

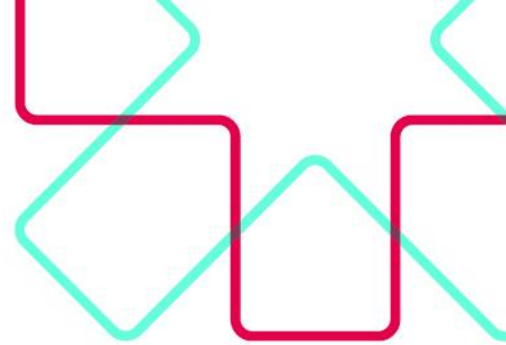
REVIEW OF ECONOMIC DEVELOPMENT ARRANGEMENTS IN NORTHLAND

Final Report

for Local Authorities in Northland - Northland Regional Council,
Far North District Council, Kaipara District Council,
Whangārei District Council

July 2017





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PREFACE

This report has been prepared for local authorities in Northland by Stephen Knuckey from MartinJenkins (Martin, Jenkins & Associates Limited).



EXECUTIVE SUMMARY

What economic development services are being delivered and what investment is being made?

The *main* economic development activities currently being delivered by Northland Inc and Councils are:

- Destination marketing and management (e.g., marketing campaigns and collateral, events support and facilitation)
- Business development and innovation support (e.g., business assessments, facilitation of capability and R&D funding)
- Sector development and investment facilitation support (e.g., industry coalitions, feasibility studies and business cases for sector and investment projects, co-investment in major projects, investment profiling)
- Economic strategy support and economic intelligence (e.g., support for the Tai Tokerau Northland Economic Action Plan (TTNEAP) process, economic trend reports).

Northland Inc's total revenue in 2015/16 was \$2.167 million. NRC provided the bulk of Northland Inc's funding (\$1.625 million or 75 percent). Northland Inc delivers joint investment facilitation services with WDC (which provided around 5 percent of Northland Inc's revenue in 2015/16) and also receives funding from government agencies to deliver national business development programmes and to support the delivery of TTNEAP (12 percent of revenue).

In 2015/16 the Councils' combined investment in economic development was around \$6.54 million. This investment represented around 2.2 percent of total local government operating expenditure in the region and equated to close to \$39 of economic development spend per capita. This is slightly higher than the average level of Council investment in economic development activities across New Zealand (2.1 percent of operating expenditure and \$36 per capita).

The Councils' combined investment in regional destination marketing activities through Northland Inc is, however, relatively low at around \$7 per rateable property and \$4 per capita, compared to an average of \$25 per ratepayer and \$11 per capita across New Zealand.

Are the right economic development activities being delivered? Is there a clear rationale for local government involvement?

Our assessment is that the broad types of economic development activities delivered by Northland Inc and the Councils are consistent with the identified opportunities and needs facing the region and are generally supported by evidence. In addition, there are clear rationales for the Councils in supporting most of the activities that are being delivered and services tend to be appropriately focused on promotion, facilitation, information provision and addressing collective action issues, although the economic benefit rationale for providing funding support to individual businesses through the Investment & Growth Reserve (IGR) is weak.



However, the region does not have an agreed economic development strategy or economic development goals or priorities that would provide clear guidance on the activities that should be delivered in the region. There are relatively few areas of clearly consistent priorities and outcomes across all of the local authority Long-Term Plans and with the TTNEAP. There was consistent feedback provided during this review that Councils and other stakeholders do not regard TTNEAP as a regional plan and that they have not bought into all of the outcomes and actions of the Plan. The TTNEAP process did not involve sufficient engagement with Māori and there is not genuine alignment between TTNEAP and the Tai Tokerau Māori Economic Development Strategy – He Tangata, He Whenua, He Oranga.

This lack of alignment about priorities and outcomes means that it is unlikely that the levels of resource going into each economic development service/activity area are consistent with Councils' or other partners priorities for economic development.

There is also an over-reliance on the formal Statement of Intent process for agreeing on Northland Inc priorities and limited engagement with Councils and other economic development partners and stakeholders when setting Northland Inc priorities. Northland Inc currently has too many objectives, and resources appear to be spread over too many activities in order to achieve all of its objectives.

The process for establishing regional economic development priorities and the mix of activities can be improved by:

- Developing and adopting an overarching regional economic development strategy and plan that all the Councils, Northland Inc, Māori/iwi and key economic support organisations contribute to and buy into.
- Ensuring district-level economic plans and activity-specific strategies (e.g., a visitor and events strategy) are clearly aligned with and effectively sub-sets of the regional strategy and plan.
- Adopting a broader range of mechanisms to discuss and agree on economic development objectives and priorities for Northland Inc each year, such as a strategic workshop with economic development partners and stakeholders, regular meetings between combined Council representatives and Northland Inc, and a Letter of Expectation that sets out combined Council expectations about outputs, outcomes, measurement, reporting and priorities to inform Northland Inc's Statement of Intent.

Are there any gaps or overlaps in services?

There are no major gaps in the types of economic development activities provided by Councils and Northland Inc. Economic development activities supported through the Councils and Northland Inc cover the spectrum of economic development services offered in most other regions. There is also little overlap in economic development activities between Northland Inc and the Councils or between the Councils. Positively there are several examples of joint economic development work across the organisations. There are generally good working relationships between Councils, Northland Inc and other providers of economic development activities such as central government agencies and industry groups.

There are four areas where the current level of emphasis does not appear to be sufficient based on identified opportunities, comparisons with other regions and stakeholder feedback:



- Regional destination marketing – a major economic opportunity identified through research and the Tai Tokerau Northland Regional Growth Study was the need for improved destination marketing activities but it does not appear that there is sufficient resources going into this area at a regional level. There are also differences in views about whether Northland Inc, Councils or local promotion organisations are best placed to deliver domestic-focused destination marketing activities.
- Regional events – although district events are well supported, Northland may be missing opportunities by not considering how unique local events can be scaled up and how to attract additional events into the region.
- Māori/iwi economic development – the implementation of He Tangata has not been well supported and, although Northland Inc has provided support for Māori businesses and several projects with Māori, efforts are likely to have a greater chance of success through establishing a partnership approach with Māori/iwi/hapū organisations to set priorities and mechanisms for support.
- Reach of services into the Far North and Kaipara – it has been difficult for Northland Inc to ensure reach of some services, such as business development and investment facilitation activities, into some parts of the region because of the distances and travel time required to engage businesses in areas beyond Whangārei.

There is no evidence that Northland Inc or the Councils are duplicating or crowding out the services of other organisations. Several organisations indicated that they would welcome the opportunity to provide input into strategy and priority setting in future.

Are existing services effective and providing value for money?

Northland Inc and Councils are delivering a large range of outputs and reaching a large number of organisations across economic development activities and are generally meeting their respective performance targets. However, key performance measures should be reviewed as they tend to either focus on the quantity of outputs or longer-term outcomes that are difficult to influence, rather than intermediate outcomes or the quality of outputs. Current measures will be of limited use in assessing performance and making resource decisions.

As is common with economic development activities across regions, there is limited hard information on the impact of these activities in Northland apart from some forms of business development support and district events. There has not been any formal evaluation of economic development activities beyond the national programmes that Northland Inc facilitates in the region.

Although we cannot make a definitive assessment due to the limited evidence available, our judgement is that economic development activities are generally effective and that the benefits generated by the activities are likely to outweigh the costs. This is on the basis that:

- Client satisfaction with Northland Inc's business development activities is high.
- There are examples of businesses that have benefited from facilitated access to business development services in the region and a relatively high proportion of businesses accessing Northland Inc facilitated support indicate that it has helped their business, backed up by national evidence that capability vouchers and R&D funding helps to improve business practices and performance.



- Businesses and other organisations co-invest funding, time and resources in business development, destination marketing and sector development initiatives which suggests they are receiving value from those activities.
- The industry representatives and other stakeholders we interviewed were generally positive about the advice, information and facilitation support that Northland Inc provided and indicated that collaborative work through industry coalitions would not have occurred without Northland Inc's support.
- Events supported by district councils are achieving good outcomes in terms of visitor numbers from outside the district (and in some cases region) and spend.
- i-SITEs in Northland are meeting their performance expectations, including quality of service and customer satisfaction, and a national study suggests that they are facilitating relatively high levels of visitor expenditure compared to i-SITEs in other regions.
- Tourism product and sector development projects have leveraged considerable funding from non-local government organisations.
- Estimates of the impact of tourism product and sector development projects supported through the IGR suggest that several will make a large contribution to jobs and economic value.
- A significant number of actions have been progressed through the TTNEAP. There has been genuine involvement by many stakeholders in the implementation of actions and the Working Group arrangement has improved the coordination of activity across local government and central government.

We have also identified areas where the effectiveness of activities could be improved or where further work is required:

- Despite Northland Inc's business development services having high levels of customer satisfaction, Northland Inc's satisfaction and net promoter scores have been lower than several other Regional Partners, which suggests there is room to improve client engagement.
- Regional marketing activities and district marketing activities are not as well coordinated as they could be and there are perceptions that current regional marketing efforts are Whangārei-centred and not effective for the Bay of Islands.
- There is not a consistent approach to estimating event impacts pre-event and event outcomes post-event. The current emphasis on district level events is unlikely to be generating the level of benefit that would be possible from supporting regional events that attract visitors from outside the region.
- The current 'landing pad' initiative does not yet appear to be focused on high quality investment opportunities and will need to include investor profiling, investment diagnosis and after care in addition to lead generation and promotion to be effective.
- The quality of cases for local government investment in IGR supported tourism product and sector development projects has been variable. Many cases have not clearly identified the rationale for local government funding, and the expected broader benefits and impacts have not been well articulated for several projects.
- There has not been a clear prioritisation of tourism product and sector development projects through the IGR process which means that Northland Inc and Council resources are being stretched and that there will be limited funding available in out-years for these projects.



- The transaction costs involved in IGR assessment processes for small proposals, such as feasibility studies and business cases, are too high given that they have to go through both the Northland Inc Board and NRC. In some cases there have been very long timeframes involved in making decisions on applications.
- The current TTNEAP and its support arrangements do not reflect best practice. There has not been sufficient prioritisation of actions and there has not been clear leadership of the Plan.

In the absence of formal evaluation evidence, there are no obvious areas of economic development services that should be discontinued. There is also no evidence of major areas of inefficiency in Northland Inc's delivery of services. Northland Inc's budget and costs have increased over the last three years but so has its level of outputs. In addition, Northland Inc's proportion of staff costs to total expenditure is moderate compared to other economic development agencies. However, some efficiencies will be possible by improving the way that IGR applications are processed. There are also potential opportunities to get greater leverage from a broader mix of funding partners, including exploring joint resourcing approaches with KDC, FNDC and local promotion groups.

In order to improve the prioritisation of investment in economic development in future and better assess outcomes being delivered, we recommend that Councils and Northland Inc develop an output and outcome framework that sets out the intervention logic between the inputs being used, the activities being purchased and delivered, and the desired short, medium and longer-term outcomes. This will also help the organisations to develop a plan for evaluating these activities.

How should the services be delivered?

Economic development services that are targeted at a common client base, aimed at addressing similar issues and opportunities and achieving common outcomes are typically delivered together in New Zealand to ensure efficiency and effectiveness. Hence, like Northland Inc, several regional economic development agencies in New Zealand deliver a full spectrum of services including business development support, sector development support, and regional destination marketing and management activities. There are generally not good reasons for splitting services across different organisations.

Most economic development activities are also not core to the effective functioning of Councils, nor do they require frequent Council decision-making. Indeed, in several cases, advice on the services requires commercial experience. Moreover, businesses may be less willing to engage directly with a Council than an arms-length entity due to concerns about confidentiality and impartiality (even if this is more about perception than reality). As such, most economic development activities should be delivered arms-length from Councils. The exceptions tend to be strategy development and economic intelligence and analysis, which often do require close integration with other Council activities.

These factors, the identified areas for improving economic development activities, and an assessment of practical delivery options against a range of criteria suggest that the best approach for enhancing the existing model is:

- For Northland Inc to become a jointly-owned CCO, with joint shareholding across the four Councils and a Joint Committee to provide direction and to oversee Northland Inc's performance and resourcing.



- To extend the delivery of Northland Inc across districts through a hub and spoke delivery model, for example, by having representation and joint resourcing arrangements with the district Councils and potentially the Bay of Islands Marketing Group and/or other promotion groups.
- To increase Northland Inc's destination marketing activity relative to other activities, including adding the current three-year regional promotion budget (funded through the IGR) into their baseline and identifying opportunities for reallocating funding from other activities. The increase in activity should include the introduction of a regional events facilitation and marketing role. The activity should be guided by the development of a regional visitor and events strategy.
- To improve engagement between Northland Inc, Councils and Māori/iwi organisations on economic development priorities and services. This could also include a joint servicing arrangement with Iwi Chief Executives and/or other Māori organisations.

These delivery improvements should be implemented in conjunction with:

- An enhanced approach for determining economic development priorities between Councils and Northland Inc, for example through an annual strategy session and workshops between Northland Inc and the proposed Joint Committee of Councils.
- Improved reporting on economic development activities through the introduction of the proposed output and outcome framework and monitoring the impacts that key activities are having on clients and projects.

Key benefits associated with the recommended arrangements include:

- Greater alignment of economic development priorities and outcomes across Council/s and Northland Inc and hence better opportunity to leverage the resources of all to achieve common goals.
- Relatively little disruption to Northland Inc or Council operations and delivery as a result of implementing changes.
- Reduced compliance costs for Northland in reporting separately to Councils.
- Improved measurement of economic development activity performance and impacts and subsequently a better ability to make appropriate changes to resource and investment decisions.
- Increased flexibility/agility by being able to make decisions about changes to activities across Councils and Northland Inc through the Joint Committee structure, which would have previously necessitated a reliance on a larger number of decision-making mechanisms across Councils.
- Increased opportunity to identify efficiencies in delivering activities across all Councils and Northland Inc as a result of increased engagement.

Key costs and risks associated with the recommended arrangements include:

- An increase in Council staff and Councillor time required to develop and agree on: priorities with Northland Inc; the Shareholders Agreement; the Joint Committee role and structure; and the outcome and output framework. Some Councils (e.g., KDC and FNDC) will now be expected to participate in additional meetings and workshops with Northland Inc.
- An increase in Northland Inc staff and Board time required to help develop the outcome and output framework, improve reporting and participate in workshops with the Councils. This may divert resources away from delivery.



- Time and costs associated with public consultation on the changes to the CCO arrangements. This can be minimised by utilising existing consultation processes, such as those associated with the update of the LTPs and Annual Plans.
- Costs involved in extending Northland Inc's services into districts (e.g., set-up and coordination costs) although some costs could be minimised by sharing overheads with others.
- A risk that Councils will attempt to influence operational rather than strategic matters through the new engagement/communication mechanisms.

In our view these costs and risks are manageable and will not outweigh the benefits of the proposed arrangements. We consider that the proposed changes should be cost neutral in the medium-term.

In addition to changing delivery arrangements, two other areas of economic development activity need to be enhanced to improve alignment and ensure sufficient resourcing:

1 The operation of the Investment & Growth Reserve, including:

- Focusing the fund on impact investments (and associated feasibility studies and business cases) as the economic development rationales and benefits from commercial projects are limited.
- Introducing guidelines and templates for feasibility studies and businesses cases to ensure that additional and wider economic benefits are clearly assessed and specified
- Prioritising the pipeline of projects to focus on those with the greatest potential impact and public benefits, aligned with regional economic development priorities (once determined)
- Enabling the Northland Inc Board to make decisions on feasibility and business case applications, up to an agreed maximum (e.g., \$100,000), with NRC officials providing advice as part of the process.

2 TTNEAP and its support arrangements:

- Revamping TTNEAP to become a regional economic development strategy and plan, with agreed priority areas, goals and outcomes and which is aligned with Northland Forward Together, He Tangata, Council Plan, Northland Inc priorities and relevant central government plans. The aim should be for the strategy and plan to be more aspirational about the future of the region and to provide greater direction about how economic development activities will support this future.
- Revamping the TTNEAP Advisory Group so that it provides direction and decision-making on priorities and involves stronger business leadership and a genuine partnership between local government, Māori/iwi, the business community and central government.
- Holding strategic workshops between Councils, Northland Inc, business leaders, Māori/iwi leaders and other major economic development partners to discuss and update the priorities and Plan annually.



INTRODUCTION

In January 2017, Northland Regional Council (NRC), in partnership with Far North District Council (FNDC), Kaipara District Council (KDC) and Whangārei District Council (WDC), commissioned a review of the arrangements for delivering economic development activities and services in Northland. In particular, the Council wanted to understand:

- strengths and weaknesses in the current arrangements, including services, governance, reporting and accountability and funding mechanisms
- opportunities to improve the arrangements, in particular to determine what is the most appropriate and cost-effective approach to deliver the required services.

The review stemmed from the Local Government Act (2002) s17A requirement to review the cost effectiveness of Council arrangements for delivering services on a periodic basis. Economic development activities delivered through Northland Inc (or its predecessors) and the Councils have not been reviewed for several years and it is important to ensure that these services remain relevant and are having the desired outcomes, consistent with the Councils' long-term goals. Central government is also placing a greater emphasis on regional development and the ability to partner with capable local agencies to deliver national services.

In addition, as articulated in the Tai Tokerau Northland Regional Growth Study, although the region has several opportunities for growth in tourism, specialised manufacturing and primary industries, it has faced difficulties in the past in finding sufficient workers to achieve this growth and in overcoming scale and connectivity constraints. It is important to ensure that economic development services are capable of appropriately assisting industry and the community to overcome these constraints and to capitalise on the region's advantages such as its natural resources, growing Māori participation in the economy, and the Port. The Tai Tokerau Northland Economic Action Plan sets a challenging array of actions for the region and requires arrangements that can effectively coordinate resources across local government, central government, iwi and the private sector.

Detailed terms of reference

More specifically, in commissioning this review, the Councils were seeking an assessment of:

- a) The role of local government in economic development in the region, based on an analysis of challenges and opportunities facing the Northland economy, rationales for local government activities in economic development, and legislative and central government expectations.
- b) Economic development activities, identifying strengths, weaknesses and any relevant gaps in the activities, based on:
 - the Councils' objectives, priorities and performance targets
 - identifying any overlaps and/or duplication across Councils' and Northland Inc's activities and with other relevant agencies
 - an assessment of the efficiency of current arrangements and the benefits of the activities versus costs



- an assessment of the overall effectiveness of the current delivery models of the four Councils, including governance arrangements, funding arrangements and current economic development reporting and accountability mechanisms.
- c) Options for future economic development delivery arrangements, based on clear criteria, and recommendations for any changes in functions, form and funding.

Scope

The review was primarily focused on

- 1 the delivery of direct economic development services and activities in the Northland region
 - 2 regional economic development implementation support
- as delivered by Northland Inc, NRC, FNDC, WDC and KDC.

Direct economic development services and activities refers to:

- Business development activities, such as business information and referral services, business capability support
- Skills building, attraction and retention initiatives
- Innovation, commercialisation and R&D support
- Investment promotion and attraction
- Destination marketing and management and events
- Sector development initiatives and cluster facilitation
- Economic strategy development, intelligence and monitoring.

The Councils also asked us to look at the operation of the Investment & Growth Reserve (IGR) as part of these activities.

Regional economic development implementation support refers to regional economic strategy/action plan programme management, coordination, communications, monitoring and reporting (i.e., largely the activities involved in supporting and implementing the Tai Tokerau Northland Economic Action Plan).

Approach

Our approach to the review involved three main phases and associated analysis, reflecting the requirements of a Local Government Act (2002) s17A review¹:

¹ See, for example, SOLGM (2015). Reviews should include consideration of: the present arrangements (what is being delivered, the rationale for service provision, service performance and costs); identification of delivery options, including delivery by a CCO either wholly owned by the Council or partly owned by the Council, delivery through a contracted private or community sector agency, funding and governance via a joint Council committee, and other practical options; and analysis of options including feasibility, community views and preferences, effectiveness and costs.



1. Documentation review

Our initial review of documentation was focused on identifying the economic development services and activities that should be delivered and the outcomes that are being sought, the services currently being delivered and initial information on reach and impact, and key questions to obtain further information on potential gaps, overlaps, issues and opportunities.

Our review of documentation included:

- A recap of relevant research and literature on the role of local government in economic development. This included previous analysis we have undertaken for Auckland and Marlborough Councils on local government's role in economic development² (which were based on wide-ranging national and international reviews of local government roles), LGNZ's position papers on the roles of local government in supporting economic growth and on the implications of the Local Government Act review, and national policy and positions papers on the role of government in providing industry and regional development support.
- All strategy, policy and accountability documentation that guide the economic development objectives and services of the four Councils and Northland Inc. This included the Tai Tokerau Northland Economic Action Plan, the Tai Tokerau Māori Growth Strategy, the Far North Economic Action Plan, the Whangārei District Growth Strategy, Council Long-Term and Annual Plans, and Northland Inc's Statement of Intent.
- Research and documentation that reports on monitoring and the impact of economic development activities and services, including Northland Inc's reporting to Councils, client survey results, Council annual reports and Council Committee reports, and assessments of major initiatives.
- Documentation on applications for NRC's Investment & Growth Reserve and reporting on projects that were funded through this Reserve.
- Reports on the regional economy and industry performance. This was to enable us to assess whether services have been focused in the right areas to address key constraints in the economy or to leverage major opportunities.

We also reviewed research on services and arrangements offered in other regions, and evaluations that are available nationally on the impact of different types of economic development services.

2. Interviews

To supplement the documentation review, we also met with and/or interviewed:

- The governance of NRC, WDC and FNDC
- The chief executives and officials from NRC, WDC, FNDC and KDC
- Northland Inc Board and staff members
- NRC Māori Advisory Committee and the Iwi CEOs Forum

² MartinJenkins (2010), *Briefing on Economic Wellbeing*. Final Report for the new Auckland Council; MartinJenkins (2015). *An Overview of Local Government and Economic Development*. Report for the Marlborough District Council.



- The Tai Tokerau Northland Economic Action Plan (TTNEAP) Advisory Group and Working Group
- National economic development partners that work with Councils and Northland Inc such as New Zealand Trade and Enterprise, the Ministry of Business, Innovation and Employment, Ministry of Social Development and New Zealand Transport Agency
- Representatives from key industry groups and organisations in the region, such as the Chamber of Commerce, Bay of Islands Marketing Group, Education Coalition, Food and Beverage Coalition, Agricultural Forum, Northland Wood Council
- Organisations that play a key role in economic development in the region, such as Far North Holdings, Top Energy, Northport, NorthTec
- A selection of businesses.

Questions were based on the initial findings of the documentation review and our analytical framework (see *Analysis* below).

3. Analysis

The analysis covered the scope for review as outlined in the terms of reference. Our approach to addressing the terms of reference focused on four major issues and related questions:

1. **Rationale and focus - are the right economic development services being delivered?**

Assessing this involved consideration of economic and industry trends in the region; key issues and opportunities identified by existing strategies and plans; analysis of the role of local government in economic development; and Councils' desired objectives and priorities for economic development. It included an assessment of:

a. *What activities/services should be delivered?*

- Are existing services/activities based on addressing clear and well-evidenced problems and opportunities for the region? Are existing services consistent with Councils' goals and priorities?
- What have Councils committed to purchasing?
- Are the problems/opportunities that economic development activities and investment are designed to address still as relevant or require the same emphasis? Are there emerging trends that demand a change in orientation?
- How do Councils' influence the prioritisation and delivery of economic development activities and services? How well are the existing mechanisms working? How do these compare to mechanisms used in other regions?
- Is there a clear rationale and role for local government in supporting the existing economic development activities/services?

b. *Are there any gaps in services or areas for improvement?*

- What activities and services are currently being delivered? How do these match against the activities and services that should be delivered (as determined above)? If any services are not being delivered, why not?



