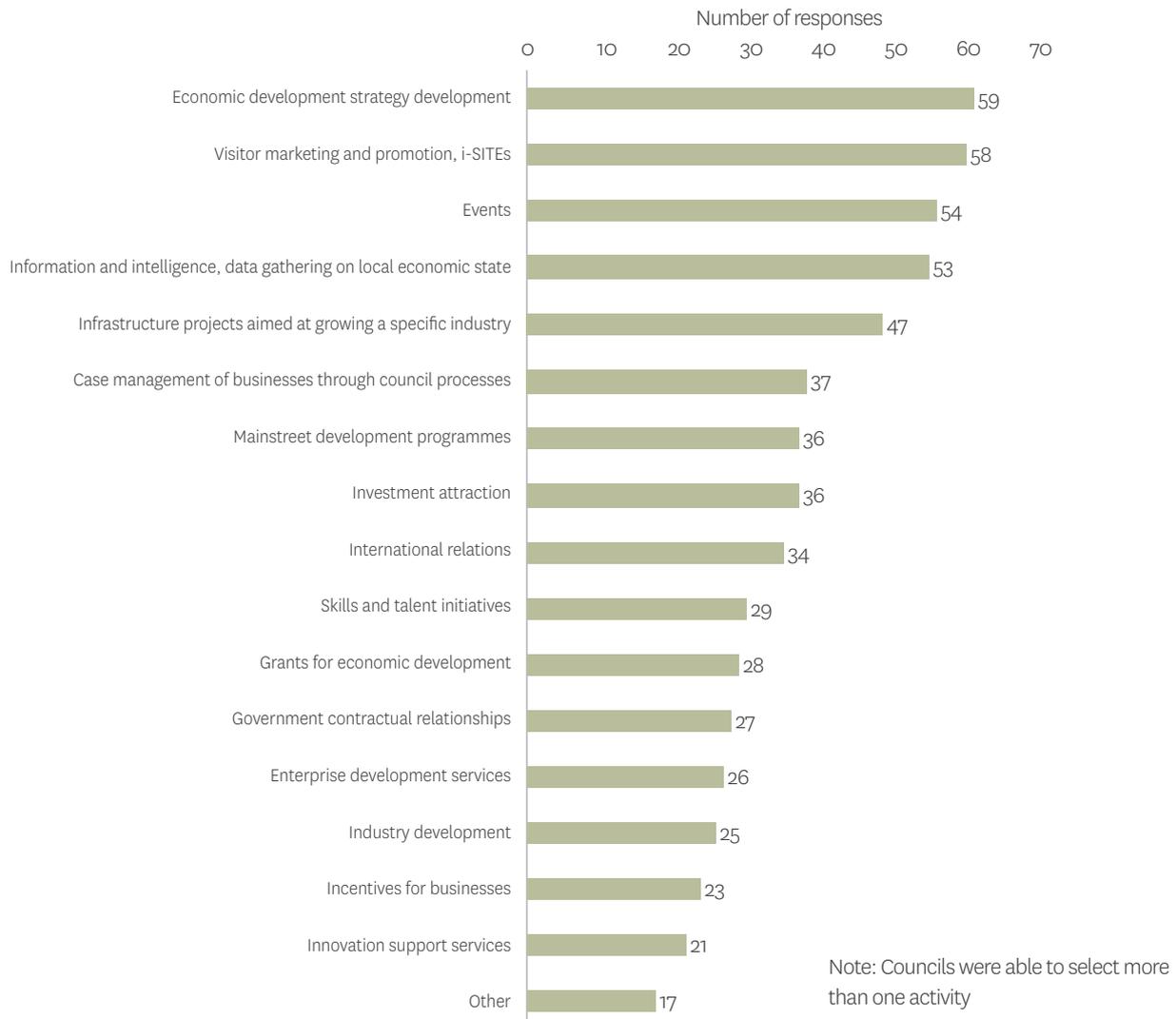
The survey asked councils to describe the range of economic development activities which they provide.

The survey response indicated that there is a wide range of activities which fall under the economic development activity. The most common were the creation of economic development strategies (82 per cent of respondents) and visitor marketing and promotion (81 per cent of respondents). Events, information and intelligence-gathering on local economic conditions and infrastructure projects also featured prominently.

Less common were services designed to support innovation in local communities (for example, incubators, support for prototyping and commercialisation) and incentives for local businesses (such as rates remission and building and resource consent waivers). These were provided by 21 per cent and 23 per cent of councils respectively.

These results indicate that councils have differing views about what makes up the services which support economic development. This variation aligns with the results from the survey questions around the definition, suggesting that some councils may struggle to have a clear understanding of what economic development does or does not entail.

Figure 4: Economic development activities provided for by councils



There is also a question about whether some of these activities delivered under the banner of economic development (such as economic strategy development and mainstreet development programmes) should be considered economic development 'services', or whether they should be part of councils' core services.

For example, it might be more appropriate for economic strategy development to be part of the long term plan process, as opposed to a separate deliverable being run in some cases by external agencies.

It is also worth noting that when asked about their economic development strategy most councils (69 per cent) indicated that they had a strategy in place, while a number of others indicated that they were in the process of developing one.

This contrasts with the fact that only 49 per cent of councils indicated that they had a specific definition of economic development that was documented or widely known.

We would have expected councils to have an economic development strategy which aligns with a clear, well known definition of what that strategy is aiming to achieve.

Key questions for discussion

- What does such a wide variation in economic development activities tell us? Is it positive or negative?
- How do councils go about deciding what economic development services they will provide? Should councils be more proactive in consulting with their business community about issues and gaps where councils should be responding? For example, should councils require a formal mandate from key business leaders before investing in these services? If so, how might a council engage with the business community to achieve this?
- How should councils document interventions (projects and activities) and work programmes under the banner of economic development within planning documents?
- Is it necessary to have a more consistent process of identifying the gap in the market that a council's economic development service should be filling (eg where the private sector isn't able to)? If so, how could this be achieved?
- If a council invests in an economic development strategy how should it align with the council's annual plan and long term plan?

Institutional arrangements and expenditure

The survey also asked councils about their institutional arrangements for managing the economic development work programmes to gain an understanding about service delivery structures used.

The results identified that there are a wide range of institutional arrangements. Most councils reported having in-house economic development expertise located with a single team or unit, or within multiple teams or units. Many indicated that their institutional arrangements for economic development included a regional tourism organisation (RTO), responsible for promoting regions to domestic and international visitors.

Council controlled organisations (CCOs) were also common, along with a variety of other arrangements, including independent trusts, incorporated societies and independent companies.