- ii. How do economic development activities and services in the region compare to other regions? Are there any major differences? If so, why?
 - iii. Is there any overlap or gaps in economic development activities between Councils or between Northland Inc and Councils?
 - iv. Are economic development activities being developed and implemented in coordination with other organisations delivering related services?
2. **Effectiveness and efficiency – are existing services being implemented appropriately, having the desired impact and providing value for money?** This included an assessment of:
- a. ***Are sufficient outputs being delivered across the activities and services? Could delivery be improved?***
 - i. How many activities are being provided or supported? How many participants are being reached overall? How has this evolved over time?
 - ii. How are projects and clients targeted? Are there any barriers to different groups participating?
 - iii. How satisfied are participants with the quality, timeliness and relevance of activities to their needs and the processes to secure support? Are their expectations being met?
 - iv. Is there any overlap of economic development services across the Councils and across Councils and Northland Inc?
 - v. What relationships exist with partner organisations? How well are services being developed and delivered in coordination with other organisations delivering similar services?
 - vi. How are activities and services monitored and reported on? How is this information used to improve delivery?
 - b. ***Are activities and services being delivered efficiently?***
 - i. How much funding, time and associated costs are being invested in different activities? By Councils? By Partner agencies? By participants?
 - ii. How have the costs of different activities and services changed over time? Have there been any major unplanned or unexplained variations in costs?
 - iii. How do participants rate the compliance costs associated with services?
 - iv. Are the costs involved in delivering the activities and services appropriate relative to the levels of support and expected benefits? (e.g., lower costs for those activities that provide relatively little support)? If not, how can these costs be reduced?
 - v. How does the reach of activities, given the level of investment, compare to other regions?
 - vi. Could activities and services be delivered more efficiently by other means? Is there potential to obtain a higher level of contribution from industry, or existing or potential partners?
 - c. ***What are the outcomes and benefits from economic development activities and services?***



- i. What is known about the impact and effectiveness of existing activities and services?
- ii. Is Northland Inc meeting partners' (e.g., NZTE, Callaghan Innovation) performance expectations?
- iii. Are activities and services resulting in benefits to clients, i.e., are they improving business or industry access to information, expertise and networks? Are they encouraging new and different behaviours in target business, industries or markets? Is there any information about improved business or industry performance resulting from services?
- iv. What are the broader economic benefits resulting from the services (e.g., improved linkages with other markets, improved profile of the region etc.)?
- v. Are there any barriers that are preventing outcomes being achieved? How could these be addressed?
- vi. Have there been any unintended outcomes from activities and services?
- vii. Are activities catalysing private sector and non-government activity where appropriate and avoiding crowding out?
- viii. What is the estimated overall benefit of the activities and services compared to costs?
- ix. What would have likely happened without Council support?

3. **Opportunities for improving delivery – how should the activities (including any areas of improvement) be delivered and supported in future?** In order to determine the appropriate delivery arrangements, we considered the following questions:

a. Do the existing arrangements need to change?

Given the desired services and identified areas of improvement:

- i. Which activities and services are best delivered together?
- ii. Are different services best delivered in-house (in Council) or independently (or somewhere along the spectrum)?
 - Do decisions on these services need to be made close to the Council or at arms-length?
- iii. Should the level and sources of funding for economic development services change?
 - Is the proportion of funding obtained from different Councils or partners appropriate given the reach and impacts of services?
 - Is the balance of public versus private investment appropriate?

b. What is the appropriate set of arrangements for future delivery?

- i. What governance, delivery and reporting arrangements are effective and efficient options for delivering the activities?
- ii. What are the pros and cons of different options?
- iii. What is the recommended option for delivering economic development activities and why?



- iv. What advantages (including efficiencies) would be possible from the recommended set of arrangements?
 - v. What are the major risks involved in implementing the new arrangements that would need to be managed?
4. **Implementation: How could the recommended set of arrangements be implemented (if changes are required)?** The prior analysis will have identified the appropriate mix of services and the most effective and efficient model for delivery. To determine how this approach should be implemented, the following have been considered:
- a. Are there any constraints to making improvements?*
 - b. What will be the broad impacts of making changes?*
 - c. How could improvements be implemented?*
 - d. What consultation will be required to finalise the approach?*

After assessing the current situation and providing an overview of economic development activities in the region, the structure of this report follows the analytical questions above. Specific questions raised in the terms of reference are covered throughout the analysis.



CURRENT SITUATION

Economic development services and investment in Northland

Northland Inc

Direct regional economic development services and activities in Northland are delivered primarily through Northland Inc, with district-level services also delivered by Councils.

Northland Inc is a CCO of Northland Regional Council. A summary of the structure, objectives and resourcing associated with Northland Inc is provided in Table 1.

Table 1. Key elements of Northland Inc

	Description
Structure and governance	<p>Council controlled organisation of Northland Regional Council (a limited liability company, designated as a public benefit entity).</p> <p>Established as at 1 July 2012, effectively merging the functions of Enterprise Northland and Destination Northland. The two agencies were previously managed by the Northland Regional Council Community Trust.</p> <p>Board of 5 appointed by Northland Regional Council.</p>
Purpose	<p>Northland Inc's vision is for Northland to be one of the most prosperous regions in New Zealand delivering employment and business opportunities for locals in a fair and equitable society and a healthy and productive environment.</p> <p>Its mission is to strengthen, diversify and grow the Northland economy</p>
Key objectives	<ol style="list-style-type: none">1. Successfully promote Northland as a place to live, work, invest and visit2. Facilitate and support the implementation of the Tai Tokerau Northland Economic Action Plan3. Promote the establishment and development of infrastructure that underpins economic growth4. Leverage Northland's proximity to Auckland5. Communicate Northland's economic development successes to internal and external stakeholders to build confidence in the Northland economy6. Promote economic development opportunities which lift local economies, provide employment and increase incomes7. Provide sound advice to the NRC, Territorial Authorities and Government on strategy, economic trends and economic development opportunities in Northland8. Provide sound advice to the NRC about investment opportunities for Northland that provide a return for council funds and protect shareholder interests9. Leverage NRC's Investment and Growth Reserve to attract investment into Northland



	Description	
	10. Facilitate Iwi, Hapū, Whanau, Ahu Whenua Trusts or other Māori organisations to create employment opportunities for Northland	
	11. Facilitate business support for Northland firms to build business capability and capacity and promote capital investment, research and development	
	12. Establish a suite of capital assistance and business investment partners for Northland entrepreneurs and firms	
	13. Establish a high performing innovation ecosystem to support innovation and create new businesses	
Staff	13 FTEs (12 full-time, 2 part-time)	
Operational revenue	2014/15	2015/16
	Total revenue: \$1,950,505	Total Revenue: \$2,167,054
	Sources of funding included:	Sources of funding included:
	<ul style="list-style-type: none"> \$1,370,559 – Northland Regional Council (included \$1.15m operating and \$220,559 for other services (70 percent)) \$105,000 – Whangārei District Council (5.4 percent) \$230,000 – NZTE and Callaghan Innovation (11.8 percent) 	<ul style="list-style-type: none"> \$1,624,728 – Northland Regional Council (included \$1.171m operating and \$304,988 for other services – 75 percent) \$105,000 – Whangārei District Council (4.8 percent) \$230,000 – NZTE and Callaghan Innovation (10.6 percent) \$30,000 – MBIE (1.4 percent)

Source: Annual reports, Statements of Intent

Total Council investment in economic development activities through Northland Inc was around \$1.73 million in 2015/16, or 80 percent of Northland Inc's revenue. Central government was the next largest contributor, representing around 12 percent of revenue. The remainder was from private and non-government sources (e.g., sales revenue from visitor guide advertising).

In terms of the proportion of investment currently going into different types of activities (including staff and overhead costs), the *main* economic development services currently being delivered through Northland Inc are:

- Destination marketing & management – about 34 percent of total investment (13 percent of the total investment is currently funded from the IGR for regional promotions over 2015-2017).
- Business development and innovation support – around 27 percent of investment
- Sector development and investment facilitation support – 23 percent
- Economic strategy support and economic intelligence – 14 percent.

Very little is being invested in skills building, attraction and retention initiatives (about 1 percent of the budget).

Table 2 provides a summary of priorities for and resourcing of economic development services and activities across the four councils.



Table 2. Council economic development priorities and resourcing

	Northland Regional Council	Far North District Council	Whangārei District Council	Kaipara District Council
Key priorities	<p>Investing in economic development projects and ventures within Northland to increase Northland's economic performance.</p> <p>Tracking regional economic performance and trends.</p> <p>Building a business-friendly council environment.</p>	<p>Pursuing funding/investment opportunities</p> <p>Supporting new business opportunities</p> <p>Identifying Council's role in and working with partners on projects and actions identified in the Regional Growth Strategy and the Economic Growth Strategy for the Tai Tokerau Māori Economy</p> <p>Supporting Māori land development initiatives in Te Tai Tokerau</p> <p>Working with business associations and other key networks including programmes such as sister cities and the Mayor's Taskforce for Jobs</p> <p>Working with others to improve skills and capacity</p> <p>Facilitating initiatives to address local inhibitors that impact on business and industry development and growth</p> <p>Marketing the Far North to visitors and potential investors</p> <p>Supporting a balanced portfolio of events throughout the district.</p>	<p>Attracting events and increased visitor numbers to support our economy by enhancing revenue streams, including spending from outside the District</p> <p>Promoting and leveraging opportunities that arise from the roll out of ultra-fast broadband</p> <p>Providing information to, liaising with, and collaborating when required with external organisations and bodies in regard to economic development and employment growth</p> <p>Liaising and collaborating with local authorities in Auckland, Hamilton, and Tauranga regarding inter-relationships between councils in the Upper North Island Strategic Alliance (UNISA)</p> <p>Consulting with, and facilitating participation of, local iwi and hapū in initiatives relating to economic development, particularly development on Māori land.</p>	<p>Providing a simple and efficient regulatory environment</p> <p>Providing the necessary infrastructure for business</p> <p>Promoting the District</p> <p>Contributing to regional economic forums and initiatives</p> <p>Supporting local economic development outcomes through Community Planning</p>
FTEs	0.5 FTEs	2.5 FTEs	1.5 FTEs*	0 FTEs
Funding (2015)	\$2,452,000	\$904,000	\$2,871,000	\$315,000

Source: Long-term plans; LGNZ survey conducted by MartinJenkins. * This was WDC's response to the survey but our assessment suggests that it is more likely to be around 5 FTEs.

In 2015, the Councils' combined investment in economic development was around \$6.54 million. It was not possible to determine how the Council investment is broken down into the range of types of economic development activities (e.g., staff members may have multiple roles across economic development and other activities), although Councils have provided estimates of the proportion of



investment in destination market (and event) related activities. In 2015, the estimated proportion of economic development spend that Councils reported went on destination marketing activities was:

- 9 percent for FNDC
- 30 percent for WDC
- 0 percent for KDC
- 4.4 percent for NRC (this appears to exclude NRC's Northland Inc investment).

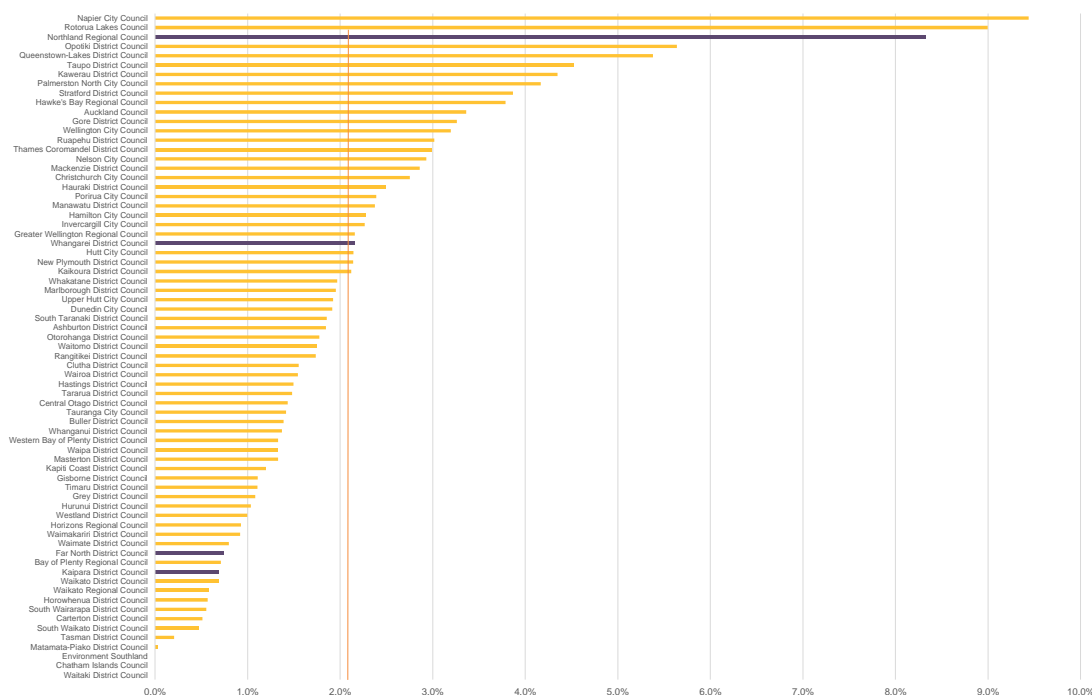
In total, it was estimated that around 15 percent (around \$1.05 million) of Council investment in economic development was allocated to their own destination marketing activities, mainly at a district level.

Across the Councils and Northland Inc there were at least 17 FTEs directly involved in delivering economic development activities and services in 2015. This is based on local authority responses to an LGNZ survey. We believe the figure is more likely to be around 22-23 FTEs as WDC has several staff involved in marketing & promotion activities and events development that do not appear to have been counted in the response. The total does not include i-SITE staff.

Council investment in economic development represented around 2.2 percent of total local government operating expenditure in the region in 2015. The investment was the equivalent of close to \$39 of economic development spend per capita.

This is a moderate level of Council investment compared to other regions as shown in Figure 1 below. Councils across New Zealand spent an average of 2.1 percent of operational expenditure on economic development in 2015. Figure 1 also shows the variation in proportional spend across the four Councils in Northland.

Figure 1. Local government economic development spend as a proportion of operational expenditure (2015)



Source: LGNZ Survey and MartinJenkins calculations. Orange vertical line is national average.

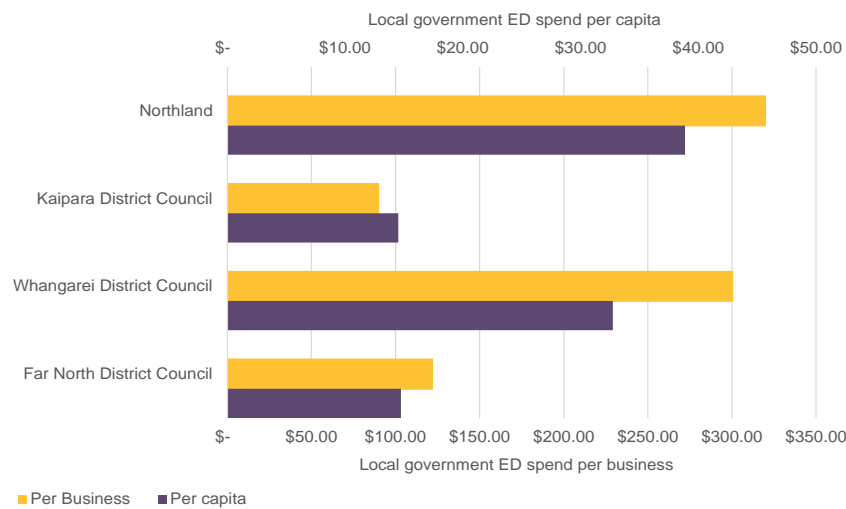


In 2015, KDC and FNDC spent around 0.7 percent of operating expenditure on economic development, compared to 2.2 percent of expenditure in Whangārei. NRC spent 8.3 percent of its operating expenditure on economic development.

Figure 2 shows how the Councils’ spend on economic development compares on a per capita and per business basis. Kaipara and the Far North spent just over \$14.50 per capita on economic development, compared to around \$32.70 in Whangārei. The graph also shows that, for Northland as a whole, local government investment equated to around \$39 per capita. This is slightly higher than the New Zealand average of \$36 per capita.

The investment also equates to around \$320 per business at the regional level, and ranges from \$90 to \$301 per business across the districts.

Figure 2. Local government economic development spend per capita and per business (2015)

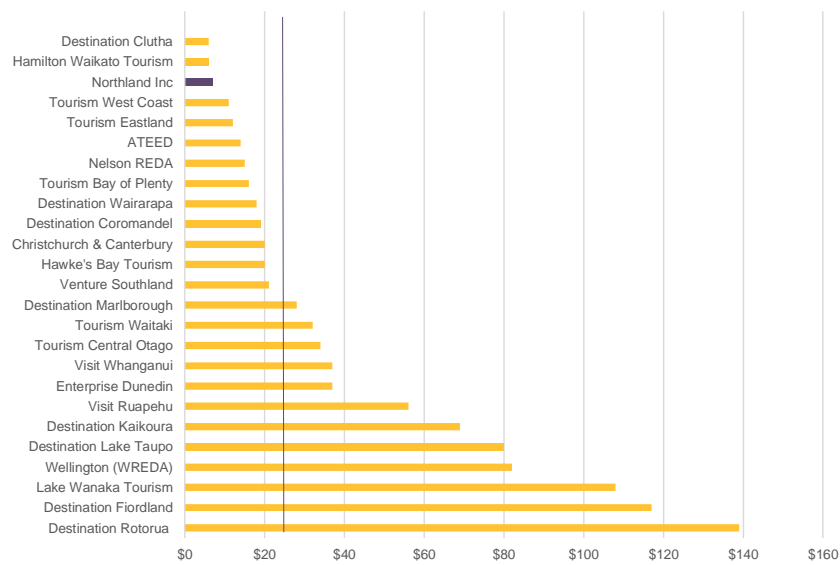


Source: LGNZ Survey and MartinJenkins calculations

Given the importance of the visitor economy in Northland (discussed later in this report) it is worth considering how local government investment in regional marketing activities compares to other regions. Based on the most recent benchmarking survey of Regional Tourism Organisations or RTOs (MacIntyre, 2016), the region invests around \$7 per rateable property, \$4 per capita and \$0.35 per guest night in regional destination marketing and promotion (receiving \$1,490 of visitor spend per council dollar), compared to an average of \$25 per ratepayer, \$11 per capita and \$1.19 per guest night (and \$584 of visitor spend per council dollar) across all RTOs. Hence the region’s regional marketing spend is well below the national average as shown in Figure 3 and Figure 4 (and in fact is below average for comparable medium tier RTOs). This excludes Council investment in district marketing and, as noted, both WDC and FNDC invest a reasonable amount in this activity.

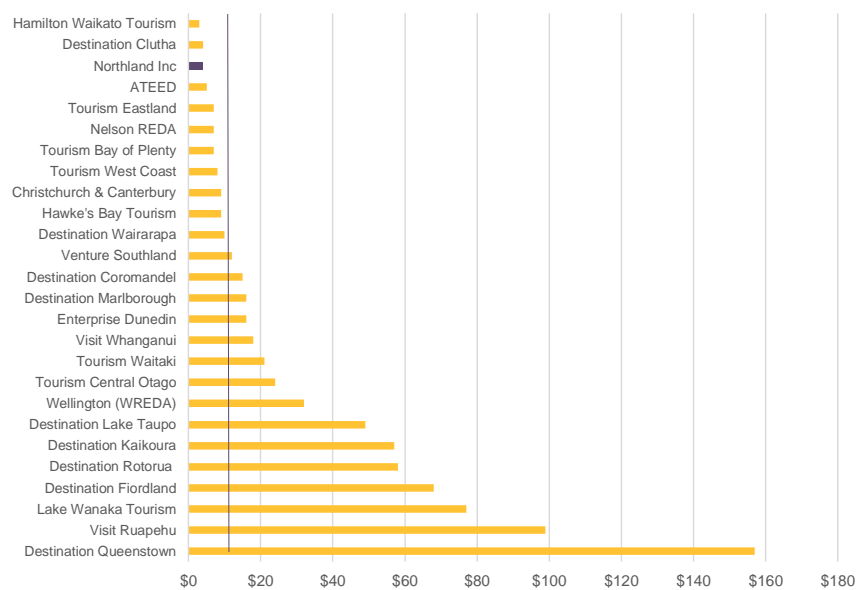


Figure 3. Local government regional marketing and promotion spend per ratepayer (2015/16)



Source: Data from MacIntyre, 2016. Vertical line is the New Zealand average.

Figure 4. Local government marketing and promotion spend per capita (2015/16)



Source: Data from MacIntyre, 2016. Vertical line is the New Zealand average.



1. ARE THE RIGHT ECONOMIC DEVELOPMENT ACTIVITIES BEING DELIVERED?

Summary

The region does not have an agreed economic development strategy or economic development goals or priorities that would provide clear guidance on the activities that should be delivered in the region. There are relatively few areas of clearly consistent priorities and outcomes across all of the local authority Long-Term Plans and with the TTNEAP. There was consistent feedback provided during this review that Councils and other stakeholders do not regard TTNEAP as a regional plan and that they have not bought into all of the outcomes and actions of the Plan. The TTNEAP process did not involve sufficient engagement with Māori and there is not genuine alignment between TTNEAP and the Tai Tokerau Māori Economic Development Strategy – He Tangata, He Whenua, He Oranga.

Despite this lack of alignment, our assessment is that the broad types of economic development activities delivered by Northland Inc and the Councils are consistent with the identified opportunities and needs facing the region and are generally supported by evidence. In addition, there are clear rationales for the Councils in supporting most of the activities that are being delivered and services tend to be appropriately focused on facilitation, promotion, information provision and addressing collective action issues, although the rationale for providing funding support to individual businesses through the IGR is weak.

There are no major gaps in the types of economic development activities provided by Councils and Northland Inc. Economic development activities supported through the Councils and Northland Inc cover the spectrum of economic development services offered in most other regions, including destination marketing and management, business development, investment attraction and facilitation, industry development support and district and community improvement initiatives. There is also little overlap in economic development activities between Northland Inc and the Councils or between the Councils. Positively, there are several examples of joint economic development work across the organisations. There are generally good working relationships between Councils, Northland Inc and other providers of economic development activities such as central government agencies and industry groups.

However, the lack of alignment about priorities and outcomes means that it is unlikely that the levels of resource going into each economic development service/activity area are consistent with Councils' or other partners priorities for economic development. There are four areas where the current level of emphasis does not appear to be sufficient based on identified opportunities, comparisons with other regions and stakeholder feedback:

- Regional destination marketing – a major economic opportunity identified through research and the Tai Tokerau Northland Regional Growth Study was the need for improved destination marketing activities but it does not appear that there is sufficient resources going into that area at a regional level. There are also differences in views about whether Northland Inc, Councils or local promotion organisations are best placed to deliver domestic-focused destination marketing activities.
- Regional events – although district events are well supported, Northland may be missing opportunities by not considering how unique local events can be scaled up and how to attract more events into the region.