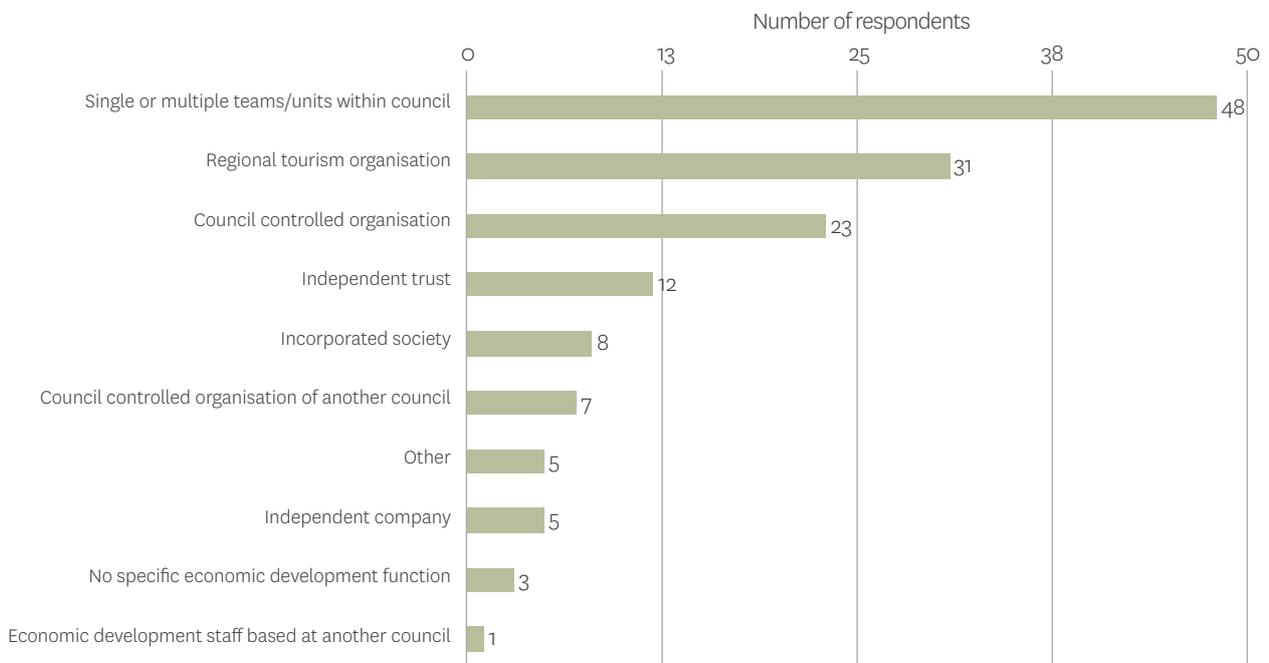
The survey also asked about combinations of institutional arrangements. Councils had a diverse combination of institutional arrangements, with a number of them commonly dividing their responsibilities for economic development between a council and CCO (12 councils had this arrangement), or a council and an RTO (nine councils had this arrangement).

Some of the institutional arrangements used for economic development extend beyond territorial authority boundaries, with some councils hosting their economic development functions with other councils, or the CCOs of other councils.

Given the size of the investments the arrangements appear to be overly complex. The models being used appear to involve a wide variation in reporting and accountability practices.

This diverse range of institutional arrangements is also likely to mean an equally diverse range of reporting and performance monitoring methodologies back into councils. There is an equally variable range of engagement practices with core stakeholders such as businesses, iwi and others in the community.

Figure 5: What are the institutional arrangements of your economic development activities?



This variety of institutional arrangements raises questions about how well communities understand what is happening with their investments. While it likely reflects differences in the nature of the economic opportunities in different regions, as well as historical circumstances, there could be opportunities to establish a more commonly used, consistent and transparent service delivery model.

Given our findings it isn't surprising that the survey found that 47 councils have recently reviewed, or are currently reviewing, their service delivery model for economic development services. Forty seven councils indicated that they have recently made decisions about economic development that will impact on the way it will be delivered in the future. However, a concern may be that these reviews are being performed without guidance or agreement across the sector about what best practice models could look like.

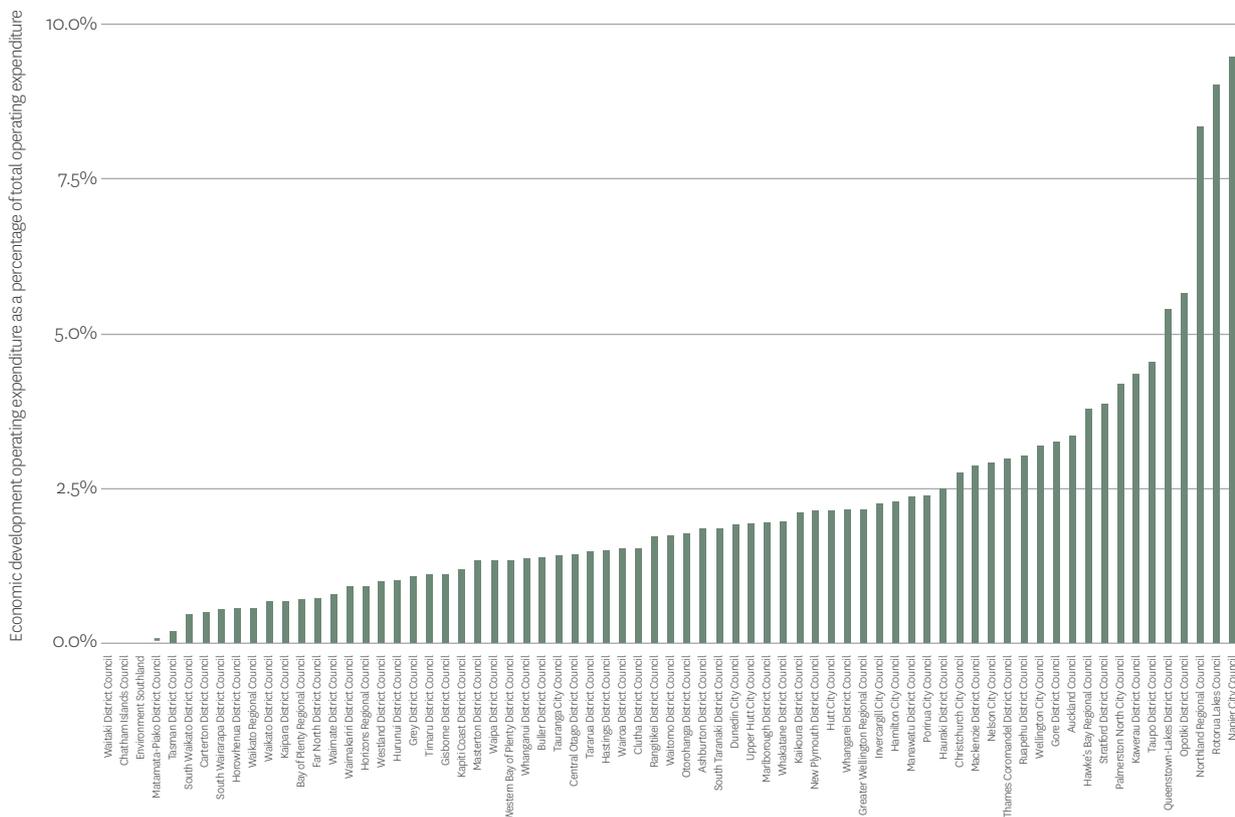
It is unclear whether this represents an unusually high level of change amongst councils. While some of these reviews and changes are being driven by section 17A of the Local Government Act 2002, other council decisions, such as changes in institutional arrangements and the development of new strategies, are also affecting the delivery of these services.

The survey also asked councils to identify how much they expended on economic development services. The survey indicates that in 2014-15 total economic development expenditure comprised 2.6 per cent or \$248 million.¹

It should be noted that, given the undefined nature of services and wide variety of delivery models being funded under the "economic development" banner, any comparisons about a proportion of total spend may not provide an accurate picture. This is particularly important because a council's core business is in the provision of infrastructure (eg roading, three waters, services), and regulations, which, if delivered well, provide the private sector with the stability and certainty to invest. It is this total investment package that ultimately delivers local economic growth outcomes. This also clarifies councils' role in the economic growth of local communities.