- Māori/iwi economic development – the implementation of He Tangata has not been well supported and, although Northland Inc has provided support for Māori businesses and several projects with Māori, efforts are likely to have a greater chance of success through establishing a partnership approach with Māori/iwi/hapū organisations to set priorities and mechanisms for support.
- Reach of services into the Far North and Kaipara – it has been difficult for Northland Inc to ensure reach of some services, such as business development and investment facilitation activities, into some parts of the region because of the distances and travel time required to engage businesses in areas beyond Whangārei.

There is an over-reliance on the formal Statement of Intent process for agreeing on Northland Inc priorities and limited engagement with Councils and other economic development partners and stakeholders when setting Northland Inc priorities. Northland Inc currently has too many objectives and resources appear to be spread over too many activities in order to achieve all of its objectives.

The process for establishing regional economic development priorities and the mix of activities can be improved by:

- Developing and adopting an overarching regional economic development strategy and plan that all the Councils, Northland Inc, Māori/iwi and key economic support organisations contribute to and buy into.
- Ensuring district-level economic plans and activity-specific strategies (e.g., a visitor and events strategy) are clearly aligned with and effectively sub-sets of the regional strategy and plan.
- Adopting a broader range of mechanisms to discuss and agree on economic development objectives and priorities for Northland Inc each year, such as a strategic workshop with economic development partners and stakeholders, regular meetings between combined Council representatives and Northland Inc, and a Letter of Expectation that sets out Council expectations about outputs, outcomes, measurement, reporting and priorities to inform Northland Inc's Statement of Intent.

1.1 What services/activities should be delivered?

1.1.1 Are existing services/activities based on addressing clear and well-evidenced problems and opportunities for the region?

To answer this question, we considered a number of sub-questions:

a. What are the key economic development issues and opportunities facing the region?

What do key economic indicators and trends suggest?

A brief analysis of economic trends is provided in Appendix 1. In summary:



- The regional economy has had a mixed performance over the last five years, with close to average real GDP growth, but lower than average employment growth and lower than average population growth. Estimated productivity (or GDP per FTE) and real GDP per capita is much lower than nationally and mean earnings and median personal incomes are also well below national figures. However, the region has experienced strong real GDP per capita growth over the last five years.³
- Whangārei, which makes up around 60 percent of the region's economy, and Kaipara have achieved relatively strong growth (in real GDP) over the last decade, while the Far North has experienced relatively low growth.
- The region is relatively diversified with a combination of primary, manufacturing and service industries representing the largest parts of the economy. Petroleum and coal product manufacturing, health care & social assistance, property and real estate services, dairy cattle farming, and education & training generated around a third of the value of the economy.
- Petroleum and coal product manufacturing performed strongly over the last five years, largely based on the performance of Refining New Zealand. Dairy cattle farming also performed well over 2011-2016, despite the fall in dairy prices over the period. Several smaller primary industries also performed well over the period, including forestry and logging, horticulture and fruit growing, sheep and beef cattle farming, and agricultural support services. However, most of the largest service sectors and manufacturing sectors have achieved relatively low growth.
- The visitor economy has been performing better than in several comparable regions. Estimated visitor expenditure in the year ended December 2016 was over \$1 billion, which was higher than other smaller distant regions such as Taranaki, Nelson-Tasman, Southland and the Hawke's Bay. Visitor expenditure has grown at 5.8 percent per annum over 2011-2016, slightly lower than the national average (6.2 percent per year) but higher than several comparable regions such as Nelson-Tasman, Taranaki, Southland and the Hawke's Bay.
- Kaipara has experienced very rapid growth in visitor expenditure over the last 5 years at 7.7 percent per annum on average, although this is from a very small base. The Far North has experienced lower than average growth in visitor expenditure relative to national growth (4.9 percent per annum), while visitor expenditure in Whangārei has grown at the national rate (6.2 percent per annum).
- A much larger proportion of visitor expenditure in the region is derived from domestic visitors (around 75 percent) than across New Zealand as a whole (58 percent), and domestic visitor expenditure has grown quite strongly over the last five years (5.9 percent per annum compared to 4.5 percent per annum nationally). Most domestic visitor expenditure comes from visitors travelling from within Northland itself (39 percent), Auckland (35 percent), Wellington (6 percent) and Waikato (5 percent). International visitor expenditure has grown at a rate below the New Zealand average (5.2 percent per year compared to 8.9 percent per year). 27 percent of this expenditure in 2016 was derived from Australian visitors.
- Northland's international visitor expenditure has a different profile to the national average, with a larger proportion of expenditure from visitors from the UK (17 percent compared to 10 percent), Germany (12 percent compared to 5 percent), and the Rest of Europe (13 percent compared to 9 percent). The region receives a much lower proportion of visitor expenditure from visitors from China (3 percent compared to 15 percent nationally) and the Rest of Asia (3 percent compared to 10 percent).

³ All GDP and productivity figures are from the Infometrics regional profile.



The implications of the above for economic development are that we would expect:

- Economic development services to account for intra-regional differences in growth. For example, this could mean that there is an emphasis on improving the economic performance and employment outcomes in the Far North, while catering for growth in Whangārei and Kaipara.
- That economic development services would seek to leverage the value being generated by primary industries but also try to facilitate growth in other sectors that the region has underlying advantages in, such as some manufacturing industries, to help protect the economy from economic shocks.
- To see destination marketing and management activities such as promotional campaigns and events attraction focused on addressing issues that are impacting on the more limited growth in international visitation (e.g., off-season events, targeting marketing to major source market cities) and to build on the growing domestic visitor market.

What do regional studies, strategies and plans suggest?

The region does not have a regional economic development strategy (the last strategy was developed in 2007). Effectively the Tai Tokerau Northland Economic Growth Study (2015) and Action Plan (2016) have become replacements for a regional strategy, although they are not strategies per se. Iwi Chief Executives in the region have also developed He Tangata, He Whenua, He Oranga – the Tai Tokerau Māori Economic Growth Strategy (2015).

At a district level, only the Far North has a district economic development strategy or plan (the Economic Action Plan for 2016-2018). Whangārei previously developed a visitor strategy but that is no longer current or used. There is also an international education strategy proposal for the region.

These studies and plans cover a range of broad economic issues and opportunities facing the Northland economy as well as district, industry-specific and Māori/iwi opportunities. Collectively, these studies and plans have been based on a wide range of economic data, research and consultation. Of course, strategies and plans are living documents and additional/altered issues and opportunities will and do emerge over time as conditions change.

Key challenges and strengths and related opportunities identified by these studies and plans are highlighted in Table 3.

Table 3. Challenges and opportunities identified in Northland economic strategies and plans

	Challenges	Key strengths and opportunities
Natural resources	<ul style="list-style-type: none"> • Difficulties in managing water use and quality due to land use and flood/drought events. The Growth Study and Action Plan identified the opportunity to undertake a region-wide study on opportunities associated with water storage and irrigation. 	<ul style="list-style-type: none"> • Cost advantages and land availability for businesses wanting to invest and expand.
Skills	<ul style="list-style-type: none"> • Low educational attainment, particularly for Māori learners, and poor labour market matching, with many industries facing difficulties getting the skills they need. The Growth Study and He Tangata identified the opportunity to introduce more tailored skilled initiatives in the region. The Action Plan identified skills actions to connect employers to youth including the Kaikohe Growth Industries Pathway and Te Hiku Pathways initiatives, and research to understand primary sector employers' barriers to accessing the local labour pool. 	



	Challenges	Key strengths and opportunities
Infrastructure & connectivity	<ul style="list-style-type: none"> A range of road constraints including areas of low resilience along key tourism and freight routes and limited capacity in diversion routes. The Growth Study identified the need to improve low resilient areas of SH1 and the possible development of alternative freight routes. The Action Plan identified a series of roading improvements, such as completion of Warkworth to Wellsford and Wellsford to Whangārei sections of the state highway and upgrading Mangakahia Road. Other infrastructure constraints such as limited rail and air capacity. The Action Plan identified several infrastructure improvements such as completing airport improvements at Whangārei and Kerikeri. Relatively low rates of internet access, broadband uptake and ICT adoption by businesses. The Action Plan identified actions related to addressing deficits in broadband coverage and mobile blackspots and enhancing the digital capabilities of businesses in the region. 	<ul style="list-style-type: none"> Northport, a deep-water port well suited to bulk exports. Northport has and is continuing to upgrade its facilities to cater for growth. It has considerable land available for future expansion. Existing and expanding marinas and marine facilities in the region. The ability to leverage value from the relatively close location of New Zealand's largest city (e.g., from visitors, spillover population growth).
Māori	<ul style="list-style-type: none"> Diverse and dispersed ownership of Māori land which can prevent consolidation into larger, more efficient production units and limits access to capital to invest in development. The Growth Study, Action Plan and He Tangata identified the opportunity to further explore the potential of Māori-owned land. 	<ul style="list-style-type: none"> Māori/iwi/hapū as partners and co-investors in in tourism, forestry, dairy and horticulture (particularly investment in apiculture), and in initiatives to improve education and skills attainment. There are potential new opportunities in social housing stock, infrastructure and mineral extraction.
Primary sectors	<ul style="list-style-type: none"> Uncertainty about the long-term supply of wood for wood processors. Pastoral production and productivity being lower than comparable regions. The Growth Study identified a major opportunity to improve farm productivity through better farm management and the expansion of Dairy NZ productivity initiatives. The Action Plan included actions to explore business opportunities through the development of a Te Hiku Sheep and Beef Farming Collective and a regional on-farm productivity initiative. Regulatory uncertainty and public opposition impacting on the ability to expand aquaculture. A lack of scale in the horticulture industry impacting on the ability to meet market demands and achieve cost competitiveness, and the vulnerability of the industry to disease and biosecurity risks. The Growth Study identified the opportunity for the industry to develop a joint plan for growth and for the region to develop the Manuka honey industry. The Action Plan included a project to build capacity and capability in the honey industry through the Miere Coalition. 	<ul style="list-style-type: none"> Advantages for forestry and wood processing, including good quality structural wood resource and a variety of indigenous tree species. The Growth Study identified the potential to add value to the forestry resource through reconfiguring processing capability through investment in lower grade processed products and higher end engineered wood products. The Action Plan identified actions related to testing the potential of Manuka cultivars, establishing a Māori forestry collective, completing an analysis of the potential for a wood processing facility at Ngawha and forming a wood processing coalition to diversify and develop export markets. Advantages for aquaculture including accessible, sheltered harbours, moderate offshore conditions, a supportive local industry and the major aquaculture park at Bream Bay. The Growth Study identified an opportunity to develop a kingfish production facility in the region and the potential to scale up oyster and mussel production. The Action Plan included the action to complete an investment memorandum for kingfish production.



	Challenges	Key strengths and opportunities
Manufacturing & service sectors		<ul style="list-style-type: none"> Refining NZ, which is a major employer and a strategic asset not only for Northland but for New Zealand. Well-developed capability, track-record and a reputation for innovation and quality in engineering and boat-building, repair and maintenance. The Action Plan identified opportunities to support the expansion of the marine industry and the minerals processing industry. The potential to grow the scale and value of international education through developing a clear plan that identifies the region's value proposition for international students and how to attract students from key markets.
Visitor economy	<ul style="list-style-type: none"> A lack of a clear value proposition for potential visitors beyond the well-known natural amenities and related attractions such as Bay of Islands. This includes a previous lack of investment in new or improved tourism products and a gap in the availability of offers between locations. The Growth Study identified the potential to develop a more compelling value proposition based on creating a round-trip of visitor experiences on both coasts of the region and up to Cape Reinga. The Action Plan included several initiatives to develop the 'Twin Coast Discovery Route' and town and community byways. A range of small-scale, district-based events that are not sufficiently leveraged. Limited public investment in destination marketing to promote the wider offerings and to target markets appropriately. The Action Plan included an initiative to improve support for regional tourism promotion. 	<ul style="list-style-type: none"> Some genuine points of difference for visitors related to bring together rich historical and cultural assets and experiences in areas of outstanding natural amenity. This includes natural and cultural visitor assets throughout the region and a range of new and proposed attractions. The Action Plan included a series of actions to develop tourism product offerings including the Twin Coast Cycle Trail, Hundertwasser Art Centre, Manea Footprints of Kupe and in the Waipoua Forest. The Plan also identified an action to leverage opportunities from the Peppers Carrington Resort development.

In summary, the major economic development challenges and opportunities facing Northland relate to:

- Improving infrastructure & connectivity, particularly roading and UFB
- Upgrading skills and connections between employers and potential employees
- Realising the potential of Māori land, knowledge, capability and leadership
- Increasing the productivity and value generated by key sectors
- Improving the quality of marketing and improving the visitor value proposition of the region through enhancing tourism products
- Growing the capability and scale of local businesses
- Improving the quality of information on the potential of the economy, key assets and advantages in order to attract and retain investment and talent.

As noted, we would expect economic development priorities and initiatives to be targeting these types of challenges and opportunities.



b. To what extent are Council and Northland Inc outcomes and priority areas consistent with priorities and desired outcomes from strategic documents?

Although each district has unique economic features and will have some specific economic development issues and opportunities, there is sufficient commonality of challenges and opportunities across the region that there should be a reasonable degree of alignment across the priorities and desired outcomes of the local authorities. Having consistent priority areas and outcomes will also help to ensure that maximum leverage is obtained from the combination of local government resources.

As the region does not have an economic development strategy, there is not an agreed vision or agreed economic development goals for the region. However, Northland Forward Together has a range of agreed economic, infrastructure and social priority areas related to transport, digital reach & capability, ease of doing business with councils, Māori land, developing visitor products, industry development and educational attainment. TTNEAP also includes a range of goals and outcomes related to digital coverage, transport, educational attainment, Māori employment, farm productivity, Māori land productivity, forestry processing, guest nights, visitor spend and numbers, and growth in specialised manufacturing. He Tangata also includes a range of outcomes related to Māori research and innovation, education and attainment, leadership, and collaboration.

If there were well-functioning economic development arrangements in the region, we would expect to see a high degree of consistency between the priorities identified through economic analysis and hence the priority areas and desired outcomes of the Growth Study/TTNEAP and He Tangata, and local government economic development priorities and outcomes as articulated in Northland Forward Together, Long-Term Plans, district economic development plans and the SOI and Business Plan of Northland Inc.

For example, we would expect to see each local authority's role in addressing relevant Northland Forward Together, TTNEAP and He Tangata priorities in the respective LTPs; we would also expect to see how each District will seek to contribute to TTNEAP and He Tangata economic development outcomes. This relies on the region and local authorities having bought into the outcomes and priority areas of TTNEAP and He Tangata.

Table 4 highlights the major economic development outcomes and priority areas signalled in the plans of Councils and Northland Inc against those identified by the Growth Study/TTNEAP, He Tangata and Northland Forward Together.



Table 4. Alignment of economic development outcomes and priority areas

	Tai Tokerau Northland Economic Action Plan outcomes	He Tangata, He Whenua, He Oranga priorities	Northland Forward Together priorities	Northland Regional Council/Northland Inc priorities	Far North District Council priorities	Whangārei District Council priorities	Kaipara District Council priorities
Growth Study/TTNEAP priority areas							
Improving infrastructure & connectivity	<ul style="list-style-type: none"> A sustainable transport system that enhances growth A equitable, minimum standard of digital coverage across the region 	<ul style="list-style-type: none"> Iwi exercise critical influence on the development of appropriate infrastructure to support regional economic growth 	<ul style="list-style-type: none"> Improve Northland's connectedness by road, rail, sea and air Improve our digital reach and capability Maximise the potential our key assets 	<ul style="list-style-type: none"> Promote the establishment and development of infrastructure that underpins economic growth Leverage Northland's proximity to Auckland <p>Note: Northland Inc includes the TTNEAP outcomes in its business plan</p>	<ul style="list-style-type: none"> Catch up on core infrastructure 	<ul style="list-style-type: none"> Making provision for strategic investment in infrastructure to support economic development in the district Promoting and leveraging opportunities that arise from the roll out of ultra-fast broadband 	<ul style="list-style-type: none"> Providing the necessary infrastructure for business
Upgrading skills & employment connections	<ul style="list-style-type: none"> Businesses in growth sector are communicate their skill needs to education and training providers At least 85 percent of Northland's 18-year olds hold an NCEA Level 2 qualification or equivalent by 2017 At least 20 percent of the population have higher qualifications by 2020 Northland's NEET rate will have declined by 12 percent by 2020 The rate of Māori unemployment will have declined to 10 percent by 2025 	<ul style="list-style-type: none"> Whanau are achieving to their potential, engaged in meaningful work, live independently & with dignity An increase in Māori engagement and achievement in formal education from early childhood to tertiary An increase in the ability of the Taitokerau Māori workforce to contribute to the growth and competitiveness of the Taitokerau Māori economy 	<ul style="list-style-type: none"> Have all young people under the age of 21 in work, education or training Increase the proportion of children between the ages of 2-5 participating in early childhood education Increase the proportion of young people leaving school with NCEA qualifications 	<ul style="list-style-type: none"> Facilitate Iwi, Hapū, Whanau, Ahu Whenua Trusts or other Māori organisations to create employment opportunities for Northland <p>Note: Northland Inc includes the TTNEAP outcomes in its business plan</p>	<ul style="list-style-type: none"> Working with others to improve skills and capacity 	<ul style="list-style-type: none"> Not specified 	<ul style="list-style-type: none"> Not specified
Harnessing the potential of Māori land and capability	<ul style="list-style-type: none"> Māori land holdings are profitable and productive 	<ul style="list-style-type: none"> Identifying undeveloped freehold Māori land and assessing its potential is included as part of the Research & Innovation outcome of He Tangata 	<ul style="list-style-type: none"> Facilitate the sustainable development of land, including Māori land 	<ul style="list-style-type: none"> Not specified in NRC's LTP or Northland Inc's SOI <p>Note: Northland Inc includes the TTNEAP outcomes in its business plan</p>	<ul style="list-style-type: none"> Supporting Māori land development initiatives in Te Tai Tokerau 	<ul style="list-style-type: none"> Consulting with, and facilitating participation of, local iwi and hapū in initiatives relating to economic development, particularly development on Māori land 	<ul style="list-style-type: none"> Not specified
Increasing the productivity and value generated by key sectors	<ul style="list-style-type: none"> To increase the value of, and employment in, the primary sector Farms are performing equal of better than national averages 2/3s of forestry production is processed in Northland by 2025 More the region's GDP is derived from high value manufacturing and services - sustained growth in GDP pa from specialised manufacturing; employment in specialised manufacturing and services increases year on year 	<ul style="list-style-type: none"> Not specified 	<ul style="list-style-type: none"> Add value to existing industry sectors 	<ul style="list-style-type: none"> Promoting and investing in economic development opportunities to lift local economies, provide employment and increase incomes <p>Note: Northland Inc includes the TTNEAP outcomes in its business plan</p>	<ul style="list-style-type: none"> Not specified 	<ul style="list-style-type: none"> Not specified 	<ul style="list-style-type: none"> Not specified



	Tai Tokerau Northland Economic Action Plan outcomes	He Tangata, He Whenua, He Oranga priorities	Northland Forward Together priorities	Northland Regional Council/Northland Inc priorities	Far North District Council priorities	Whangārei District Council priorities	Kaipara District Council priorities
Improving the quality of marketing and the visitor value proposition	<ul style="list-style-type: none"> Develop higher quality, culturally enriching tourism offerings across the region that promote longer stays Improve skills and capability within the tourism sector Guest nights rise by 25 percent by 2020 Visitor spend increases to \$720m by 2020 Visitor numbers in the off-peak season increase by 30 percent by 2020 	<ul style="list-style-type: none"> Not specified 	<ul style="list-style-type: none"> Develop visitor products and associated infrastructure 	<ul style="list-style-type: none"> Successfully promote Northland as a place to live, work, invest and visit – 10 percent increase in sessions on www.northlandnz.com pa; Industry investment of \$300k pa in regional promotional activity; equivalent advertising value of \$15m pa from destination media coverage <p>Note: Northland Inc includes the TTNEAP outcomes in its business plan</p>	<ul style="list-style-type: none"> Marketing the Far North to visitor and potential investors Supporting a balanced portfolio of events throughout the district 	<ul style="list-style-type: none"> Attracting events and increased visitor number to support our economy by enhancing revenue streams, including spending from outside the District – visitor spend on bookings through visitor centres will increase each year; total visitor guest nights in the district will increase each year 	<ul style="list-style-type: none"> Promoting the district
Improving the quality of information on the investment potential of the region	<ul style="list-style-type: none"> Businesses have access to improved information about Northland to assist with investment 	<ul style="list-style-type: none"> The Taitokerau Māori economy is a viable and attractive investment proposition 	<ul style="list-style-type: none"> Seek new entrants into the economy 	<ul style="list-style-type: none"> Successfully promote Northland as a place to live, work, invest and visit Provide sound advice to the NRC in regard to investment opportunities for Northland that provide a return for council funds and protect shareholder interests Leverage NRC's Investment and Growth Reserve to attract investment into Northland – 1 project for debt or equity funding pa, 1 project for impact investment funding pa, 1 project partnering with Iwi, hapū and/or Māori collective organisations pa <p>Note: Northland Inc includes the TTNEAP outcomes in its business plan</p>	<ul style="list-style-type: none"> Pursuing funding/investment opportunities Marketing the Far North to visitor and potential investors 	<ul style="list-style-type: none"> Not specified 	<ul style="list-style-type: none"> Not specified
Improving the capability and scale of local businesses	<ul style="list-style-type: none"> Increase innovation through building strong relationship between businesses, research providers and tertiary institutions 	<ul style="list-style-type: none"> Taitokerau iwi become the main repository for the knowledge of & the access to the Māori economy of Taitokerau Shifting the profile and lifting the productivity of the Māori asset base is supported through quality innovation Visionary, trusted leadership with the cultural integrity & the business acumen to grow the Māori economy and create the environment for whanau to prosper 	<ul style="list-style-type: none"> Not specified. 	<ul style="list-style-type: none"> Establish a high performing innovation ecosystem to support innovation and create new businesses Facilitate business support for Northland firms to build business capability and capacity and promote investment, R&D – achieve growth in Northland businesses engaged as measured through an increase in aggregate turnover by 5% pa; 25% of regional business partner active companies are research active Establish a suite of capital assistance and business investment partners for Northland entrepreneurs and firms SME businesses are as profitable as the NZ average Northland's export value grows by 20 percent 	<ul style="list-style-type: none"> Supporting new business opportunities 	<ul style="list-style-type: none"> Not specified 	<ul style="list-style-type: none"> Not specified



	Tai Tokerau Northland Economic Action Plan outcomes	He Tangata, He Whenua, He Oranga priorities	Northland Forward Together priorities	Northland Regional Council/Northland Inc priorities	Far North District Council priorities	Whangārei District Council priorities	Kaipara District Council priorities
				<ul style="list-style-type: none"> Business growth as measured by the ratio of business start-ups to business closures being >1 			
Other economic development outcomes and priority areas from LTPs							
Improving the quality of the business & economic environment	<ul style="list-style-type: none"> Not specified 	<ul style="list-style-type: none"> A political and economic landscape that enables and wants the Taitokerau Māori economy to prosper 	<ul style="list-style-type: none"> Make it easy to do business with councils 	<ul style="list-style-type: none"> Building a business-friendly council environment 	<ul style="list-style-type: none"> Facilitating initiatives to address local inhibitors that impact on business and industry development and growth 	<ul style="list-style-type: none"> Not specified 	<ul style="list-style-type: none"> Providing a simple and efficient regulatory environment Not specified
Supporting community development	<ul style="list-style-type: none"> Not specified 	<ul style="list-style-type: none"> Not specified 	<ul style="list-style-type: none"> Not specified 	<ul style="list-style-type: none"> Not specified 	<ul style="list-style-type: none"> Supporting communities in the district to carry out their community planning processes and actions to develop communities and town centres Seeking to increase the amount of funding for Far North communities from central government 	<ul style="list-style-type: none"> Not specified 	<ul style="list-style-type: none"> Supporting local economic development outcomes through Community Planning
Supporting regional economic development initiatives	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Principled, equitable collaborations that accelerate sustained growth & productivity of the Māori economy 	<ul style="list-style-type: none"> Not specified (although Northland Forward Together is fundamentally about regional collaboration) 	<ul style="list-style-type: none"> Tracking regional economic performance and trends 	<ul style="list-style-type: none"> Identifying Council's role in and working with partners on projects and actions identified in the Growth Study and He Tangata 	<ul style="list-style-type: none"> Providing information to, liaise with, and collaborate when required with external organisations and bodies in regard to economic development and employment growth 	<ul style="list-style-type: none"> Contributing to regional economic forums and initiatives



Some observations from Table 4 are:

- All of the local authorities in the region have a set of economic development related outcomes in their LTPs. None of these is deliberately aligned with Growth Study/TTNEAP outcomes or priority areas, although there is consistency with them.
- The economic priority areas in Northland Forward Together are broadly consistent with TTNEAP priority areas, with the exception of the TTNEAP priority on improving the capability and scale of local businesses. Northland Forward Together also includes a priority related to improving the ease of doing business with Councils.
- Consistent with one of the Growth Study/TTNEAP priority areas, all of the Councils' LTPs include priorities related to infrastructure & connectivity and destination marketing. All of the Councils also include economic strategy/plan support and economic intelligence as a key priority area. There are no other areas completely consistent across all the Councils and Northland Inc. A maximum of two Councils reference outcomes related to investment, skills and employment, Māori land development, innovation & business capability.
- In contrast to the Growth Study/TTNEAP, three of the Councils also include a priority related to developing a business-friendly environment and two Councils have a priority related to community development. It isn't surprising that community development was not part of the TTNEAP outcomes given the Action Plan was designed as a regional rather than district focused plan.
- The TTNEAP has several outcomes related to improving sector performance, including farm productivity, forest production, and the contribution of high value manufacturing and services. None of the Councils have sector-specific outcomes or priority areas (except for Northland Inc/NRC in a general sense with a priority related to investing in economic development opportunities).

Overall, there are relatively few areas of clearly consistent priorities and outcomes across all of the local authority LTPs, although we note that Kaipara has faced other priorities in the last few years. There is also mixed alignment with the Growth Study/TTNEAP. No Councils have adopted the outcomes in TTNEAP. However, Northland Inc has adopted the outcomes in TTNEAP in its business plan. FNDC's Economic Action Plan also specifies areas of the TTNEAP that are high priority for the district.

There are some areas of alignment between He Tangata, the Growth Study/TTNEAP and Council priorities. He Tangata includes outcome/goals related to infrastructure, the quality of the economic environment, skills and employment, investment, and innovation & business capability. However, there are differences in the specification of these outcomes and goals and feedback indicated that areas of alignment were largely cosmetic rather than purposeful.

To some extent a lack of alignment across the Growth Study/TTNEAP, He Tangata and the LTPs for 2015-2025 is not entirely surprising given the LTPs were completed prior to the release of the Action Plan. However, all the Councils update their Annual Plan each year and these contain the same priority areas and outcomes, so this suggests a more fundamental disconnect. In addition, we would expect that if there was agreement on the importance of priority areas and types of outcomes for Northland that are reflected in the TTNEAP and He Tangata, then most of the areas would be included as Council priorities whether or not TTNEAP or He Tangata existed. More fundamentally, we would have expected that the priority areas in Northland Forward Together would be reflected in Councils' plans.



There was consistent feedback provided during this review that the Councils (and other stakeholders) do not really regard TTNEAP as a 'regional plan' and that they have not bought into all the outcomes and actions of the Plan. There were several views that TTNEAP does not really have a clear set of priorities and instead has included a 'laundry list' of every conceivable action, i.e., it is a work programme rather than a plan. In addition, there are views that TTNEAP was driven by central government and that there was limited regional engagement beyond the core group of agencies involved in developing TTNEAP (e.g., Council and Northland Inc representatives). This impacts on the level of buy-in and support for the plan and the actions.

Similarly, discussions with Māori groups indicated that the process by which TTNEAP was developed did not involve sufficient engagement with Māori and hence there is not genuine alignment between TTNEAP and He Tangata.

There was also consistent feedback that as the Growth Study/TTNEAP is not a strategy there hasn't been the normal strategy development process to identify and agree on goals and priorities for economic development in the region. Several stakeholders suggested that a strategy should be developed or that at least that the process for reviewing and updating TTNEAP should be revamped and that its outcomes and priority areas should be reconsidered.

Positively, unlike many other regions, there isn't a clutter of different economic development plans and strategies in the region at a district or industry level. This will make it easier to ensure alignment in future.

What was the process for determining the priorities and outcomes in the TTNEAP?

The Tai Tokerau Northland Economic Growth Study identified four opportunity areas with 7 related actions as priorities for implementation, based on a ranking of initiatives that had emerged through the extensive Growth Study research and consultation process. The expectation of the Growth Study process was that the focus would be on the four priority areas and potentially a few other areas if resourcing allowed (7 additional opportunity areas with 11 related actions were identified in the Growth Study). It was also expected that actions from He Tangata would be included in the Action Plan and that action planning for the priority areas would involve a range of stakeholders.

However, when the Action Plan process commenced, the identification of actions was opened up again and 120 projects were put forward for potential inclusion. We understand that was due to a combination of concerns that there wasn't buy-in to the Growth Study process and that there was a desire to show a fuller range of economic development activities being undertaken in the region. Potential actions were put forward by working group representatives (support arrangements are discussed later in this report).

Around 60 projects were then selected for inclusion in the Action Plan, measured against similar criteria to those that had been used for assessing opportunities in the Growth Study. The Advisory Group provided feedback on the proposed actions and Action Plan at the time. Central government and Ministers approved the list of actions. The Action Plan was released in February 2016. Although the number of potential projects had been halved, the Action Plan did not present a particularly well prioritised set of actions.

Several actions put forward in the Action Plan development process had actually been considered during the Growth Study process and had been discounted for various reasons (e.g., based on potential impact, validity of concept etc.) or because they were already in train and were business as usual activities rather than new actions (e.g., completion of some roads, stormwater projects, airport improvements, some skills initiatives).



b. To what extent are existing activities consistent with issues and opportunities identified through economic analysis, economic development plans and the priorities of Councils?

We would also expect to see the issues and opportunities identified in the Growth Study, He Tangata, and Council plans reflected in the economic development work programmes and activities of Councils and Northland Inc. Table 5 provides a brief overview of the degree of alignment.

Table 5. Consistency of economic development activities with key economic opportunities and priorities

	Northland Inc activities	Council activities
Improving infrastructure & connectivity	Northland Inc has supported Councils in developing the digital enablement plan for the region, was involved in attracting the Hawaiki cable, and has been involved in the Twin Coast Discovery project which includes roading and signage improvements.	Co-investing in infrastructure is part of core business. Councils have supported the case for road upgrades by NZTA in the region. In terms of economic development activities, the Councils have helped develop the digital enablement plan and supported the application for extension of UFB and mobile blackspot funding.
Upgrading skills & employment connections	Has not been a focus.	Has not been a focus. However, Councils have been involved in supporting Mayors Taskforce for Jobs initiatives, Careers roadshows, a skills attraction campaign.
Realising the potential of Māori land, knowledge, capability and leadership	Have facilitated IGR funding for and worked with Māori/iwi on several economic development projects including Te Roroa and a tourism initiative for the Waipoua Forest, a Whaingaroa tourism strategy, the Cape Brett Walkway, and the Miere Coalition.	NRC has provided funding support through the IGR for several Māori/iwi economic development projects. All Councils work with Māori/iwi/hapū in the region on a range of initiatives including on the Enabling Māori Land collaborative project. FNDC supported the project on mid-north multiple Māori land block development opportunities.
Increasing the productivity and value generated by key sectors	Supports this through a range of activities, for example facilitating IGR applications for sector projects (e.g., indigenous wood products, aquaculture, agriculture productivity) and facilitating industry coalitions and related initiatives (e.g., education, food and beverage).	Not a focus but some Councils have supported the case for some major sector projects (e.g., wood processing facility) and NRC provides funding support through the IGR for sector projects.
Improving the quality of marketing and the visitor value proposition	Support this through promotional campaigns, the destination website, hosting media and trade personnel, participation in tourism events, trade visits, support for tourism product development.	Support a range of district events, local information centres (i-SITEs), district promotional campaigns and supporting proposals for tourism products (e.g., Twin Coast Cycle Trail).



Improving the quality of information on the investment potential of the region	Supports this through hosting investors, investment events, the development and dissemination of the investment prospectus and facilitating IGR applications and feasibility studies for major investment projects.	Not a focus for most Councils although Whangārei jointly resources the investment 'landing pad' with Northland Inc to attract and facilitate investment into the region.
Improving the capability and scale of local businesses	Supports this through a large range of activities including business information & referrals, facilitating business mentoring, its role as a regional partner for NZTE and Callaghan Innovation in facilitating capability development assistance and R&D support, The Orchard business hub, and business events/seminars.	Not a focus, although FNDC has supported the development of social enterprises in the Far North.
Improving the quality of the business & economic environment	Not a focus.	Councils have undertaken a range of initiatives to reduce compliance costs and improve consistency of regulation across Councils.
Supporting community development	Not a focus.	Provide support for some promotion groups and business associations. FNDC has been active in supporting community groups and community projects (e.g., support for the development of community plans, a business advisory service to provide guidance for local business associations).
Supporting regional economic development initiatives	Supports this through the portfolio manager role and other assistance provided for TTNEAP, and through the provision of a range of information on the economy.	Support this through participating in TTNEAP processes and through the provision of a range of information on the economy.

Despite the fact that there is not a regional economic development strategy, that there is a lack of clear alignment between TTNEAP priority areas and those of Councils as signalled in LTPs and Annual Plans, and the feedback that there has been limited buy-in to TTNEAP as a regional plan, economic development activities supported and delivered by Councils and Northland Inc are generally focused on the major issues and opportunities impacting on the regional economy. So there appears to be general agreement about these priority issues and opportunities, but not necessarily about the specific outcomes and actions within TTNEAP.

The priority area where neither Northland Inc nor Councils are particularly engaged is in upgrading skills and employment connections, although (as will be discussed later) this is not typically a major economic development area supported by Councils. Other priority issue and opportunity areas appear to be well supported by Northland Inc and/or the Councils. Northland Inc is involved in a few areas that are not explicit priorities for most of the Councils (as articulated in Long-term Plans and other plans), such as supporting business capability and value added in key sectors. The former area is actually a priority of central government and the latter is a priority of TTNEAP.



Northland Inc is, appropriately, less involved in supporting community development, improving infrastructure & connectivity and improving the quality of the business and regulatory environment. The former area is district focused rather than regional and the latter two areas are core functions of Councils.

What is less clear is whether there is alignment between relative levels of *investment* in the activities and the relative importance of the priorities for the region. For example, as noted, a major opportunity identified through research and the Growth Study was the need for improved destination marketing and management activities. Although Northland Inc and the Councils are putting effort into these areas, there is a question about whether the level of investment is sufficient.

c. What is guiding the prioritisation of economic development investment and activities by Northland Inc?

Ideally, economic development priorities and outcomes should translate from the Growth Study/TTNEAP (or a regional economic development strategy), He Tangata, Northland Forward Together and Council plans to Northland Inc investment decisions and actions via a combination of:

- Discussions between the Councils and Northland Inc (e.g., between the Chair of Northland Inc and the Chair and Mayors of the Councils, between representatives of the executive management of Northland Inc and the executive management of the Councils) on strategy, priorities and alignment. Although Northland Inc is an NRC CCO, as it is a regional entity we would expect that discussions would involve representatives of all local authorities unless the other local authorities are happy for NRC to do this on their behalf.
- A Letter of Expectation (LOE) with Northland Inc (or a similar mechanism) – although this would be from NRC, again we would expect it to incorporate input from other Councils.
- Any other Council funding agreements with Northland Inc (e.g., Whangārei's agreement on joint services).
- Northland Inc's Statement of Intent and Business Plan (and iterations of these) based on these discussions and expectations.

In addition, priorities should also be informed by input/feedback from other key economic development partners and stakeholders in the region, such as Māori/iwi organisations, industry groups, infrastructure companies, educational institutions etc.

Northland Inc undertakes an annual process of priority setting as part of the formal SOI process. It reflects on NRC's LTP and TTNEAP in developing objectives and in setting the intended scope of its activities. These are articulated in a draft SOI. Northland Inc also prepares an annual business plan that outlines the programmes and activities it will undertake each year. We note that it does not explicitly take into account other Council LTPs or He Tangata. This reflects its understanding that, as a CCO, NRC's ownership interests are paramount. Unlike some other economic development agencies, it also does not undertake an annual environmental scan and review of economic development opportunities as part of annual planning.

Interviews have indicated that there is a good process of discussion between Northland Inc and NRC in considering priorities for the year ahead. This occurs at an officials' level and at a Council level. Northland Inc also presents its intended priorities and activities to the WDC Council and has done so with the NRC Māori Advisory Committee. However, in these cases we heard that this is more of a presentation than a discussion where genuine input can be provided and debate had. This is not necessarily the fault of Northland Inc as these 'discussions' occur as part of formal Council meetings, where there can be limited time. Northland Inc has only had one opportunity to present its activities to KDC (the Council has only been re-established in the last nine months) and it has made an offer to



have a discussion with FNDC over the last year but this has not been taken up. However, FNDC has received updates on the Northland Inc work programme via presentations to all Northland elected members and the Mayoral and CEO forums.

Although there appears to be reasonable discussion between Northland Inc and NRC about the SOI, it is not apparent that this results in changes in prioritisation. First, Northland Inc currently has 13 objectives in its 2016 SOI and 12 proposed objectives in the 2017 SOI. In our view that is too many and will result in resources being spread over too many activities to achieve all of the objectives. The number of objectives has also increased over the last three years. We also note that Northland Inc has requested and received funding from NRC via the IGR to ensure greater servicing of some areas (e.g., regional marketing & promotion). However, there has not been a discussion about whether other areas of activity should be reduced in scale in order to free up resources.

In our view Northland's Inc's objectives should be reduced down as shown in Table 6. We do not consider that Northland Inc should have key objectives related to establishing infrastructure and increasing connectivity, as these are not core roles for the organisation compared to Councils and central government (it may be involved in related projects but this should not be a focus). Similarly, Northland Inc should also not be focusing on lifting local economies given its regional focus – projects and support will play out in different locations but Northland Inc is responsible for promoting regional development. Councils are responsible for supporting local and community development. We also do not consider that there should be a focus on the development of a green economy as nothing in the research or analysis to date has suggested that this is a major opportunity for the region. Finally, we do not believe that Northland Inc should have a focus on developing digital businesses relative to businesses in any other key sector.

Table 6. Proposed rationalisation of Northland Inc objectives

Current objectives	Proposed objectives
1. Support the implementation of the Tai Tokerau Northland Economic Action Plan.	1. Support the implementation of the Tai Tokerau Northland Economic Action Plan.
2. Promote the establishment and development of infrastructure that underpins economic growth.	2. Attract and leverage inward investment in strategic sectors.
3. Attract and leverage inward investment in strategic sectors.	3. Use the NRC's Investment and Growth Reserve to catalyse and leverage regional economic development projects for Northland.
4. Use the NRC's Investment and Growth Reserve to catalyse and leverage regional economic development projects for Northland.	4. Provide and facilitate business support services and to enable Northland firms to grow.
5. Support the development of globally competitive digital businesses in Northland.	5. Promote Northland as a progressive and positive place to visit, do business and live.
6. Support the development of a globally competitive green economy in Northland.	6. Partner with Māori organisations to develop and implement economic development projects for the benefit of Northland.
7. Increase logistic and digital connectivity to Auckland.	
8. Promote Northland as a progressive and positive place to visit, do business and live.	
9. Lift local economies to increase employment opportunities and incomes.	
10. Partner with Māori organisations to develop and implement economic development projects for the benefit of Northland.	
11. Provide and facilitate business support services and to enable Northland firms to grow.	
12. Establish a high performing innovation ecosystem to increase innovation and entrepreneurship in Northland.	



A smaller number of objectives will not only assist in prioritising Northland Inc's activities but will make it easier for Northland Inc and Councils to track activities against desired outcomes.

There is no formal process of engagement with other economic development partners and stakeholders when setting Northland Inc priorities. Northland Inc previously developed an MOU with iwi CEs to provide support for He Tangata and has developed a specific programme of work on Māori economic development. The MOU did not progress.

Overall, we believe the process for establishing and reviewing Council and Northland Inc economic development priorities and for considering the mix of activities can be improved:

- 1 There should be an overarching regional economic development strategy and plan that all the Councils, Northland Inc and key economic development partner organisations contribute to and buy-into. This should be the primary plan or strategy for shaping priorities for Northland Inc. In our view, this can be achieved through a fundamental update of TTNEAP, which takes into account the priorities in Northland Forward Together, He Tangata and relevant central government plans. District economic plans can be developed, but these should be established as subsets of the regional plan and be clearly aligned with the regional direction and priorities (e.g., similar to the current Far North Economic Action Plan). These should use a consistent set of analysis and themes. In addition, any sub-strategies such as a visitor strategy should also be consistent with the regional plan.
- 2 The Councils and Northland Inc should adopt a broader range of mechanisms to discuss and agree on objectives and priorities beyond the formal SOI and Council Committee processes. We believe there is room to improve the annual process of priority setting and review by holding a broader strategic workshop (including representatives from all the Councils and other key economic development partners and stakeholders) each year. We have seen such a process work in other regions (e.g., Taranaki).
- 3 Assessing progress against priorities by Northland Inc and Councils should not just be an annual process as circumstances change over time and new developments emerge. One mechanism could be a regular (e.g., quarterly) meeting between the Chief Executives of the Councils and Chief Executive of Northland Inc. Improved reporting by Northland Inc to Councils and other forums (e.g., Iwi Chief Executives) would also help (discussed later).

Another way to ensure that all Councils are able to actively participate in discussions on economic development priorities and resourcing is for Northland Inc to be a jointly owned CCO across all four Councils, reporting to a Joint Committee of the Councils. Options for improving economic development arrangements are discussed later.

- 4 NRC should also provide an annual Letter of Expectation before the SOI is prepared to reflect its understanding of the economic context, collective Council priorities in Annual and Long-Term Plans, and the discussions that have been had with Northland Inc. Such letters are used between other Councils and EDAs, for example in Auckland, Nelson-Tasman, Southland and Wellington. A LOE could include expectations about outputs, outcomes, measurement, reporting, efficiency and priorities, forming the basis of the SOI.

1.1.2 Is there a clear rationale and role for local government in supporting existing economic development activities and services?

Local government has a role in making long-term and strategic investment decisions that impact on the nature and structure of the economy due to the very nature of its activities. Councils manage regulatory functions, infrastructure and services that impact on business and investment decisions.



These functions can be considered broader economic development functions of local government and include:

- Leadership and direction - demonstrating a commitment to economic growth through growth enhancing strategies and plans and 'walking the talk' in a Council's dealings with business and industry.
- Investing in and managing productive infrastructure and assets – by ensuring that 'public' good assets that facilitate economic growth are provided in the region and ensuring that the management of assets and infrastructure is effective and efficient
- Providing core services – such as water, waste management, public transport and a range of amenities and ensuring these are reliable, accessible and priced appropriately.
- Regulation – ensuring regulation is administered responsively, consistently and cost-effectively.

These functions are well recognised and few would argue against them. They are also consistent with the role of local government as defined in the Local Government Act (LGA), i.e., that the primary role of local government is to meet the current and future needs of communities for good quality local infrastructure, local public services and performance of regulatory functions in a way that is most cost-effective for households and businesses.

Local government of course gets involved in functions beyond these core roles. This includes direct economic development services and activities. These initiatives aim to more purposely build the capability of businesses and industries to respond to opportunities.

For some, there is a question about whether these functions fall within the definition of public services in the LGA. What economic development activities might be considered as 'public services'? In our view, they are likely to meet this test if they are based on:

- 1 Clear evidence that there is a significant problem or opportunity facing local businesses, industry or the economy.
- 2 The identification of market failures underpinning such problems, such as features of public goods, information and coordination problems or externalities, which result in private decisions that are less than desirable from a district, regional or national perspective.
- 3 An assessment that local government (or its agency) can mitigate the problem and is best placed to improve on the market outcomes – relative to the private sector, non-government sector or central government.
- 4 An assessment that intervention by the local agency will succeed and that the benefits of doing so will exceed the costs.
- 5 A willingness and ability of stakeholders affected or benefitting from the activity to engage.

These questions are considered in turn in relation to economic development activities:

1 Is there clear evidence of significant problems or opportunities impacting on business and industry performance and growth in the region?

Problems impacting on the performance of businesses and industries in regions or opportunities for growth that are not being taken up are easy to find. The key is to determine that the problems or opportunities are significant enough that they are having a detrimental impact (or that they could have a positive impact) on a large proportion of businesses or a significant part of the regional economy.

In order to determine whether or not this is likely, a Council or its agency must gain a detailed knowledge of the issues and organisations or industries impacted, knowledge that can likely only be obtained directly from those involved.



This test is likely to be met if there is a good research base about the problems or opportunities and if there is ongoing engagement with private sector and non-government organisations to gather intelligence and feedback.

2 Do 'market failures' underpin such problems?

Council investment in direct economic development interventions is justified when private and non-government sector decision-making, if left on its own, is likely to result in investment and outcomes that are less than socially desirable, i.e., when market failure occurs.

There are several possible areas of market failure that can be considered in determining whether economic development investments and activities by local government are required (these are explained in Appendix 2). Some common types that can provide a rationale for direct economic development services and activities are:

- Information problems, i.e., organisations or industries may have limited information about an investment opportunity (e.g., the potential costs involved and benefits they will receive from co-investing in a research centre in the region), which stops them from investing. A Council agency might be able to bring information to bear to support the decision (e.g., about consenting costs and timeframes for the centre; about the skills available in the region that the centre may need; about the benefits that a similar centre in a different region has generated).
- Coordination problems, i.e., organisations or industries may be reluctant to partner with others on an investment because they are concerned about sharing information with potential competitors or simply because they don't know all the parties they should be partnering with. A Council agency might be able to play a 'broker' role in bringing the required parties together.
- 'Spillovers' or wider economic benefits, i.e., when the benefits of a project or investment are likely to flow to a range of organisations beyond those actually investing or taking part. For example, there might be a few businesses contemplating co-investing in a new training programme to develop more highly skilled workers for their industry, but they know that some of those workers will end up working for other businesses. So they will not want to fund the full amount required. A Council agency could provide partial funding to get the training programme established on the basis of the broader industry and regional benefits.