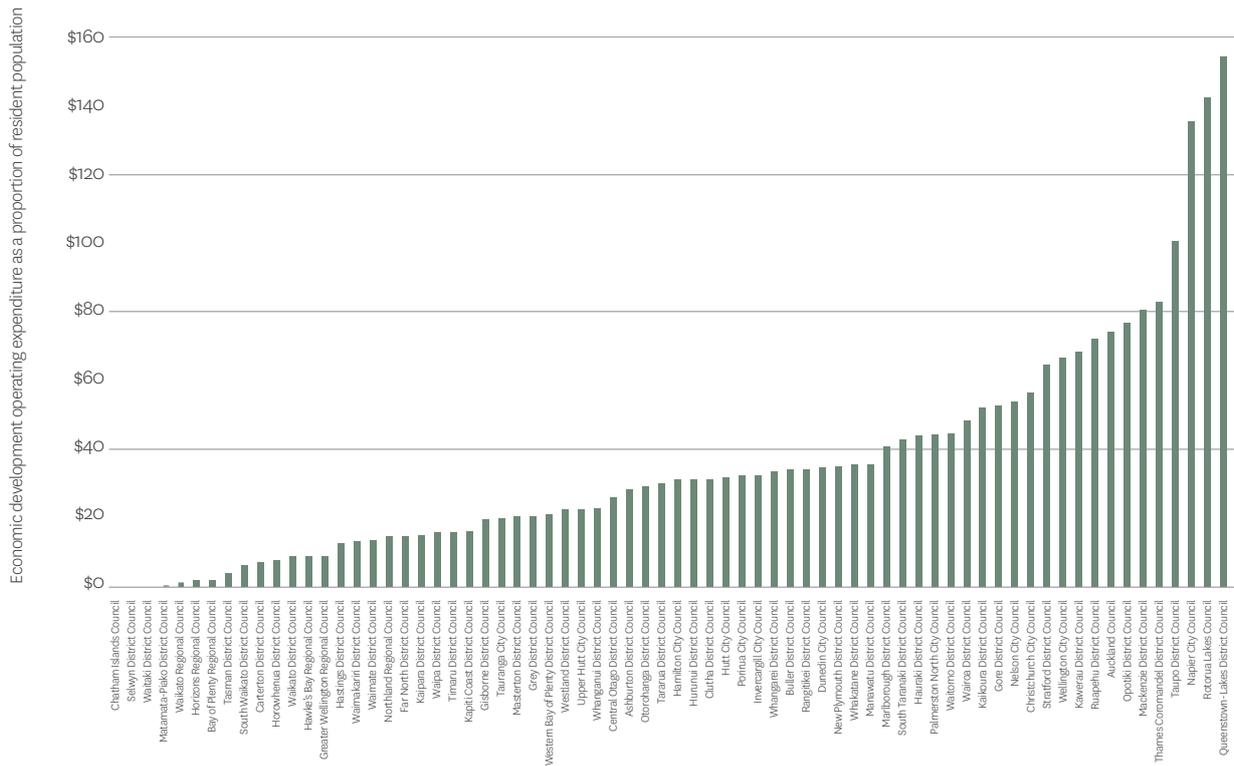
The survey showed that the average expenditure reported on economic development services was 2.1 per cent of councils' total operating expenditure. However, as outlined in figure 6, there was large variation across councils. This reflects the lack of consistency reported earlier.

Figure 6: Council economic development operating expenditure as a proportion of total operating expenditure, 2014-15



¹ It is worth noting that the survey relied on self-reported data for both council expenditure on economic development related services. The self-reported data shows some variation with Statistics New Zealand's Local Authority Financial Statistics.

Figure 7: Council economic development operating expenditure as a proportion of resident population, 2014-15



The survey identifies that the largest proportional expenditure of a council's operating budget on economic development services was 9.4 per cent (see figure 6). Councils in several key tourist destinations have a relatively high proportional spend on economic development, relative to overall operating budget.

Five regional councils recorded no expenditure on "economic development" services which is unsurprising.

The survey also looked at council economic development spending as a proportion of resident population (see figure 7). Again, councils in key tourist destinations tend to spend more on economic development per resident than other councils.

Key questions for discussion

- Does a wide variation in institutional arrangements deliver better transparency and accountability across the sector for this investment? If not, how could this be improved? If yes, why?
- Does the cost of employing a chief executive and management team for CCOs responsible for delivering economic development services represent value for money? Could there be a more cost effective way?
- Do external agencies such as CCOs have an appropriate level of accountability to councils and ratepayers? If not, how could this be improved? Should tourism be serviced differently than other sectors? If not, why not?
- Should there be more consistency in levels of economic development expenditure across councils as a proportion of residents?

Performance measurement – managing for results

An important objective of the survey was to gain an understanding of what measures councils were using to determine the performance of the economic development services that they provide (see figure 8).

Out of the councils that responded, 52 of 69 (75 per cent) indicated that they used long-term outcomes to assess the value or impact of the economic development activities that they fund.

Output reporting was also commonly used.

Medium-term and short-term outcomes were used to a lesser degree. Approximately half of the councils surveyed indicated they did not use these measures.