Markets never work perfectly. So problems such as the above need to be of sufficient magnitude to warrant Council involvement.

3 Can a Council (or its agency) do anything to address the problems/opportunities and is it best placed to improve on the outcomes?

An industry problem or opportunity may have been identified and a potential role for a Council or its agency determined. But a Council must also have the ability to improve on the existing situation.⁴ This is more likely when a Council or its agency has some advantages to bring to bear. For example:

- A Council might have privileged access to some information or be regarded as a more credible provider of the information (e.g., about environmental impacts, proposed developments, new regulation).
- In some areas of activity a Council may have an advantage in providing support to businesses or industries due to its links with officials in New Zealand or overseas, and because of an

⁴ This condition is an attempt to make sure that government failures are avoided to the largest extent possible. One difficulty with this condition is uncertainty - it is not possible to know for sure beforehand if intervention can solve the problem or not.



expectation of local government involvement. This could be the case in developing city to city relationships (e.g., in China) or in initiatives that have significant central government involvement.⁵

- In some cases, a Council can help facilitate or broker decisions and cooperation across organisations as it can be regarded as commercially neutral, impartial and as having wider regional interests in mind.
- Council agencies can sometimes attract support from experts at discounted or no cost who wish to give something back to the community.

4 Will Council intervention succeed and the benefits of intervention exceed the costs?

An assessment of expected (or realised) benefits and costs of an economic development initiative should involve consideration of:

- the benefits that would occur over and above those that would have been generated anyway (i.e., what would have happened if there was no support)
- the broader benefits to the region over and above those that the organisations directly involved will receive
- the broader costs that might be generated, over and above the direct costs of the initiative. For example, the costs involved in administering and monitoring the initiative or unintended consequences such as some businesses being disadvantaged.

If possible, particularly for projects involving significant investment, an attempt should be made to estimate the size of the wider (public) benefits compared to the private benefits as this should influence how the costs are shared between the Council and the private sector.

Evaluating the impact of economic development activities over time to assess whether they are achieving their objectives, whether they can be provided more effectively and efficiently, and whether there have been changes in the environment that suggest a change in direction is required is important to justify the continuation of activities or changes in resourcing.

5 Are stakeholders willing and able to engage

The final requirement is that the relevant stakeholders, whether they are businesses, industry organisations, iwi, educational institutions, research institutions, or central government agencies are willing to participate and, as appropriate, co-invest in the activity. There's no point in the Council identifying a major opportunity or problem and a proposed economic development service or activity if affected stakeholders are not serious about taking action.

Do current economic development activities and services meet these tests?

In our view current local government support for economic development activities in Northland is generally consistent with the rationales for involvement and appropriate roles for Councils:

⁵ This is also referred to as the government imprimatur (badge of endorsement).



A. Evidence of problems and opportunities

Activities are based on identified issues and/or reflect national programmes. There is a reasonable base of research available on the significant economic problems and opportunities facing the region (e.g., The Growth Study) and Councils and Northland Inc have reasonable levels of engagement with the private sector and non-government sector to get regular input. The IGR process tends to ensure that there is a base of research and analysis to support intervention in sector projects.

B. Market failure arguments are clear

Based on market failure rationales, the case for local government economic support is strongest for the types of activities highlighted in Table 5. Although this appears to be a great deal of potential activities, it is important to emphasise that the focus for economic development activities should be on information provision, facilitation, coordination and promotion rather than necessarily direct provision of services or investment in projects (unless the public benefit arguments are clear). Actual investment and hands-on intervention in projects requires more detailed consideration and a higher test. It's also important that, wherever practical, the Council's activities aim to catalyse as much private sector and non-government co-investment as possible over time. This is to prevent an over-reliance on Council funding and involvement.

Table 7 also provides our assessment of the consistency of current economic development services against appropriate roles for local government.

Overall, economic development services and activities provided by Northland Inc and Councils are largely consistent with the rationales. However, NRC's provision of funding directly to firms through the IGR, including for feasibility assessments and business cases, could be regarded as *potentially* inconsistent with appropriate roles of local government, given that it is direct assistance and there are other providers of such capital. That will depend on the extent of private versus public benefits associated with each investment and whether the investment is generating additional activity that otherwise would not occur. The IGR process aims to ensure that there is a higher test for local government involvement, with each case being assessed on its merits. However, as is discussed later in this report, there have been a few projects supported where the arguments for public sector investment have not been as strong as we would have expected.



Table 7. Consistency of economic development activities with appropriate roles of local government

What types of economic development activities are justifiable?	How consistent are economic development services/activities in Northland with the rationales and appropriate roles?
<p>Business development support – providing <i>basic business information and advice</i> (e.g., about relevant local government regulation), <i>referral services</i>, and <i>facilitating access to networks and to other support</i>. This is to overcome information problems (e.g., about where to find advice, about the quality of available advice or about the benefits that advice will bring), much of which has a particularly local or regional flavour.</p>	<p>Northland Inc provides business information and facilitates business access to business mentoring and available support through Callaghan Innovation and NZTE. It also provides services for start-ups across the region and encourages business networks and collaboration through The Orchard. It directs firms to private providers of training and advisory services. It does not provide business advisory services itself.</p> <p>NRC's Investment & Growth Reserve provides funding directly to firms to accelerate/extend growth.</p>
<p>Skills support - <i>promotion</i> of the benefits of upskilling, <i>signposting</i> of education and training opportunities, <i>supporting job matching</i> programmes and <i>promoting job and education opportunities</i> in the region – not typically training itself, unless for a limited time (to prove to the private sector that the training works). Businesses may under-invest in these activities due to a lack of certainty about the benefits that may result (information problems) and due to concerns about trained staff leaving their business (knowledge spillovers).</p>	<p>Local government support in this area is appropriately focused on promotion (e.g., talent attraction marketing) and facilitation, relying largely on existing non-government providers.</p>
<p>Promotion of innovation – local government agencies can have a role in <i>coordinating</i> activities of business and research organisations, and <i>providing information on research and commercialisation expertise</i> available in the region. This can be to overcome a lack of awareness of relevant R&D support that exists in the region (i.e., to overcome coordination and information failures) and to account for broader benefits associated with innovation activity.</p>	<p>Northland Inc's role is focused on improving linkages between industry and R&D/tertiary institutions and promoting areas of innovation capability in the region.</p>
<p>Investment attraction and promotion – <i>encouraging and promoting inward investment</i> to the region and <i>bridging information gaps and networks between inward investors and key organisations in the local economy</i>. Overseas investors' may have limited knowledge about the local economy and investment opportunities that a Council or its agency may be well placed to fill (i.e., to overcome information problems). Assisting existing investors to expand or retain their investment in the region by facilitating regulatory approvals, to access skilled staff or R&D expertise can also be warranted due to the broader benefits that investment can bring (e.g., new and better jobs).</p>	<p>NRC provides funding support through the IGR to investment projects where it is estimated there are wider economic benefits.</p> <p>Northland Inc provides information to support investment decisions (e.g., assists with feasibility assessments, provides an investment prospectus) and hosts investors.</p>

Internationalisation support – supporting the *provision of information* on markets, *facilitating trade/diplomatic visits* and *facilitating connections* between local business and offshore networks. This can be warranted because local government can have a natural advantage in its knowledge of the regional or local economy and ability to match this to offshore opportunities. Local government may also have links, networks and relationships with offshore local governments that would be beneficial to firms, over and above firms' own networks (e.g., through city to city relationships).

Neither local government nor Northland Inc provide significant support in this area beyond sister-city relationships, or providing basic exporting information and referring businesses to other providers of support (e.g., NZTE).

Industry development and major projects – local government can play a role in *coordinating sector investment* in major projects in the region and supporting *infrastructure planning or feasibility analysis*. A Council or its agency may be seen as an impartial broker to help coordinate investment across an industry. It may also be involved in related activities, such as regulating the use of or owning land or an asset that is sought by a particular industry. If the public benefit case is significant, this role can also involve seed funding or co-investment in major projects.

NRC provides funding support through the IGR to industry projects where it is estimated there are wider economic benefits.

Northland Inc works with organisations involved in IGR applications to provide guidance on their proposals. It promotes and facilitates these industry good projects. Northland Inc also facilitates industry coalitions.

Destination management and marketing – activities such as *regional promotion and destination marketing* can be justified due to the public good elements of tourism promotion and coordination problems, as individual tourism operators cannot capture all of the benefits of marketing and because of the diverse nature of the industry (which may make it difficult to organise a cooperative marketing effort across all relevant businesses). Similar arguments can also warrant local government involvement in *events and conference attraction and investment in events infrastructure* (e.g., businesses surrounding an events centre obtain benefits from visitors to events but it could be very difficult to get them all to co-invest in the event). Local government can have a role as it is often the provider and manager of infrastructure and services used by visitors (such as public spaces, parks, public transport), and hence is already involved in creating an environment that is attractive to visitors

Northland Inc's activities focus on broader promotional and marketing efforts. They also provide guidance on tourism product development projects that are seeking support through the IGR.

Councils support events which are geared towards benefitting the wider district economy. NRC provides funding support through the IGR to tourism development projects where there are wider economic benefits.

Town or community development – local government can be well placed to *encourage businesses to collaborate in the provision of district or community improvement activities* and regenerative property investment. This is to overcome coordination problems in the provision of collective services and because of broader (e.g., employment) benefits associated with these activities, which are not taken into account by private decision-makers.

Councils provide information to encourage business associations to work effectively (e.g., Far North's advisory role) and sometimes co-invest in promotional initiatives.

Strategy development and economic monitoring – local government has a role in providing leadership for the economic direction of the locality and region. This provides clarity and certainty for business location and investment decisions. It also has role in ensuring that robust local economic development data and information is available to inform strategy development and planning and enable decision-making. This includes measuring and evaluating the achievement of strategies, plans and investment to identify where improvements or changes or direction need to be made. This is to overcome information problems and reflects the fact that local government often has better access to relevant information and is an impartial source of that information.

Councils and Northland Inc have supported the development of the Growth Study and Action Plan and provide regular economic trend and visitor statistics reports.

C. Are Councils or Northland Inc best placed to provide the activities?

There appears to be no 'crowding-out' of other providers of economic development support and indeed are close working relationships in some cases (e.g., Northland Inc is co-located with the Chamber of Commerce). Northland Inc also emphasises that it attempts to work with and bring in other partners into projects where possible and provides several examples of doing this in its reporting (e.g., Te Puni Kokiri, Poutama Trust, MPI, MBIE). The current TTNEAP Working Group arrangement helps to ensure that there is a good level of information sharing between local and central agencies and some industry groups on economic development projects in the Action Plan and to ensure that work is coordinated across agencies. Finally, again, the IGR process aims to ensure that relevant organisations are involved in projects and indeed that the projects are led by local or industry groups or businesses rather than Northland Inc or Councils.

The one exception we came across were some differences in views about whether Northland Inc, Councils or local promotion organisations are best placed to deliver domestic-focused destination marketing activities. A few stakeholders believed that such marketing might be better delivered through local organisations rather than a regional organisation, and that Northland Inc should focus on international marketing of the region. We consider this later in the report.

D. Do the benefits of intervention exceed the costs?

An area of weakness, which is discussed later in this report, is that there has been limited assessment of the benefits compared to the costs of most economic development services in the region other than broad estimates provided for tourism and sector development projects that receive IGR funding. Assessing the benefits of economic development activities and attributing impacts to an intervention is difficult to do in practice, but mechanisms can be put in place to ensure better quality monitoring and impact reporting than is currently the case (discussed later in this report).

However, to the extent that national evidence suggests that the types of activities being delivered generally result in benefits greater than the costs and because we did not receive any feedback that any of the current activities are not working and should be eliminated, we can assume that this test is likely being met (a more detailed assessment of impacts is covered later in this report).



E. Stakeholders are willing and able to engage.

It is apparent that Northland Inc and Councils engage with industries and organisations that are prepared to commit to projects and initiatives. For example, Northland Inc's industry coalitions invest time and in some cases funding to be part of the initiatives. There are several examples where either an industry has not been ready and Northland Inc has not proceeded with an activity or where the industry group itself has decided not to engage further (for example, organisations that are part of the First Lumber Coalition have decided to focus on domestic rather than export activities and hence the Group will no longer be a focus for Northland Inc). Similarly, the criteria for IGR supported sector projects and for district-based events funding requires that stakeholders have skin in the game.

Overall, we consider that economic development activities in the region supported by local government are justified based on these tests, although there are some question marks about specific support related to IGR funding of private businesses and the role of local government in supporting domestic marketing. However, in order to make a stronger argument that local government interventions are appropriate, Councils and Northland Inc will need to improve performance monitoring and reporting in future.

1.2 Are there any gaps in economic development services?

As noted in the previous section, there appear to be no major gaps in the priority areas of economic development being invested in by Councils and Northland Inc, although there is a question about the relative emphasis given to different priorities and hence activities. Another way to consider potential gaps in economic development support is to assess whether there are any activities commonly delivered in other regions that are either not delivered or delivered differently in Northland.

1.2.1 How do economic development services in Northland compare to other regions?

All regions of New Zealand support the provision of economic development services and activities. There are around 20 economic development entities across New Zealand and 30 regional tourism organisations (some EDAs and RTOs are the same entity). Depending on the regional context and priorities, economic development activities tend to span the spectrum noted earlier, i.e., business development support, skills support, promotion of innovation, investment attraction and promotion, internationalisation support, industry development and major sectoral project support, destination promotion and events attraction, and district or community improvement activities. However, different activities are given more or less emphasis in each region depending on the context. Appendix 3 describes the activities of some comparable regions.

Economic development activities supported through the Councils and Northland Inc cover the types of economic development services offered in most other regions. As with every other region, destination marketing and promotion (including events) and business development support are major areas of activity. Northland is more active in investment facilitation and industry development projects than several other regions (other regions that are active in investment facilitation and/or industry development are Auckland, Bay of Plenty, Taranaki and Southland), leveraging the NRC's Investment & Growth Reserve (IGR). Many other regions tend to rely on national services in these areas (e.g., NZTE's investment promotion activities).



Although Councils in Northland are active in district marketing, broader regional destination marketing currently has limited emphasis compared to other regions and, as was noted earlier, is an area we consider should be better resourced in future (discussed later in this report).

Beyond the broad areas of activity, some stakeholders questioned whether the following more specific areas were being under-delivered or under-invested in:

- 1 Regional events – several stakeholders suggested that major events could benefit from regional leadership and coordination. They suggested that there were current events that could be of regional significance if they were better promoted and coordinated with other activities. We note that several other regions have developed a regional events strategy or plan and that the economic development agency or regional tourism organisation coordinates and supports the implementation of the strategy in conjunction with Councils and other stakeholders (for example, in Auckland, Hawke's Bay, Marlborough, Taranaki (under development) and Waikato (under development)). Other regions have an events strategy as part of broader visitor strategy. We understand there was a previous attempt at developing an events strategy in Northland but that there wasn't a clear lead agency and the strategy faltered.
- 2 Māori/iwi/hapū economic development. Several stakeholders noted that Māori/iwi are increasingly playing an important role in shaping the economic growth of the region. They questioned whether sufficient work was being undertaken with iwi organisations or Māori businesses to support the development of their capability and growth.

We were told there are opportunities to improve engagement with Māori at two levels:

- a Strategic level – representatives from hapū and iwi indicated that Māori have not been able to effectively participate in the TTNEAP process or in shaping economic development priorities for Councils or Northland. We understand that attempts to initially engage Iwi Chief Executives in the TTNEAP process involved asking for representation in a predetermined model and structure (e.g., the Advisory Group) rather than working with iwi to determine the appropriate arrangements and role. When Māori/iwi are asked to provide a perspective on economic development issues and opportunities, we were told there can also be a capacity issue as Māori organisations may not have the resources or capability (e.g., access to an economist) to provide the information or feedback that may be sought. There was also feedback that the Māori economy is at a different stage to the broader regional economy, i.e., that it is at a developing rather than developed stage, which requires a focus on more significant enabling opportunities such as skills development.
- b Delivery level – it was considered by some stakeholders that opportunities are being missed to connect Māori businesses with networks and resources. We were told that the implementation of He Tangata has not been well supported by Councils or Northland Inc. As noted, an MOU was developed between Northland Inc and Iwi Chief Executives to provide this support but this was not finalised and agreed. We were also told that there needs to be engagement at a whanau, hapū and iwi level if delivery is to be effective but that there has tended to be a focus at the iwi level.

We heard several times that Māori were typically seen as a stakeholder rather than a partner and that a partnership approach to both strategy development and delivery was required.

As is discussed later in this report, we consider there is a need to explore a partnership approach with Māori in overseeing, refreshing and reviewing TTNEAP.

In terms of delivery, Northland Inc has a dedicated Māori economic development advisor to develop relationships with Māori enterprise and, where required and appropriate, progress



projects with Māori. This is relatively unique in New Zealand as its specific reporting on Māori engagement and economic development initiatives in quarterly and annual reports.

Over the last few years, Northland Inc has supported the development of several projects with Māori and other organisations (e.g., Te Puni Kokiri, Poutama Trust) including:

- Te Roroa Commercial Development Company on a tourism initiative in the Waipoua Forest
- Te Runanga o Whaingaroa on a tourism strategy
- the Rawhiti 3B2 Ahu Whenua Trust on a strategy for the Rawhiti Peninsula and to develop high quality guided walking tours to Cape Brett
- with several Māori organisations on the Tai Tokerau Miere Coalition
- Te Hua o te Kawariki Trust to assist in the development of the Manea: Footprints of Kupe tourism attraction and cultural centre.

Northland Inc has also facilitated Regional Partnership support to around 20 Māori businesses over the last two years.

In our view, Northland Inc has made a genuine effort to support Māori economic development but, given the feedback we received, it is time to refresh this approach and determine whether more can be achieved through a partnership approach with Māori organisations.

A separate point to note from the comparison of EDAs (Appendix 3) is that there is quite a different mix of organisational models across the regions listed, with Hawke's Bay having multiple organisations involved (non-CCO) compared to Northland, which primarily relies on one organisation (a CCO) for a range of economic development services. Although there is no 'ideal' model, there has been a shift over time to single entities that combine economic development and visitor promotion services (e.g., in Auckland, Christchurch, South Canterbury, Dunedin, Rotorua, Manawatu-Wanganui, Wellington, Gisborne, Nelson-Tasman and a merger of activities being undertaken on the West Coast), which reflect clear commonalities across business, sector and destination marketing activities and a desire to have greater flexibility in making resource decisions across these activities. Northland Inc operates such as combined model.

1.2.2 Are there any overlaps or gaps in economic development activities between Councils or between Northland Inc and Councils?

Our review of plans and annual reports and discussions with stakeholders suggest that there is little overlap in economic development activities between Northland Inc and the Councils or between the Councils. As described in Table 5, Councils tend to be involved in activities closer to their core roles (e.g., supporting improvements in connectivity or the quality of the regulatory environment) or on district-focused activities such as local events and marketing and supporting community improvement initiatives. Northland Inc tends to focus on activities that are based on overcoming regional issues and taking up regional opportunities, such as supporting regional marketing and business capability improvement.

There are activities where Councils and Northland Inc are both operating, such as marketing, supporting tourism products, sector development and investment projects as these can have regional and district dimensions to them. Our observation is that the roles tend to be complementary rather than competing. For example, Northland Inc and WDC explicitly work together on the 'landing pad' investment promotion and facilitation initiative.



Some questions that should be considered in determining whether a direct economic development service or activity should be provided at a regional or district level are:

- What is the extent of the need or opportunity (is it regional or specific to a location)? If the service or activity is designed to overcome an issue or to secure an opportunity that is specific to a district, then district provision may well be appropriate. For example, this suggests that business development services focused on overcoming general capability and information issues should be managed and delivered regionally, as is the case with Northland Inc, although there may be district representatives involved to ensure reach.
- Where are the benefits or impacts captured? If there are likely limited benefits beyond a specific locality (i.e., little or no spillovers), then local provision of services or activities may be preferred. If district-based economic development is going to affect other communities – either positively or negatively – it may be better to consider regional provision so that broader effects can be taken into account. For example, the benefits of most district level events will be captured within the district and hence this support should be and is appropriately managed at a district level. However, district marketing activities may attract visitors to the broader region and hence should be coordinated with regional marketing activities.
- Is the knowledge and capability to organise and secure resources located regionally or locally? For example, sometimes central government agencies prefer to partner with and fund a regional entity for services rather than dealing with a range of district-level providers. This is the case with the Regional Partnership programme in Northland.
- What is the potential for economies of scale in delivery – if there can be efficiencies obtained by providing a service over a wider group of organisations and industries, then regional provision may be preferred. For example, we would suggest this is the case for facilitating and assessing IGR applications.
- How complex is the service or activity? If an opportunity or issue requires a considerable concentration of effort amongst multiple stakeholders and interests at different levels, and/or the service is difficult to assess and requires complex monitoring or evaluation, then scale or regional provision may be preferred.

It's important to note that these questions need to be considered together – for example even if an opportunity is district specific, if there are going to be regional benefits resulting from taking up that opportunity, then regional provision may be preferred. Similarly, even if a service should be provided region-wide, it may be best for delivery of the service to be through or in partnership with a territorial authority or local organisation when district context, knowledge and relationships are important.

These questions and our assessment of the situation in Northland suggest that the current division of district-led and regional-led economic development services and activities is about right, although there are opportunities for improving local engagement in regional delivery and in improving the coordination of district and regional marketing activities.

We also note that there are several examples of joint work between Councils and between Councils and Northland Inc, for example:

- The development of the regional response and submission for UFB2, RBI2 and mobile blackspot funding and the digital enablement plan
- The development of the Twin Coast Cycleway and Twin Coast Discovery project
- A range of sector and investment projects, for example, the assessment of the proposed Ngawha wood processing facility and facilitation of Hawaiki Cable.



However, we were told that there is room to improve the working relationship between Northland Inc and FNDC. FNDC indicated that they are prepared to provide co-investment in Northland Inc's activities for a programme of work in the Far North but, as yet, there has not been a clear programme of work to invest in. Northland Inc indicated that they have sought to engage with FNDC to discuss priorities and initiatives for the Far North but that they haven't been given many opportunities to engage. In our view this has come down to a difference in opinion in how Northland should be servicing the Far North, i.e., whether a presence in the district is required, potentially working alongside the FNDC, or whether Northland Inc can effectively service the district from a Whangārei base. We consider this later in our assessment of future delivery models.

We were also told that despite joint work on sector and tourism projects there isn't systematic collaboration across the Councils on economic development priorities or activities compared to, for example, transport (where there is a Transport Alliance across Councils). It is considered that this is partly due to a lack of an agreed economic development strategy across Councils.

Regional coverage

Northland Inc appears to be delivering a reasonable level of outputs across the districts in the region as shown in Table 8. District-level figures available from Northland Inc relate to business development support.

Table 8. Northland Inc outputs by District (2015/16)

	Far North	Whangārei	Kaipara
2014/15			
Regional Business Partnership businesses	35 percent	49 percent	15 percent
Callaghan Innovation investment	45 percent	19 percent	35 percent
2015/16			
Number of regional business partner active engagements	24 (30 percent)	45 (56 percent)	11 (14 percent)
NZTE capability funding	\$45,415 (14 percent)	\$228,782 (70 percent)	\$54,038 (16 percent)
Callaghan Innovation funding	\$0	\$102,093 (65 percent)	\$55,562 (35 percent)
Business mentor matches	16 (28 percent)	30 (53 percent)	11 (19 percent)

Note that the results for Callaghan Innovation have changed dramatically in the first three quarters of 2016/17, with \$620,112 (32 percent) of funding facilitated for Far North businesses and \$1,313,788 (68 percent) of funding facilitated for Whangārei businesses.



Despite the spread of outputs, given that the Far North has close to 36 percent of the region's businesses, with Whangārei responsible for close to 47 percent and Kaipara 17 percent, it appears that Whangārei has been receiving a relatively high level of business development outputs, with the Far North receiving a relatively low level of outputs on the basis of their business population. Kaipara also received a slightly low proportion of business engagements although a higher proportion of grants facilitated. However, there are variations in reach from year to year.

Northland Inc told us that they find it particularly difficult to serve the Far North because of the distances involved and travel time required to reach businesses in the district. Ensuring the district has access to services to encourage capability and investment is important given the earlier findings that the Far North has experienced lower growth.

It is important to note that figures available do not cover the full portfolio of activities. For example, several tourism and sector development projects supported by Northland Inc and NRC through the IGR are (at least partly) based in the Far North, including the Twin Coast Discovery project, the Manea: Footprints of Kupe project, the Waitangi Mountain Bike Park project, the Cape Brett Walkway business case, the peer review of the Bay of Island vintage railway business case, the Extension 350 initiative, and the assessment of the Ngawha wood processing facility. Similarly, Northland Inc's destination marketing activities benefit the broader region. However, there are relatively few industry or tourism projects currently being progressed in the Kaipara district.

Furthermore, WDC and FNDC deliver many economic development services and activities in their own districts, particularly support for events and destination marketing. There is more limited delivery in Kaipara but that reflects the fact that the Council has been under Crown management until recently and focused on delivering core Council services.

1.2.4 Are economic development activities being developed and implemented in coordination with other organisations delivering related services?

Stakeholders consulted indicated that there were generally good working relationships between Northland Inc, Councils and other support providers in the region and that complementary business and economic development services are usually well coordinated. As noted earlier, this is aided by the TTNEAP Working Group which brings together a large range of agencies.

The Chamber indicated that its co-location with Northland Inc allows the organisation to be kept up to date with Northland Inc activities through general conversation and interaction in the office and also to be connected to business and government representatives that come into the office.

We were told of one example where an organisation was involved in developing an application for central government funding for a research initiative and that it was perceived that Northland Inc would not discuss the idea with the proponent because they were working on a competing proposal. There was another example where stakeholders indicated that Northland Inc was supporting a concept for industry infrastructure in Whangārei when there was a similar proposal being developed in the Far North but there hadn't been an assessment of whether one or both were required for the region. We believe that both of these examples are based more on perceptions than reality but it means that the reasons why Northland Inc is supporting or not supporting particular proposals are not always clearly communicated. We would expect that Northland Inc would be objective about potential proposals and take a regional versus district perspective.



None of the organisations we spoke to thought there was any overlap between Northland Inc's or Council economic development activities and their own services. Indeed, it was more a case that some organisations wanted a greater level of engagement with Northland Inc to discuss joint opportunities.

There was feedback that although relationships and communication are strong across organisations involved in economic development at the staff level and on operational matters, there is limited interaction at the director level and on priority setting.



2. ARE SERVICES EFFECTIVE AND PROVIDING VALUE FOR MONEY?

Summary

Northland Inc and Councils are delivering a large range of outputs and reaching a large number of organisations across economic development activities and are generally meeting their respective performance targets. However, key performance measures should be reviewed as they tend to either focus on the quantity of outputs or longer-term outcomes that are difficult to influence, rather than intermediate outcomes or the quality of outputs. Current measures will be of limited use in assessing performance and making resource decisions.

As is common with economic development activities across regions, there is limited hard information on the impact of these activities in Northland with the exception of some forms of business development support and district events. There has not been any formal evaluation of economic development activities beyond the national programmes that Northland Inc facilitates in the region.

Although we cannot make a definitive assessment due to the limited evidence available, our judgement is that economic development activities are generally effective and that the benefits generated by the activities are likely to outweigh the costs. This is on the basis that:

- Client satisfaction with Northland Inc's business development activities is high.
- There are examples of businesses that have benefited from facilitated access to business development services in the region and a relatively high proportion of businesses accessing Northland Inc facilitated support indicate that it has helped their business, backed up by national evidence that capability vouchers and R&D funding helps to improve business practices and performance.
- Businesses and other organisations co-invest funding, time and resources in business development, destination marketing and sector development initiatives which suggests they are receiving value from those activities.
- The industry representatives and other stakeholders we interviewed were generally positive about the advice, information and facilitation support that Northland Inc provided and indicated that collaborative work through industry coalitions would not have occurred without Northland Inc's support.
- Events supported by district councils are achieving good outcomes in terms of visitor numbers from outside the district (and in some cases region) and spend.
- i-SITEs in Northland are meeting their performance expectations, including quality of service and customer satisfaction, and a national study suggests that they are facilitating relatively high levels of visitor expenditure compared to i-SITEs in other regions.
- Tourism product and sector development projects have leveraged considerable funding from non-local government organisations.
- Estimates of the impact of tourism product and sector development projects supported through the IGR suggest they will make a large contribution to jobs and economic value, and in some cases will generate broader benefits such as community pride and amenity improvements.



- A significant number of actions have been progressed through the TTNEAP. There has been genuine involvement by many stakeholders in the implementation of actions and the Working Group arrangement has improved the coordination of activity across local government and central government.

We have also identified areas where the effectiveness of activities could be improved or where further work is required:

- Despite Northland Inc's business development services having high levels of customer satisfaction, Northland Inc's satisfaction and net promoter scores were lower than many other regional partners, which suggests there is room to improve client engagement.
- Regional marketing activities and district marketing activities are not as well coordinated as they could be and there are perceptions that current regional marketing efforts are Whangārei-centred and not effective for the Bay of Islands.
- There is not a consistent approach to estimating event impacts pre-event and event outcomes post the event. The current emphasis on district level events is unlikely to be generating the level of benefit that would be possible from supporting regional events that attract visitors from outside the region.
- The current 'landing pad' initiative does not yet appear to be focused on high quality investment opportunities and will need to include investor profiling, investment diagnosis and after care in addition to lead generation and promotion to be effective.
- The quality of cases for local government investment in IGR supported tourism product and sector development projects has been variable. Many cases have not clearly identified the rationale for local government funding, and the expected broader benefits and impacts have not been well articulated for several projects.
- There has not been a clear prioritisation of tourism product and sector development projects through the IGR process which means that Northland Inc and Council resources are being stretched and that there will be limited funding available in out-years for these projects.
- The transaction costs involved in IGR assessment processes for small proposals, such as feasibility studies and business cases, are too high given that they must go through both the Northland Inc Board and NRC. In some cases there have been very long timeframes involved in making decisions on applications.
- The current TTNEAP and its support arrangements do not reflect best practice. There has not been sufficient prioritisation of actions and there has not been clear leadership of the Plan.

In the absence of formal evaluation evidence, there are no obvious areas of economic development services that should be discontinued. There is also no evidence of major areas of inefficiency in Northland Inc's delivery of services. Northland Inc's budget and costs have increased over the last three years but so has its level of outputs. In addition, Northland Inc's proportion of staff costs to total expenditure is moderate compared to other economic development agencies. However, some efficiencies will be possible by improving the way that IGR applications are processed. There are also potential opportunities to get greater leverage from other funding partners, including exploring joint resourcing approaches with KDC, FNDC and local promotion groups.

In order to improve the prioritisation of investment in economic development in future and better assess outcomes being delivered, we recommend that Councils and Northland Inc develop an output and outcome framework that sets out the intervention logic between the inputs being used, the activities being purchased and delivered, and the desired short, medium and longer-term outcomes. This will also help the organisations to develop a plan for evaluating these activities.



2.1 What outputs are being delivered?

Northland Inc provides comprehensive information about the quantity of its outputs in quarterly and annual reports. Council reporting occurs mainly in Council Committee reports (e.g., the FNDC and WDC include a monthly update on economic development activities in Council reports). Table 9 highlights the outputs reported by Northland Inc and the Councils over the last two years.

Table 9. Outputs from local government funded economic development activities

Service area	2014/15	2015/16
Business development	<p>Northland Inc:</p> <ul style="list-style-type: none"> Facilitated around \$200,000 of NZTE funding to local businesses 199 unique business engagements Delivered, facilitated and supported workshops and information sessions to over 400 people, including: <ul style="list-style-type: none"> an angel investor event a start-up seminar hosting a 'how to raise capital' event by NZTE a digital journey workshop regional business partnership information sessions <p>Far North District Council</p> <ul style="list-style-type: none"> Provided support for the Akina Foundation Social Enterprise Pilot (Thrive) 	<p>Northland Inc:</p> <ul style="list-style-type: none"> Facilitated \$164,117 of NZTE funding to local businesses, matched by private contributions 252 unique business engagements (130 enquiries and 122 businesses engaged) Made 57 mentor matches (with the Chamber of Commerce) Secured a 5-year contract with NZTE and Callaghan Innovation to be the regional partner Launched the start-up café initiative Delivered and facilitated four seminars to 125 people <p>Northland Inc and NRC:</p> <ul style="list-style-type: none"> Provided support for IGR funding for a scoping study for a Small Enterprise Loan Fund <p>Far North District Council:</p> <ul style="list-style-type: none"> Supported the Akina Foundation Social Enterprise Pilot (Thrive)
Promotion of innovation	<p>Northland Inc:</p> <ul style="list-style-type: none"> Supported the scoping report for The Orchard initiative Facilitated around \$850,000 of Callaghan Innovation funding Supported the development of the business case for a proposed innovation centre <p>Northland Inc with Councils:</p> <ul style="list-style-type: none"> Coordinated the regional response and submission of registration of interest for UFB2, RBI2 and mobile blackspot funding 	<p>Northland Inc:</p> <ul style="list-style-type: none"> Facilitated \$52,641 of Callaghan Innovation funding into the region with \$157,755 of funding approved Held a workshop on the regional research institute Undertook a feasibility study on the potential for a regional research institute <p>Northland Inc with NRC:</p> <ul style="list-style-type: none"> Developed the business case for The Orchard. <p>Northland Inc with Councils:</p> <ul style="list-style-type: none"> Coordinated the digital enablement plan for broadband extension
Investment attraction & facilitation	<p>Northland Inc:</p> <ul style="list-style-type: none"> Developed an 'ease of doing business' resource to support business attraction 	<p>Northland Inc (with Whangārei District Council):</p> <ul style="list-style-type: none"> Supported the hosting of 22 investors in the region Held 3 investment focused events



Service area	2014/15	2015/16
		<ul style="list-style-type: none"> Supported 4 companies entering due diligence to attract investment Provided a foreign direct investment seminar Developed the investment prospectus
Skills support	Nothing specific noted in Council or Northland Inc reports.	<p>Far North District Council:</p> <ul style="list-style-type: none"> Supported a Careers Bus Roadshow <p>Whangārei District Council:</p> <ul style="list-style-type: none"> Undertook a skills attraction campaign, "What's it worth", with a website
Internationalisation support	<p>Northland Inc:</p> <ul style="list-style-type: none"> Provided a 'becoming export ready' seminar Facilitated a Northland exporters showcase event 	<p>Northland Inc:</p> <ul style="list-style-type: none"> Provided a seminar on how to win international government business
Destination management & marketing	<p>Northland Inc:</p> <ul style="list-style-type: none"> Refreshed the destination website Developed an enhanced regional promotions programme and tactical marketing plan Hosted 26 media outlets Hosted 225 tourism trade personnel Produced a new monthly e-newsletter tourism update Generated more than \$13m in equivalent advertising value from media visits Provided support for the due diligence and IGR funding application for the Twin Coast Cycleway <p>Far North District Council:</p> <ul style="list-style-type: none"> Supported various events, including the Bay of Island Ocean Swim Series, Offshore power boats and Bath Tub racing Operated the local information centres <p>Whangārei District Council:</p> <ul style="list-style-type: none"> Support various events, including the Endless Summer Festival, Fitter Festival, FIFA U20 World Cup matches Promoted Whangārei as a great place to visit through various media, the Whangārei marketing website and the Whangārei visitor guide Operated the local information centres Coordinated a workshop of high-end accommodation providers 	<p>Northland Inc:</p> <ul style="list-style-type: none"> Released an RFP for the Pou Trail development Attended TRENZ international buyer-seller exchange Undertook two trade visits to Australia Produced a refreshed trade product directory, Chinese trade product directory, visitor guide Updated the Northland image library Produced a new conference planner Co-funded an offshore marketing programme with the International marketing group <p>Northland Inc with NRC:</p> <ul style="list-style-type: none"> Provided support for IGR funding for the Manea: Footprints of Kupe project Provided support for IGR funding for the Waitangi Mountain Bike Park Provided support for the Cape Brett Walkway business case Provided support for the feasibility study on Waipoua Forest Tourism Facilitated the independent peer review of the Bay of Islands Vintage Railway Business Case <p>Far North District Council:</p> <ul style="list-style-type: none"> Supported various events, including the Russell Birdman Festival, Ninety Mile Beach Snapper Bonanza, Red Wine Tour, Sanitarium Weetbix Try-athalon, Ngapuhi festival, Bay of Islands Ocean Swim Series, Bay of Islands Arts Festival Operated the local information centres



Service area	2014/15	2015/16
	<ul style="list-style-type: none"> Hosted a China-skills workshop for the tourism sector 	<ul style="list-style-type: none"> Co-funded the Bay of Islands Air NZ promotional campaign <p>Far North District Council, Northland Inc and NRC:</p> <ul style="list-style-type: none"> Provided support for the Twin Coast Discovery Project and a business case with NZTA Developed a proposal for the Kawakawa Hundertwasser Park and Visitor Information Centre (with FNHL) and recommended business case funding support <p>Whangārei District Council:</p> <ul style="list-style-type: none"> Supported various events, including the International Rally of Whangārei, Matariki Festival, Wild Kiwi Multi-sport event, Fritter Festival, Endless Summer Festival, Festival of Motorsport Promoted Whangārei as a great place to visit through various media, the Whangārei marketing website and the Whangārei visitor guide Delivered a 'short break' domestic campaign for the district Operated the local information centres Attended Convene and MeetingNZ to promote Whangārei as a meetings and conference destination
Industry development and major projects	<p>Northland Inc:</p> <ul style="list-style-type: none"> Provided support to the Hawaiki submarine cable project Facilitated the First Regional Lumber coalition. Facilitated the Northland Organic Milk Producers group Worked with food and wine producers to position the region as a food and wine destination Supported the formation of the Miere (Honey) Coalition <p>Northland Inc with NRC:</p> <ul style="list-style-type: none"> Supported the IGR application for the investment in Resources Enterprises Limited (REL) Provided support for the opportunity analysis for the Ngawha wood processing project Provided support for the opportunity study on indigenous wood products Provided support for investment advice on the land-based aquaculture (Kingfish) project 	<p>Northland Inc:</p> <ul style="list-style-type: none"> Provided support to the Hawaiki submarine cable project Provided a seminar on Clusters 101 Supported the F&B coalition to attend Taste of Auckland Formed new business coalitions (tourism international marketing, education) <p>Northland Inc with NRC:</p> <ul style="list-style-type: none"> Provided support for IGR funding for the Extension 350 initiative <p>Northland Inc, Far North District Council and NRC:</p> <ul style="list-style-type: none"> Provided support for the detailed assessment of the Ngawha wood processing facility <p>Far North District Council:</p> <ul style="list-style-type: none"> Provided support for the Wawera Forest Road Access



Service area	2014/15	2015/16
District and town improvement initiatives	Far North District Council: <ul style="list-style-type: none"> Continued to support the Kaitaia Business Improvement District 	Far North District Council: <ul style="list-style-type: none"> Funded a Business Association Advisory Service to provide mentoring and guidance for business associations Continued to support the Kaitaia Business Improvement District
Strategy development and economic intelligence	Northland Inc: <ul style="list-style-type: none"> Provided project management assistance for preparation of the Action Plan Northland Inc and all Councils: <ul style="list-style-type: none"> Provided updated economic information 	Northland Inc and all Councils: <ul style="list-style-type: none"> Contributed to the Northland Economic Action Plan Provided update economic information

Overall, in our view it appears that there is a relatively large number of economic development activities and initiatives being delivered in the region. Some of the highlights from the table are that:

- There were more than 250 business engagements by Northland Inc in 2015/16
- Northland Inc facilitated over \$350,000 of NZTE funding and over \$1 million of Callaghan Innovation Funding to local businesses over 2014/15 and 2015/16
- More than 20 investors were hosted in the region in 2015/16
- Support for the development of six new tourism products and experiences was provided through the IGR over 2014/15 and 2015/16
- A large range of events were supported by the Far North and Whangārei District Councils
- Support for the development of five industry good opportunities was provided through the IGR over 2014/15 and 2015/16.

Northland Inc has achieved mixed results on achieving the KPIs that were agreed in its SOIs over 2014/15 and 2015/16 (Table 10 below).

Table 10. Northland Inc KPI measures and results

KPI	2014/15	2015/16
Northland Economic Action Plan developed (2014/15) and implementation underway (2015/16)	Not achieved	Achieved
Investment and Growth Reserve - recommendations made on a minimum of 4 projects	Achieved – six projects recommended	Not achieved – three projects recommended
Business engagement (150 unique engagements)	Achieved – 199 unique business engagements	Achieved – 252 business engagements
NZTE and Callaghan Innovation Funding facilitated (\$500,000 2014/15; \$1.5m 2015/16)	Achieved - \$1.061m facilitated	Not achieved – \$0.485m facilitated
Māori economic development (number of partner projects)	Achieved – three projects	Achieved – five projects



Destination marketing (increase in website traffic and sessions)	Achieved – 39 percent increase in traffic	Not achieved – 8.9 percent decrease in website sessions
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Note that the low result for NZTE and Callaghan Innovation Funding in 2015/16 was due to a change in the application of criteria for R&D funding over the year. More than \$1.9 million of Callaghan funding has been facilitated so far in 2016/17.

The performance targets in previous SOIs were very limited and focused on outputs, such as the number of IGR projects recommended, the number of business engagements, the number of partner projects with Māori, the increase in website traffic. There were no indicators related to intermediate or even long-term outcomes. In our view, some of the KPIs could incentivise the wrong sorts of behaviours – for example, focusing on the number of IGR projects rather than the quality of projects. The fact that Northland Inc recommended three rather than four projects in 2015/16 should not matter if they were high quality projects.

The 2016-19 SOI includes different types of measures as shown in Table 11.

Table 11. Northland Inc KPI measures and results for 2016/17

KPI	2016/17 (first three quarters)
<p>Northland Inc Board recommendations made to the NRC Investment and Growth Reserve:</p> <ul style="list-style-type: none"> 1 project for debt or equity funding per annum 1 project for impact investment funding per annum 1 project partnering with Iwi, hapū and/or Māori collective organisations on economic development per annum 	<ul style="list-style-type: none"> One debt project recommended One impact investment project recommended Two projects with Māori being developed Six feasibility funding projects recommended
<p>Growth in Northland businesses engaged with Northland Inc as measured by</p> <ul style="list-style-type: none"> Growth in aggregate turnover by 5% per annum 25% of Regional Business Partnership companies are research active 	<ul style="list-style-type: none"> The portfolio of companies in the CRM achieved on average 3.2% turnover growth in Q3 22% of companies are research active in the year to date
<p>Improved promotion of the region as measured by:</p> <ul style="list-style-type: none"> 10% annual increase in sessions on www.northlandnz.com Industry investment of \$300K per annum in regional promotion activity An equivalent advertising value of \$15m per annum achieved from destination media coverage 	<ul style="list-style-type: none"> Has achieved a 10.2% increase on sessions over the first three quarters of 2017 compared to same period of 2016 Has achieved \$371,800 in contributions from industry in the year to date - \$174,555 of this was from revenue from visitor guides, website listings etc. \$92,500 is in-kind



	<ul style="list-style-type: none"> Has achieved \$17.65 million in equivalent advertising value in the year to date
Implementation of the Action Plan measured by:	
<ul style="list-style-type: none"> Value of confirmed investment from outside the region into Northland projects At least five new projects are added to the Action Plan per annum Projects / actions successfully completed 	<ul style="list-style-type: none"> Estimated central government contribution of \$18.5m into Action Plan projects One new project was added to the Action Plan Three projects in the Action Plan completed so far this year

Positively, it looks like Northland Inc will meet most of these KPIs in 2016/17 full year. It is also positive that there are some indicators related to 'impacts' and not just outputs. However, we have concerns about several of these measures:

- There are still indicators related to the number and type of IGR projects rather than having quality projects recommended. It should not matter that some projects are debt or equity versus impact investment projects. A better measure would relate to the quality of the proposals being submitted.
- The turnover growth target is not particularly meaningful over a period of a year and merely tracks what businesses are achieving rather than the difference the support made to the business. Even if businesses engaged by Northland Inc achieve more than 5% turnover over the year, this isn't necessarily a result of the support as business turnover will be affected by a large range of factors outside Northland Inc's control (and in a downturn, the turnover of many businesses engaged by Northland Inc may fall). Moreover, it could incentivise Northland Inc to work mainly with businesses that are already achieving high turnover growth.
- Similarly, the target for research active companies may simply mean that the companies were research active already rather than the support improving the level and quality of their R&D activity.
- The target of adding five new projects to the Action Plan is also not particularly meaningful. It shouldn't matter if projects are added or not, and the measure should relate to the quality and impact of projects rather than the number.
- The indicator on projects in the Action Plan being completed is not necessarily relevant unless Northland Inc has a role in implementing the projects.

The KPIs need to be reviewed and updated and include a combination of output measures and intermediate outcome measures (those outcomes that are more directly attributable to Northland Inc's activities).

There is a much larger array of performance measures in Northland Inc's Business Plan than the SOI. The Business Plan maps out a logic of activities to objectives and longer term regional outcomes. An example for business development and innovation support activities from the 2016/17 Business Plan is shown in Figure 5.