Measuring the chain of causality from intervention to long-term outcome in economic development is virtually impossible. Therefore, measures which are tied specifically to interventions, such as short or medium-term targets that are quantifiable, are usually better in terms of measuring the effectiveness of a particular intervention or activity. This makes them preferable to long-term outcomes, which can be affected by a range of external factors.

It is encouraging that over half of councils are using short and medium-term outcomes to measure their economic development work.

However, these results could be misleading given the undefined and variable nature of the services. Performance measurement is most useful when it is linked back to a clear understanding of what the specific desired result is from the investment.

Examining how councils measure other activities could reveal further issues with performance measurement in this area. For some services councils use quantifiable output based measures, reporting on, for example, the number of building consents issued or the lengths of roads resurfaced.

However, it is important for councils to reflect on what measurements they can put in place to assure the public that local resources are being used efficiently and effectively.

Councils were also asked about what tools they use to assess the value or impact of their economic development activities (see figure 9).

The most commonly used tool is programme evaluation, with 52 per cent of councils indicating that they use it, with a similar number of councils using economic impact assessments.

Figure 8: Indicators used to assess the value or impact of economic development activities

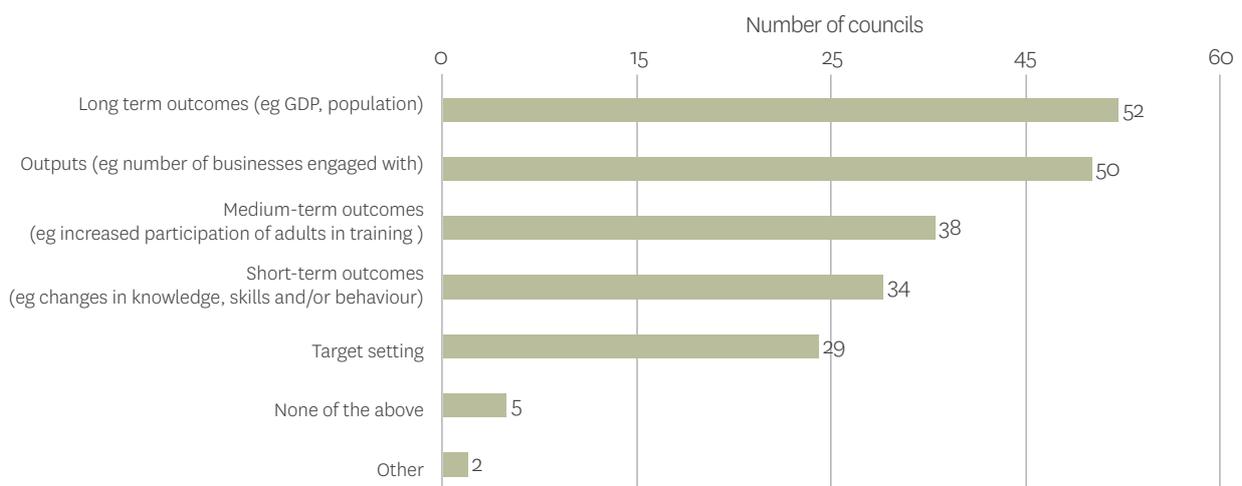
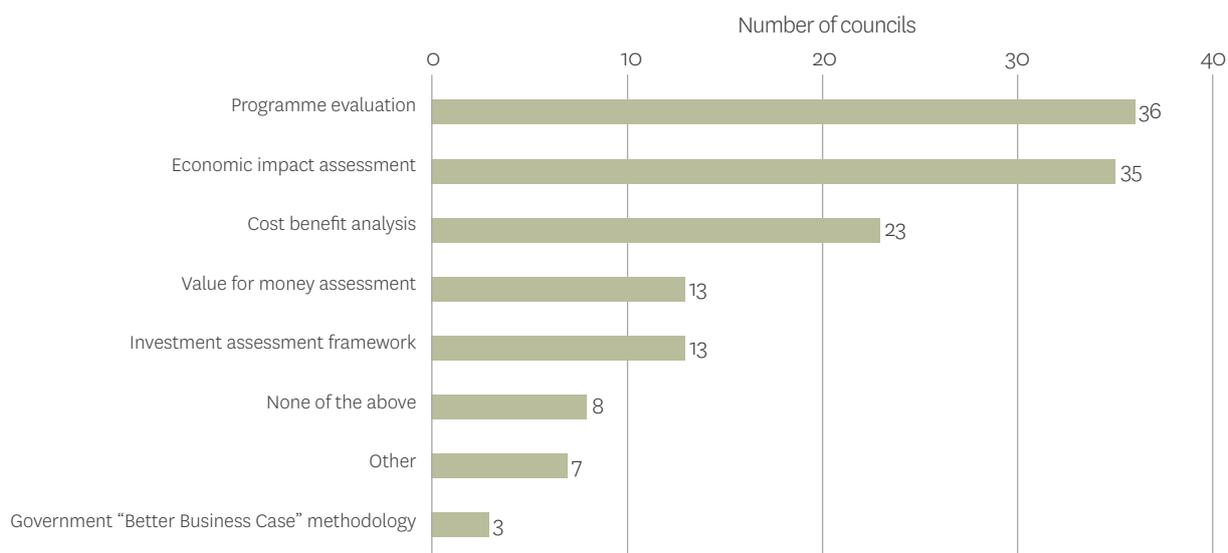