This shows a larger range of performance indicators related to Northland Inc's activities. Many of these are output indicators, but one – support coalitions to complete 2 new export deals – is a better measure of impact than the current KPIs. It is also good to see that there are short to medium

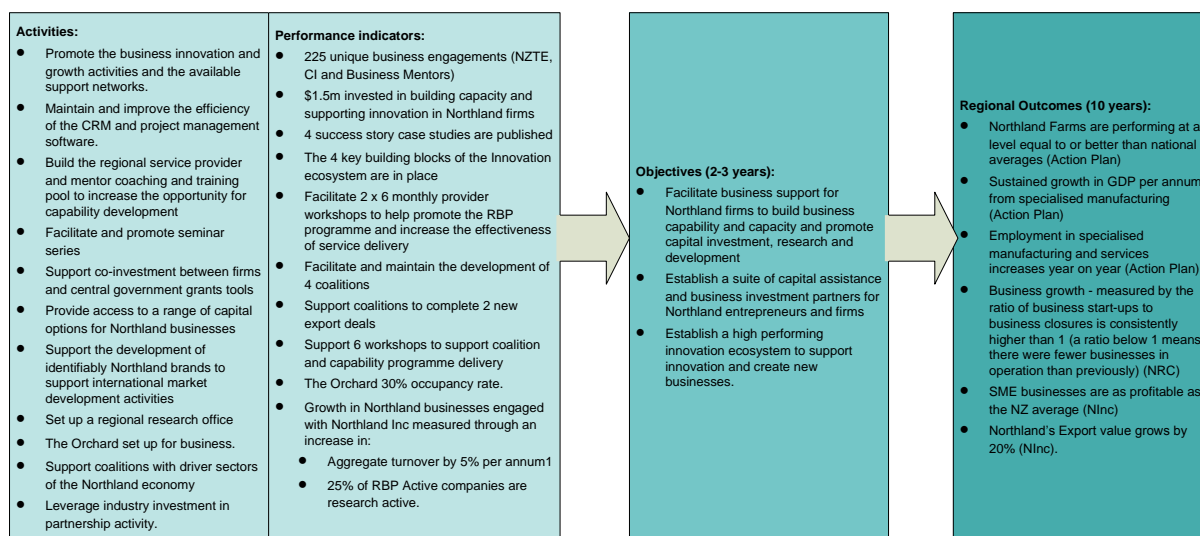


objectives, but these do not have performance measures attached. It is also positive that Northland Inc is attempting to link its activities to long-term regional outcomes.

However, there is not yet a clear logic from the activities to the regional outcomes. For example, Northland Inc is not contributing to Northland farm performance through these activities but this is included as a relevant regional outcome. It is also not clear whether the activities are going to be geared to supporting the improved performance of specialised manufacturing firms.

The idea of having such as performance measurement and outcome framework is a good one, but the measures and outcomes need to be reworked.

Figure 5. Business Plan output and outcome logic for business and innovation services



Examples of performance measures that would be more useful for two types of activities (supported by Northland Inc and Councils) are provided in Table 12 below:

Table 12. Example performance measures

Activity and outcome	Performance measures
Destination marketing and management	
Outputs	
Marketing campaigns	Number of campaigns and number of organisations participating
Marketing collateral	Number of visitor guides produced and distributed
Trade hosting	Number of international wholesalers, media etc hosted
Events	Number, type and location of events supported by Councils



Short-term outcomes (e.g., tracked and reported on annually)

Increase in visitor enquiries	Website users I-SITE enquiries and users (including comparisons during campaigns relative to same periods in previous years)
Increase in event enquiries	Requests for information about event opportunities and facilities
Increase in industry participation in marketing	Industry co-investment in marketing collateral Industry co-investment in marketing campaigns
Improved information about the regional as a visitor destination	Visitor satisfaction with marketing collateral (survey based)
Increase in reach of marketing	Estimated size of markets reached Equivalent advertising value
Improved industry and community organisation access to information, capability and resources to develop tourism products and experiences	Industry/community satisfaction with Northland Inc's information and with IGR processes (survey based)

Medium-term (track annually but do not expect major changes except after 2-3 years)

Increased awareness of Northland as a visitor destination	Visitor awareness (survey – domestic and international)
Increase in major regional events	Number of new events Expansion of local events (e.g., as measured by participation) Number of events in off-season
Increase in visitor participation in events	Proportion of non-Northland participants that attend events
Increase in tourism products/experiences	Number and value of tourism products and experiences facilitated by IGR

Long-term (track annually but do not expect major changes except after 5+ years)

Increase in international visitor numbers	International visitor numbers (from national survey)
Increase in visitor nights	Commercial accommodation nights – annual and off-season
Increase in visitor expenditure	Regional and TA visitor expenditure estimates – annual and off-season; domestic and international



Business development and innovation support

Outputs

Workshops and seminars	Number of workshops and seminars (and number of participants)
Business engagements	Number of unique business engagements (relative to previous years) by TA, industry and ethnicity Number of business assessments Number of mentor matches facilitated (relative to previous years) by TA, industry and ethnicity
Funding facilitated	Number and value of NZTE and Callaghan Innovation grants facilitated (approved and relative to previous years) in the region by TA, industry and ethnicity

Short-term outcomes (e.g., tracked and reported on annually)

High client satisfaction	Client satisfaction (relative to national average and previous years) – NZTE/Callaghan survey Client rating of information provided (relative to national average and previous years) – NZTE/Callaghan survey
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Medium-term (track annually but do not expect major changes except after 2-3 years)

High use of assistance to improve practices and performance	Clients use of information to improve business practices (relative to national average and previous years) – NZTE/Callaghan survey
High proportion of clients' expectations met or exceeded	Client rating of whether expectations met (client survey)
High proportion of clients continue to use external expertise and advice	Client use of external assistance (client survey)

Long-term (track annually but do not expect major changes except after 5+ years)

Increased proportion of high growth businesses in the region	Proportion of high growth firms (enterprises with 10 or more staff recording annualised growth of 20% pa over 3 years) and compared to other regions
Increased investment in innovation & R&D in the region	Trends in business investment in R&D by clients relative to non-clients
Growth in regional exports	Growth rate in estimated exports and relative to other regions



The Whangārei and Far North District Councils' key economic development related performance measures in Annual Plans and Annual Reports are also of mixed use for performance measurement (note Kaipara District Council does not have any economic development performance measures). Performance measures and results are shown in Table 13.

Table 13. District Council performance measures and results

Performance Measures	2014/15	2015/16
Whangārei		
Percentage of clients satisfied with the service provided by the economic development team (Target 8.5%)	Achieved (92%)	N/A
Whangārei District's GDP growth compared to the average of like regional economies (Target: 2% higher than other G9 councils)	Not achieved (Target 2.0%, Actual -0.8%)	Not achieved (Target 1.5%, Actual -0.4%)
Visitor spend on bookings through the Whangārei visitor centres will increase each year (Target 2%)	Achieved (9%)	Achieved (19%)
Total visitor guest nights in the Whangārei District will show an increase each year (Target 2%)	Achieved (7.9%)	Not achieved (-9.3%)
Far North District Council		
Council supports 3 industry projects	Not achieved - 0 (supported community economic development projects instead)	N/A
Council supports 2 destination market projects	Achieved (2)	N/A
Council support for destination marketing/projects/events achieves anticipated return on investment (Target 100%)	N/A	Achieved
Grant recipients achieve funding contract accountability measure (Target 100%)	N/A	Achieved

Source: Whangārei and Far North District Councils Annual Plans for 2014/15 and 2015/16.

It will be difficult for WDC ever to attribute growth in GDP and visitor nights in any one year to its own activities – these measures might be useful to track over the long-term but should not be performance measures of the Council. One useful measure of performance – client satisfaction with the service of the economic development team – was removed after 2014/15. The Far North District Council's measures were previously output based but are now more quality focused, although they are limited in scope.

2.2 What is known about the impact and effectiveness of existing services?

Although there are a large number of outputs being generated by Councils and Northland Inc, it is difficult to determine the impact of these outputs and the benefits being generated by economic development activities as there is limited information available on the outcomes that result from the activities. We assess what is known about different types of activities below.



2.2.1 What is known about the effectiveness of business development and innovation activities?

Northland Inc

There is some, albeit limited, information about the impact of the business development services delivered by Northland Inc.

NZTE and Callaghan Innovation undertake quarterly client satisfaction surveys on their Regional Business Partners. Northland Inc rated well but about average overall compared to other Regional Partner results for the year ended June 2016:

- In terms of overall client satisfaction with the Regional Business Partner – 89 percent of respondents said that their level of satisfaction with Northland Inc was good or better (50 percent said excellent). 4 percent of respondents were neutral and 8 percent were negative. However, this result was slightly lower than many other Regional Business Partners – 94 percent of respondents across all Partners rated their level of satisfaction as positive, 4 percent were neutral and 2 percent were negative.
- On the value of information supplied by the Regional Business Partner – 92% of respondents said Northland Inc's information was good to excellent, 4% were neutral and 4 percent were negative. This result was slightly lower than several regions such as Bay of Plenty, East Coast, Manawatu-Whanganui, Marlborough, Southland, Taranaki. 96 percent of respondents across all Partners rated the information they received as positive, 3 percent were neutral and 1 percent were negative.
- In terms whether the service and support they received helped their business – 97 percent of respondents in Northland agreed or strongly agreed and 3 percent were neutral. This was a better than average result and actually the best result of Regional Partners (across New Zealand 88 percent of respondents agreed, 9 percent were neutral and 3 percent disagreed).
- 69 percent of respondents said they had implemented business improvements or changes following the advice they received from Northland Inc. This was higher than the average result across New Zealand (nationally 62 percent of respondents said they had implemented improvements or changes).

Northland Inc received a net promoter score of +39 based on whether respondents would recommend the Regional Business Partner to a friend or colleague (23 percent were detractors, 15 percent were passive and 62 percent were promoters). This was quite a low score compared to the majority of other Regional Partners – across New Zealand regional partners received an average net promoter score of +55.

Clients that access NZTE capability vouchers or Callaghan Innovation R&D funding also have to contribute their own funds to the project (often 50 percent of the total contribution, or more in the case of R&D grants) and generally reasonable time and staff resources (e.g., attendance at training, time spent on testing and refining a new product). We can imply from this that businesses value the support that is being provided.

Business Mentors NZ also surveys clients about their satisfaction with Regional Partners' facilitation of mentoring services. In a recent survey (covering August to November 2016) Northland Inc received some good results but did not perform as well as several other Regional Partners:

- 80 percent of respondent mentor recipients surveyed that had been facilitated by Northland Inc said that the service was excellent or good. Although positive, this was a relatively low result, with the average across New Zealand being 86 percent.



- 40 percent of respondents said they were likely to recommend the service offered through Northland Inc, compared to 82 percent nationally.
- 60 percent of respondents in Northland said that the programme assisted in resolving their business issues, which was lower than all other regions other than Auckland West, Manawatu-Wanganui-Horowhenua and Gisborne/East Coast.

One major caveat with these results is that there was a small sample size in Northland.

Northland Inc also provides a few selected profiles or examples of the impact of different business development activities in its regular newsletters and other reports. For example:

- The Orchard – the co-working space has had reasonable demand since its establishment, with 12 seats occupied in the first three months, suggesting that entrepreneurs and businesses see value in the type of environment. It has also allowed the Chamber of Commerce to co-locate with Northland Inc and to allow Chamber members to have easier access to Northland Inc services. The Orchard is also used to deliver business events including lunch box sessions and expert series.
- Rudolfs – a marine vessel maintenance company – have used support provided from mentoring and the Regional Business Partner service to improve governance and reporting practices and indicated that the support has improved strategic thinking and upskilling of staff.
- Kia Ora Honey Ltd, which used support from NZTE capability vouchers to improve hive maintenance during manuka honey harvesting.
- Start-up Cafes – whereby members of the Northland Inc team travel to six locations across Northland to provide advisory services at local cafes – was extended from three months to six months due to demand.

The available evidence suggests that business development and innovation support delivered or facilitated by Northland Inc is valued and is assisting businesses to improve their practices and performance. However, there are some signs from the Regional Business Partner results that Northland Inc can improve its level of service. In addition, there is no evidence to suggest that this assistance is resulting in broader economic benefits (e.g. exchange of knowledge between businesses).

This is consistent with evidence from national evaluations of this type of support, which indicate that the success rates of business development support initiatives are variable. Business information, mentoring and incubation do benefit the businesses involved (noting that the region does not currently have an incubator initiative). Grants can encourage businesses to undertake more/different activity to what they otherwise would do. For example, clients of the Regional Business Partner programme nationally perceive that it impacts on management capability, with around half of clients surveyed as part of a national evaluation of the programme reporting that it had moderately or greatly increased their ability to manage their businesses. Only a fifth said it had not at all increased their management ability. However, there is little evidence that this business support results in wider economic benefits for regions.

District Councils

District Councils are, correctly in our view, not generally involved in providing business development activities (other than providing businesses with information about their district, regulations etc when requested). However, FNDC has been piloting a social enterprise initiative in their district – the Far North Thrive Programme. Thrive is focused on encouraging the development of new businesses based on a social enterprise model, which means the businesses are set up to achieve broader goals



than just profit. These goals might include creating local jobs, revitalising a community, promoting sustainable business practices and/or improving the local environment.

The initiative was a partnership between the Council and the Akina Foundation, with some funding provided by Foundation North. The initiative involved a four-month programme designed to support 26 participants to create social enterprises, including four two-day workshops as well as online tutorials and peer mentoring. The programme ended with an expo to showcase participants' concepts and to provide an opportunity for backers to get involved. Participants were selected using a competitive selection process. Intended outcomes for participants included upskilling in social enterprise creation and development and creating a business case for their idea.

FNDC prepared a post-review report on the programme. They noted it was too early to evaluate outcomes for participants but did highlight positive results from the pilot, including:

- The pilot was oversubscribed, demonstrating that there is demand for this type of programme
- There was a good vetting process to ensure quality applicants and concepts entered the programme
- Informal feedback from participants suggested that they valued the programme and the flexible nature of programme delivery
- Several participants were in the process of developing social enterprises (15 had made good or some progress a month after the programme).

Opportunities for improvement included the need to develop post-programme support for participants, to consider ways in which the programme could be made financially sustainable (it was free to participate) and to more formally monitor the impact of the programme.

Overall, the results from such an experimental programme were reasonable and it is also positive to see that there was a review of what worked and what could be improved.

2.2.2 What is known about the effectiveness of destination marketing and management (including events attraction) activities?

Destination marketing activities

Northland Inc

An extensive number and type of marketing and promotional activities are undertaken by Northland Inc including:

- marketing collateral, e.g. visitor guide (90,000 copies), NorthlandNZ.com website, trade product directory, Chinese trade product directory and social media
- representation at the annual TRENZ event and the Meetings and Conveners trade shows
- trade show visits (for example, to Australia, South America, North America)
- media releases
- participation in Tourism NZ campaigns (e.g., the North Island Touring Campaign within Australia)
- a monthly Tourism Update.



The impact of Northland Inc's marketing and promotional activities and collateral are not formally assessed although, as noted earlier, website traffic is tracked. Northland Inc did not meet its website traffic target in 2015/16 (10 percent annual increase in sessions) although is on track to meet this target in 2016/17. We understand the result for 2015/16 was because the website was being restructured.

However, businesses contribute and participate in several of these initiatives which suggest they value the activities. For example, in 2015/16:

- 14 businesses attended the TRENZ event with Northland Inc, including 3 first-time companies that were incentivised by Northland Inc
- businesses co-invested \$155,000 in marketing collateral
- Northland Inc facilitated an international marketing group, which co-funded \$32,500 towards an offshore trade marketing programme with Northland Inc.

As was also noted, industry has contributed \$174,500 to marketing collateral in the first six months of 2016/17.

Northland Inc has received an additional \$310,000 per annum for three years from the Investment and Growth Reserve to do additional marketing activity. This includes an annual Tactical Marketing Plan which has the following objectives:

- Increase Northland's presence and profile in developing offshore visitor source markets
- Gain better domestic market cut through for the main sub-regional destinations within Northland
- Maximise the use of PR and media visit activity to raise international and domestic consumer awareness
- Build and develop trade relationships in New Zealand and offshore
- Develop and supply motivating destination content for delivery to third party channels.

The Plan has involved developing new digital imaging, publications, international tourism trade channels, domestic visitor and media hosting, and product development and joint ventures. Northland Inc has to report separately on specific measures associated with this activity and has generally been meeting or exceeding those. Table 14 shows the results for the first six months of 2016/17 (to December 2016):

Table 14. Northland Inc Expanded Regional Promotion (Marketing) KPIs and results

Performance Measures	2016/17 (six months)
10 new wholesale and inbound sellers of NZ holidays who include Northland product(s) annually	5 wholesale/inbound sellers
International Marketing Group co-fund plan for Northland expansion in China, USA, South America and India during 2016	Year 2 International Marketing Group plan finalised for 2017 and includes activity to encourage expansion in China, USA, South America and India
Target membership 14 operators	15 operators hold memberships
Two sales call trips to Australia	Not yet undertaken
Two days Auckland sales call visits	Three sales call visits
One-day Wellington or ChCh sales call	One to Wellington



30 percent industry investment in China Social media programme	30 percent reached
Increase Latin American trade database by 100	Trade database increases by 267
Latin America trade famil increase by one	11
Increase India trade database by 100	Trade database increases by 158
India trade famil increase to one	0 by Dec 31
Increase North American trade database by 100	Trade database increases by 508
US trade famil increase by 1	17
30 TNZ and IBO originated trade agent familiarisation visits	74 agent visits
Target 14 businesses attend TRENZ 2017	13 businesses by Dec 31
Two domestic campaigns developed for shoulder season	To be undertaken
Website: 10% increase year on year (sessions, users, page views)	On track
Social media: Facebook likes increase 10% for corporate and destination accounts; Twitter followers increase 10% for corporate accounts; Instagram destination account target 500 followers; Establish YouTube channels	Some progress by Dec 31 – Facebook: 5.8% increase in followers; 1.5% increase in Twitter followers; 358 Instagram followers; Northland Inc YouTube account established
Image library images to be added x50, moving images x2	To be undertaken
12 media articles published online as a direct result of Northland Inc submissions	3 by Dec 31
Collateral produced: visitor guide, tourism product directory, Chinese product directory	Visitor guide completed, product directories in production
395 international and domestic media visits managed	15 media visits by Dec 31
Equivalent Advertising Value (EAV) of \$6m achieved	EAV of \$9.4m by Dec 31
Four industry seminars	2 industry seminars operated
Membership of tourism organisations	Memberships in place

Source: Northland Inc Regional Promotion reports.

The performance measures are largely output based but there are indicators that suggest that industry values the activities, including businesses attending TRENZ, 15 operators holding membership in the International Marketing Group, and industry co-investment in the China social media programme. Northland Inc reports that the Tactical Marketing Plan has resulted in a significant increase in media and trade visits to Northland.

Some stakeholders noted that they consider that regional destination marketing is relatively poorly resourced compared to other economic development activities (which is consistent with our earlier findings on the level of investment in this activity). However, stakeholders also commented that the staff involved in this activity were doing a lot with limited resources and considered that Northland Inc is stepping up its level of destination marketing activity and engagement with the tourism sector.



District Councils

WDC has a District Promotions and Tourism Team (most of the staff are involved in the information centres and Clapham's Clock Museum) and undertakes a range of destination marketing activities to promote Whangārei as a great place to visit and to encourage greater numbers of visitors and visitor spend. This includes:

- The destination marketing website WhangareiNZ.com. WDC has been upgrading the website and aligning it with NorthlandNZ.com and Tourism NZ's destination marketing website. In 2016, there were close to 111,000 users of the website and 420,000 page views.
- A range of marketing and advertising campaigns, including those associated with events (for example, marketing of the Whangārei Fritter Festival has appeared in Kia Ora Magazine). A Short Break Domestic Campaign was supported between June and August 2015, targeting Aucklanders. The Campaign involved a theme "All in a Day in Whangārei" and communicated reasons to travel to Whangārei for a short-break during the winter months.
- Promotional material for organisations and events including bags, bumper stickers, guides, tee-shirts, banners and flags. For example, WDC has provided promotional material to various events such as the Lion Series 2017, Festival of Motorsport, Business Excellence Awards, the National Scrabble Tournament, Girl Guides Jamboree, Rotary Conference, Fritter Festival and at Citizenship Ceremonies.
- Support for social media including Facebook advertising to encourage Aucklanders to visit Whangārei.
- Attendance at Convene and MeetingNZ to promote Whangārei as a conference, meetings and incentives destination.
- Tourism marketing products such as the Whangārei Visitor Guide, Whangārei Visitor Map and brochure displays, videos and posters at information centres.
- Signage, incorporating the Whangārei Love It Here! Brand, and including Welcome To/Farewell signage at highway entrances and the Whangārei Airport.

Most of WDC's reporting on marketing activities relates to the reach of the activities, although there are also some measures of impact (see Table 15). There is typically monthly reporting to the relevant Council Committee on marketing and events.

Table 15. A selection of Whangārei District Council's marketing activities

Activity	Reported output/impact
WhangareiNZ.com	<p>Year ended June 2015: Users – 144,006; Page views – 457,047</p> <p>Year ended June 2016: Users – 138,007 (-4% over year); Page views – 375,402 (-18%)</p> <p>Year ended April 2016: Users – 114,853; Page views – 436,883</p> <p>Year ended April 2017: Users – 107,956 (-6% over year); Page views – 384,161 (-12%)</p>
Visitor Guide	45,000 copies produced annually. In 2016, the guide generated \$35,350 of advertising revenue from tourism operators.
Facebook	<p>Year ended June 2016: 8,598 Likes; Year ended March 2017: 10,168 Likes</p> <p>Wild Kiwi advertising (March 2017): 47,737 people reached</p> <p>Whangārei Fritter Festival advertising (March 2017): 51,524 people reached</p> <p>Tutakaka and Whangārei Heads promotion (April 2017): 96,596 people reached</p>



Short-break campaign (2015)	Number of website users located in Auckland increased by 8,844 or by 106% when compared to the same timeframe in 2014.
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Source: Whangārei District Council Committee reports.

It is apparent that the number of users of WhangareiNZ.com has declined over the last couple of years. Positively, industry is contributing to the visitor guide, indicated that they place value in the publication. It is also positive that WDC assessed the impact of the short break campaign against the same period a year earlier to provide a good indicator of impact and it appears that it increased interest in the district.

WDC has also undertaken research to assess its various brands including Whangārei Love It Here!, City of 100 Beaches, What's It Worth and Whangārei All In A Day. The research found that Whangārei Love It Here! has strong value for locals but wasn't meaningful to Aucklanders. What's It Worth and Whangārei All In A Day were better received and regarded as having the potential to encourage people to visit or relocate to the district. Another finding was that Whangārei means the city to Aucklanders rather than the whole district, which suggests that existing branding and marketing has not been that effective in marketing the entire district.

FNDC does not carry out significant district promotion itself and instead will support, as appropriate, marketing initiatives undertaken by local promotion groups and organisations. For example, FNDC recently supported FNHL and the Bay of Islands Marketing Group by contributing funding to the Air NZ safety video campaign, which included the in-flight video, branding on coffee cups and billboards. The impact of this campaign on visitor numbers and spend will be difficult to assess although we note that the safety video has had over 630,000 views on YouTube. Stakeholders we talked to were complimentary about the responsiveness of FNDC in supporting this initiative.

We were told during interviews that there has been a history of disconnect between the Regional Tourism Organisation and tourism operators in the Far North. This stems from the time of Destination Northland (which was regarded as not having a clear destination plan) and Enterprise Northland and was exacerbated when Destination Northland staff were removed from the Bay of Islands at the time the organisations were merged to form Northland Inc. Northland Inc is regarded as Whangārei-centred by some operators and there are differences in views about the relative importance of Bay of Islands to the broader Northland visitor proposition (some Bay of Islands operators are concerned that the area is not being emphasised sufficiently in regional marketing efforts).