Figure 9: In assessing the value or impact of your economic development activities, which of the following tools do you use?



Key questions for discussion

- What should councillors and the community expect to know about the performance of their economic development investments? Is the current level of accountability and transparency across the sector appropriate?
- What kind of performance measures are required to assure councils and the private sector that money is being used appropriately?
- Does delivery by external agencies provide problems for councillors and the public to understand the value being delivered from investments?

2

Conclusions and next steps

Conclusions and next steps

The survey results have provided a number of useful insights into the way economic development activities are undertaken in the local government sector. LGNZ has summarised eight strategic issues which we would like to engage the sector on.

Key themes	Strategic issues
Definition of “economic development”	Definition of the service is variable and lacking in places which appears to be causing inaccuracies when reporting back on the investment to communities and through the Local Authority Census (LAC);
Economic development related activities	There is a high degree of inconsistency in the activities being undertaken under the economic development banner for a relatively small amount of total local government expenditure (2.6 per cent total);
Institutional arrangements and expenditure	There is a large variation of institutional arrangements for delivering services under the economic development banner, potentially creating an unnecessarily complex system of service delivery;
Performance measurement	There is an over-reliance on long term outcomes (GDP and population) and general lack of sophistication on performance measurement (value of the services being delivered) under the economic development banner;
Engagement with public, business and iwi	Councils are investing significantly in economic development strategies but there is a low level of engagement with the public, business and iwi , weakening partner commitment to deliver strategic actions;
High levels of complexity	The high level of complexity of the New Zealand local government economic development system is inappropriate for what should be a relatively standard approach to intervention;
Governance and decision making	Governance decision making processes are weakened with the high levels of complexity built into the current system. It is difficult for the council and the public to understand and make decisions about the investments in economic development services;
System guidance and future focus	A large proportion of councils are reviewing services without guidance on what should be regarded as best practice in respect of the economic development investment. They are investing in changes to institutional arrangements that represent more of the same. So the system now may not be future-focused (strategic) nor responding to the rapidly changing operating environment.

LGNZ is keen to engage further with the sector on this topic by undertaking a series of regional workshops to explore key aspects of the results of this survey in more detail to understand any strategic issues that might need to be addressed.

Our first two workshops will be held as part of LGNZ’s national conference in Auckland themed “Creating pathways to 2050: liveable spaces & loveable places” We encourage you to participate.

LGNZ will use the results of these workshops to inform a thinkpiece that reports on the research, including workshop discussions, and identifies some innovative and collaborative pathways of how to improve the effectiveness of local government’s role in growing local economies.



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Hawke's Bay.	Hawke's Bay	Masterton.	Rotorua Lakes.	Thames-	Western Bay
Central Otago.	Region.	Matamata-Piako.	Ruapehu.	Coromandel.	of Plenty.
Chatham Islands.	Horowhenua.	Napier.	Selwyn.	Timaru.	Westland.
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