We understand that the Bay of Islands Marketing Group, a private sector group, was originally formed because operators in the area considered that there was insufficient marketing of the Bay of Islands at a regional level. Members of the Group contribute \$250,000 per annum towards their own marketing activities, which is more than a third of Northland Inc's current regional marketing budget. We were told that the Marketing Group is supportive of Northland Inc's international marketing efforts but considers that domestic marketing requires a local perspective. We also note that the Group is currently funding its own administration and project support functions and that there may be an opportunity for this to be shared with Northland Inc. Northland Inc has approached the Group about the potential to contribute.

Overall, there are some mixed results on the effectiveness of destination marketing activities. Neither Northland Inc nor WDC have been meeting their website traffic targets. Whangārei's branding is not always meaningful for visitors. On the positive side, industry representatives are contributing to both regional and district activities. However, some operators in the Far North do not regard regional marketing as being effective for the Bay of Islands.



We previously noted that there is a relatively low level of investment going into regional destination marketing in Northland compared to other regions. We also noted that although Northland's domestic visitor expenditure had been growing at a reasonable rate (reflecting that the region is a relatively easy trip for Aucklanders for weekend and holiday travel), the region is not performing as well on international visitor expenditure. International marketing is a current focus of Northland Inc's marketing activity but it's not possible to say that international visitor performance is due to inadequate marketing and promotion – the performance may have been even lower in the absence of Northland Inc's activity. In order to judge effectiveness, visitor numbers and expenditure would need to be measured during and after major campaigns and the results compared to similar time periods when there haven't been such campaigns.

There is considerably more investment going into district marketing than regional marketing although it is not apparent that the returns for this marketing activity are better than regional marketing. National evidence suggests that destination marketing tends to provide a positive return on investment by improving the awareness of the region with potential visitors and reinforcing decisions to travel to the region, i.e., it encourages new visitors to the region. However, some elements of district marketing are geared to attracting visitors and spend from other parts of the region rather than generating new spend for the region.

In our view there would be value in Councils and Northland Inc assessing the balance of regional versus district marketing. As noted earlier, Northland does not have a visitor strategy that would help to inform these decisions and where the focus of marketing activity should be.

Destination management

Northland Inc and the Councils have been involved in a large range of tourism product concepts over the last three years. This includes the provision of advice and information, facilitation and financial assistance for the development of products, particularly through the IGR processes.

Twin Coast Discovery

The most significant project has been the Twin Coast Discovery project, which involves work with local communities and tourism and business groups throughout Northland to create a series of compelling visitor journeys across the region. The aim is to encourage dispersal of visitors and greater length of stay and hence to increase visitor spend. The project case estimated that the project could result in an additional \$20 million in visitor expenditure and 250 FTEs over five to seven years.

The process has been thorough, commencing in 2013 with a series of workshops with businesses, iwi and government agencies to consider how to revitalise the Twin Coast Discovery Route, followed by the development of a concept and consultation throughout the region to test its validity in 2014. In late 2014, NRC approved IGR funding for the project, representing just over a third of the total project cost, with other contributions coming from central government, local government and industry.

The initial phases of the project have included a series of workshops across the region to identify and develop 'byway' route opportunities, which resulted in 17 applications for support from local community and tourism groups. Northland Inc worked with these groups to develop the concepts and 8 byways were identified for initial work. Three of these byway routes were developed as pilots – Whangārei Town Basin to Whangārei Heads, Paparoa to Omapere, and Whangārei Falls to Tutukaka and on to Hikurangi. Identification of points of interest on the routes and maps for the three byways were developed in early 2017. Work is currently underway on developing a second set of four byways (Kaitaia to Cape Reinga, Bay of Islands to Hokianga Harbour, Te Roroa Visitor Centre to Mitimiti, and Bay of Islands waterways).



NZTA has also developed a programme business case to support the initiative by investing in transport improvements, such as signage, roadside pullover areas and other road improvements. The Ministry of Culture and Heritage has also identified a series of icon heritage sites for development associated with byways routes. ATEED and Tourism NZ have also been involved in providing advice and support for the project.

From an implementation perspective, the project appears to have been well planned and managed, with clear stages and decision-making points. There has been sufficient flexibility to make some changes to the concept as the project has progressed. There has also been comprehensive reporting by Northland Inc to NRC every six months on project progress.

Clearly it is too early to evaluate the impact of this project on visitor numbers, spend and jobs. However, a positive outcome in our view has been the improved coordination and participation of local community and promotion groups with local and central agencies in developing the initiative and that there has been significant co-investment (time and funding) by these groups in the project. This certainly suggests the project has real value. Stakeholders we talked to indicated that this project has significant potential to increase visitor spend and jobs in the region.

Other Tourism Products

As shown in Table 16, several tourism product proposals have been supported by IGR funding and the work of Northland Inc and/or Councils and are at various stages of development. These include:

- The Twin Coast Cycleway
- Waitangi Mountain Bike Park
- Hundertwasser Art Centre
- Kawakawa Hundertwasser Visitor Centre
- Cape Brett Walkway
- Te Roroa Waipoua Forest Tourism Strategy.

We have reviewed the documentation associated with each project and talked to some of the groups involved in a few of the projects. It is also too early to evaluate the effectiveness of these initiatives and several have not yet been commenced. On the positive side:

- These projects address an identified need from the research and Growth Study, i.e., for the region to develop a larger set of tourism products and to expand the visitor value proposition beyond the Bay of Islands.
- Each product has also involved and leveraged the resources of a combination of the private/non-government sector, local government and central government.
- Estimates of the impact of the projects suggest that in combination they will make a large contribution to jobs and economic value – ranging from 7 FTEs and \$0.54 pa of direct and indirect economic impact for the Kawakawa Hundertwasser visitor centre to 78 FTEs and \$60 million of direct and indirect economic impact for the Hundertwasser Art Centre in Whangārei.
- Just as importantly, several of the projects are expected to result in broader benefits such as improving local and community pride, Māori economic development, amenity improvements, and educational and recreational opportunities. However, many of these were only briefly described in applications.

However, we have noted several issues with the processes involved in developing these projects:



- The quality of the cases has been variable. In several cases the broader benefits and impacts are not well articulated. This is an issue across all types of IGR applications (discussed later).
- In all cases, there has not been a strong argument made for the local government funding contribution. The arguments are generally that the projects will be good for the communities and generate greater visitor spend but the reasons why local government should contribute funding for these benefits relative to other parties (and the levels of funding sought) are not well made. Each project should specify what *additional* benefits will be able to be obtained as a result of local government contributing resources to the project.
- There does not appear to have been a prioritisation of the products – basically they've been assessed and considered for local government support as they have developed. It's not clear that all of the products are the most important for the region and how they fit within the broader Twin Coast Discovery project. Again, a regional visitor strategy would assist in prioritising these activities and aligning marketing efforts with the products.

Despite these process issues, in our view Northland is ahead of several others that are aiming to develop a greater range of tourism products (e.g., Taranaki, Waikato, West Coast) as a result of the combined efforts of private and public sectors and the leverage created by the IGR.



Table 16. Profile of Tourism development products

	Funding approved	Information provided	Stated public rationale arguments for local government funding support	Expected benefits	Estimated economic impact
Twin Coast Discovery	\$14,000 feasibility study (100% of cost) \$493,000 grant (34% of total project value)	Project proposal, financials, options analysis, letters of support from various agencies	Not clearly specified in the proposal but based on overcoming coordination failures and the ability to generate and capture broader economic benefits through the project and across the region The rationale in the proposal was to increase length of visitor stay and spend and to capture greater value from the tourism sector	Employment: Direct: 29 FTEs Total estimated: 250 FTEs over 5-7 years Greater range and quality of visitor experiences on offer Increased visitor spend (estimated at around \$20m over 5-7 years)	Direct: \$2.86m pa
Twin Coast Cycleway	\$900,000 grant (19% of total project value)	Marketing strategy and plan, business plan, economic impact assessment	Not specified in proposal but presumably based on capturing broader economic benefits	Increase in visitor numbers, including off-peak (e.g., multi-night traffic on the trail is at least 7000 users by 2019) Increase in local using the track New businesses and new products developed along the cycleway	Direct: \$0.90m pa Indirect: \$0.50m pa

Bringing communities together and improving residents' health and quality of life. The trail will signal that local Northland communities value their culture and sense of place and may result in reduced crime and hence economic loss

Māori economic development – the proposal to integrate Pou and supporting stories into the trail represent opportunities for Māori to showcase their skills, tikanga and develop marae stay opportunities will provide future work prospects

Regeneration – higher numbers of visitors and increased attractions in towns along the trail are likely to encourage other businesses and amenities to develop around them. The trail is also likely to contribute to greater pride in towns, districts and the wider region and reinforce further investment

Waitangi Mountain Bike Park	\$400,000 (25% of total project value). Note that the Park will pay up to \$40,000 back to NRC if it makes positive returns.	Business plan, financials, economic impact assessment	Rationale for local government funding not clearly stated except that the proponents were seeking funding to help develop the second phase of the Park. Presumably is based on broader economic benefits of the Park beyond what will be captured by the developers and the private sector.	<p>Employment: Direct: 4 FTEs; Total: 50.4 FTEs after 3 years</p> <p>Attract 15,000 new visitors to Northland after 3 years, and 50,000 visits after 10-15 years.</p> <p>Broader shoulder season for visitors.</p> <p>Provides the community with recreational and health opportunities.</p> <p>Creates new business opportunities to service the needs of the new market.</p>	<p>Direct: \$0.79m pa over 3 years</p> <p>Indirect: \$2.1m pa over 3 years</p>
Hundertwasser Art Centre with Wairau Māori Art Gallery	\$20,000 business case (100% of cost) \$1,500,000 (9.2% of total project value)	Feasibility study (and update), financials, economic impact assessment	Rationale for IGR funding not clearly stated other than there was a deficit which needed to be covered to secure government funding. Presumably based on broader economic benefits of the Centre beyond what will be captured by the developers and the location.	<p>Employment: Direct: 10 FTEs; Indirect: 68 FTE</p> <p>Increase in visitor numbers and spend (e.g., 168,000 visitors pa)</p> <p>Catalyst for hotel development and amenity development</p>	<p>Direct: \$28.0m pa</p> <p>Indirect: \$22.0m pa</p>

Kawakawa Hundertwasser Visitor Centre	\$485,000 (grant subject to conditions), \$318,000 (loan) (28% of total project value)	A business case, which included information on the background to the project, related tourism products, potential visitors, advice on the recommended concept, financials, economic impacts and a brief description of social impacts	Rationale for IGR funding not clearly stated other than there is a deficit which needed to be covered	Employment: Direct: 5 FTEs; Indirect: 1 FTE Increase in visitor numbers and spend Catalyst for other amenity developments Enables educational opportunities Enables recreational opportunities	Direct: \$0.454m pa Indirect: \$0.082m pa
Cape Brett Walkway	\$15,000 business case (33% of cost)	Structure options assessment, track improvement and costing options assessment, feasibility study	Rationale for IGR funding not clearly stated	Increase in visitor numbers and spend	Not yet estimated

We heard mixed messages about the quality of interaction between Northland Inc, Councils and proponents of the projects. In some cases, interactions with Northland were regarded as good and NRC was regarded as being difficult to convince about the merits of projects. In other cases, Northland Inc was regarded as lacking interest. Differences in views will always be the case with these types of projects – the issue is not necessarily about whether Northland Inc or Councils are supportive or not but whether the reason/s for the support or otherwise are clear and based on evidence. It was also apparent that the proponents of some tourism projects did not understand the process for IGR funding and that the process was not clearly explained to them.

Events

Northland Inc does not provide support for events, other than through its broader marketing efforts aimed at attracting visitors to the region (e.g., promotional material will include references to some events). Both the FNDC and WDC provide funding and advisory support for district-based events.

FNDC has an events strategy, which specifies the Council's objectives and goals for events and the role of the Council in supporting events. Its key objectives are to ensure a diverse, accessible and balanced portfolio of events, to increase community wellbeing, to make it easier to run events in the district, and to achieve value for money from its investment in events. It has identified its roles as an information provider (e.g., advice to event organisers on regulatory requirements and funding sources, provision of an events calendar), a provider of facilities and services (e.g., halls, parks and reserves, signage, litter services, traffic management), an event promoter (e.g., through media, i-SITEs, funding support), and an event regulator (e.g., building consents, resource consents, liquor licensing, food permits).

FNDC provides some funding support for events on a contestable basis, largely based on the estimated economic contribution of the event (using an Infometrics tool), although environmental, social and cultural benefits are also considered. The events strategy guides decisions and includes criteria for considering applications. Non-Bay of Islands events have been given higher investments in previous years as the Council wanted to spread events and their economic benefits throughout the district.

The estimated returns are generally quite high. For example, the following returns were estimated for events in 2016/17:

Table 17. Estimated economic impacts from a selection of FNDC funded events (2016/17)

Event	Investment	Estimated direct economic impact – value add to GDP	Return on district investment
Russell Birdman Festival	\$10,000	\$2.4 million	40
Ninety Mile Beach Snapper Bonanza	\$20,000	\$695,700	35
Kerikeri half marathon	\$20,000	\$751,176	38
Sanitarium Weetbix TRY-athlon	\$5,000	\$26,093	5
Kainui Vineyard Concert Series	\$10,000	\$650,369	65
BOI Sailing Week	\$20,000	\$463,970	23

Source: Far North District Council



A potential issue with these figures is that they can be interpreted as attributing all of the return to the Council investment and that an event would not have gone ahead without this investment (which presumably is not the case in every circumstance). The estimated return should relate to the impact that the Council investment has had on the event (i.e., did it allow it to be larger, attract more people etc.).

However, what is positive about the estimates is that they only include spending by visitors from outside of the district (given that local participants may simply be substituting their spending on the event for spending they would have made on other activities and purchases in the district). They also focus on the direct effects rather than also including the much more difficult to attribute industry and earnings effects and hence are more likely to be a good estimate of impact – assuming that the estimates of attendees, days visited and daily spend are accurate.⁶

Post-event reports are also sometimes produced, providing information on achieved visitor numbers and spend and other impacts. Past event outcomes are also included in proposals for funding as a requirement of the application. For example:

- Russell Birdman Festival – estimated visitor numbers for 2015 were 6000; accommodation providers reported that larger numbers of visitors booked in for multiple night stays because of the Festival; visitors come from around the region into the district; a range of print and social media articles were generated.
- Kainui Vineyard Concert – estimated visitor numbers for 2016 were 12,000; estimated direct spend of close to \$65,000 to hold the concert in 2016; 50 percent of attendees were from outside the Bay of Islands; 14 percent of attendees were from outside Northland.
- Bay of Islands Ocean Swim Series – estimated attendees 2250 in 2014; website unique visits close to 85,000; estimated injection of \$2.4 million into the economy from the event over 2014-2017.

Given the relatively small amounts of local government funding involved, these outcomes look reasonable, particularly when there is a good proportion of visitors from outside the district and region.

WDC also has an events strategy which is focused on attracting and supporting events that make a significant contribution to the economic and social make-up of the district and that will help to ensure utilisation of the Council's event venues. The strategy is being reviewed this year.

WDC supports events through preparing and submitting bids to obtain new events, providing financial support to events, event coordination, and marketing and promotion activities. This includes a Venue and Events team⁷ and a Venue and Events website. The website provides information on venues, advice on planning an event in the district, an events calendar and information on upcoming events (WhangareiNZ.com also includes an events calendar).

Some of the regular and more significant events that WDC has supported are:

- The Whangārei Fritter Festival (annual)
- FIFA U20 World Cup Tournament (2015)
- International Rally of Whangārei and Festival of Motorsport (annual)

⁶ Even with these estimates, some external visitors to an event may have simply substituted the visit for another planned trip at another time in the year (so it is not new spending per se), or the event may simply displace attendees from another event (or visitor activity) in the region if there is more than one occurring at the same time. Hence estimates can only provide a rough indication of the potential additional impact.

⁷ Most of the Venues & Events Team are involved in supporting the events venues rather than marketing and events development.



- British and Irish Lions Tour (2017)
- Endless Summer Festival (annual) – includes over 100 events over the summer months, including the Fritter Festival
- Wild Kiwi Multisport event (annual)
- Matariki Festival (annual) – includes over 30 events.

When there have been events based in the district that are significant from a regional perspective, WDC has worked with other Councils and agencies to coordinate logistics and promotional activity, for example, for the FIFA U20 World Cup Tournament in 2015 and recent British and Irish Lion's Tour.

Post-event reports are produced on some major events and the outcomes achieved in supporting events are reported to the relevant Council Committee on a regular basis. WDC also surveys attendees of major events to obtain information on benefits. The information available suggests the events being supported are generating a good return on investment, for example:

- Whangārei Fritter Festival (2016) – there were 5,300 attendees in 2016 (a 6 percent increase on 2015 attendance) with 20 percent of these from outside the district; 25 percent of attendees stayed 2 nights or longer (compared to 13 percent in 2015); the average spend was \$197.70 (compared to \$185 in 2015). The economic impact (total spend by attendees) was estimated to be \$1.048 million (compared to \$1.025 million in 2015 and \$806,160 in 2014). This compares to the \$115,000 the Council invested in the event.
- FIFA U20 World Cup Tournament (2015) – Direct revenue directed into the local economy was estimated at \$1.5 million. The estimated economic impact was \$1.34 for each \$1 invested (the Council invested close to \$650,000 in the event, not including infrastructure). The tournament resulted in considerable legacy for the district, including upgrades of venue facilities, the development of a Community Sports Park, and the development of local capability to host such major events.
- National Hockey League (annual) – in 2016 this event was estimated to have brought \$1.3 million into the local economy
- Wild Kiwi (annual) – the 2016 event had close to 700 participants with almost 50 percent of those coming from outside Whangārei.

WDC uses more sophisticated methods than FNDC in assessing impacts after major events (e.g., surveys), which is not surprising given it makes a much greater financial contribution to these events, but we note that it sometimes attributes all of the spend on the events as the benefit (rather than focusing on the spend by visitors from outside the district). So, for example, although the impact of the Fritter Festival looks high, it could be argued that only around 20 percent or \$200,000 of the total spend is truly additional to the district. However, there will be additional social benefits that are not captured by these figures.

It's also important to note that the funding support provided by Councils is only a very small proportion of the total funding to establish, organise, host and promote the event, and often private sector sponsors are involved. The extent of Councils' influence on the success of events can be difficult to determine unless this is considered upfront.

It would be useful for Councils to use a consistent approach and methodology for estimating event impacts pre-events and event outcomes post the event. We understand that there have been previous discussions between Councils about creating consistency with event reporting.



As noted earlier, several stakeholders indicated that the events support in Northland would benefit from regional leadership. Some noted that it was good to see district events but that the region could potentially expand these into regional events and/or attract significant events if resources were coordinated across Councils.

National evidence suggests that major regional events are more likely to generate net economic benefits than local events. Events with the greatest international visitor contribution provide the greatest overall net benefit. On average, smaller 'regional' events do not generate the level of benefit that major events do and recurring events do not generate the same benefits as one-off events. Greater net economic benefits tend to result from off-peak and shoulder season events compared to peak season events. These last three points suggest areas where the region may get the greatest impact from events funding in future.

We consider that Northland Inc should extend its destination marketing and management activities to include a regional events facilitation and marketing role. This would involve working with the Councils and event organisers in the region to coordinate support for selected major events, attract relevant events to the region, and identify ways of expanding local events.

We noted earlier that the region may benefit from a visitor strategy. An element of this could be an events plan for the region which focuses on:

- Cultivating existing iconic or strategic events, such as the Motorsport Festival and Ocean Swim Series
- Aligning marketing and promotion with events
- Building new events or expanding smaller events that are unique to the region (e.g., Fritter Festival)
- Attracting conferences and exhibitions aligned with key industries and suited to the infrastructure and facilities available in the region
- Ensuring appropriate timetabling of events.

i-SITEs

FNDC supports 3 i-SITEs (Paihia, Kaitia and Opononi) and WDC supports 2 i-SITEs (Whangārei and Te Manawa – The Hub). i-SITEs provide information to visitors on attractions, accommodation, shopping, transport and amenities in each district and facilitate bookings for attractions, transport (including rentals) and events. i-SITEs also sell retail goods, such as stamps, phone cards and maps. They operate 364 days of the year (excluding Christmas).

FNDC reports a number of i-SITE KPIs in its annual reports. In 2015, performance measures and results were:

- Increase in door count – achieved (target 265,000, actual 317,800)
- Deliver a quality visitor experiences – achieved (met target – 98 percent of customers were satisfied in the annual visitor satisfaction survey)
- Remain an accredited member of i-SITE New Zealand through meeting the annual Qualmark assessment – achieved (all three i-SITEs passed the assessment).
- Increase in sale of goods – achieved (target 3 percent; actual 9 percent).

In 2016, performance measures and results were:

- Increase in the number of suppliers from the previous year – not achieved (227 in 2016 compared to 268)



- Increase in sale of goods – achieved (22 percent profit increase on previous year compared to a 3 percent target)

Positively, the i-SITES in the Far North are generally achieving against performance expectations. Several of these relate to the quality of the services, including sale of goods (if i-SITE services were not valued than they would not be achieving sales), customer satisfaction and accreditation. The Far North i-SITES as a whole have also been experiencing growth in visitor numbers from year to year. Visitor numbers to i-SITES are reported on regularly to the relevant Council Committee.

WDC, as previously noted, includes an i-SITE indicator – visitor spend on bookings through the visitor centres – as one of its economic development performance measures in Annual Reports. The target in 2015/16 was 2 percent and was easily achieved – there was a 19 percent increase in visitor spend on bookings during the year (and visitor spend on bookings increased by 9 percent per annum over both 2013/14 and 2014/15).⁸

The performance of the two i-SITES in Whangārei is also tracked and reported on monthly to the relevant Council Committee. For example, in the month of March 2017, the Whangārei Visitor Information Centre recorded a 54 percent increase in retail spend compared to same month in 2016, and The Hub recorded a 35 percent increase in retail spend. Both sites recorded a drop in bookings for the month (5 percent at the Centre and 32 percent at the Hub) and visitor numbers (9 percent at the Centre and 17 percent at the Hub) compared to March 2016. However, monthly activity can vary between years for a number of reasons (e.g., weather, different events being held) and across months. For example, both the visitor centre and The Hub recorded better figures in April 2017 compared to April 2016 (with retail sales, bookings and door count all exceeding 2016 figures). Hence annual figures are a better indicator of performance.

Positively, the two Councils have looked for efficiencies in providing i-SITE services across the two districts. For example, as part of a shared service initiative between WDC, FNDC and Northland Inc, sales of display products offered at i-SITES have been outsourced to one agency.

A national study on i-SITES in 2015 provided some data on how Northland's i-SITES compare to other regions (McIlrath and Gordon, 2015). In 2014/15 Northland i-SITES generated a total of \$2.83 million in commissioned based sales. This compared well to other smaller regions, such as Hawke's Bay (\$2.29 million in sales), Taranaki (\$596,000 in sales), Manawatu-Wanganui (\$1.21 million), West Coast (\$2.58 million) and Southland (\$1.11 million). It was estimated that 1.9 percent of visitor expenditure in Northland flowed through the i-SITES. Again, this compared well to most comparable regions, including Taranaki (1.4 percent), Manawatu-Wanganui (0.6 percent), West Coast (1.7 percent), Southland (0.6 percent), but was slightly less than the Hawke's Bay (2.1 percent).

There has not been an assessment of the broader impacts of the i-SITES in the region. Our research in other regions suggests that i-SITES help visitors at the trip planning stage and encourage visitors to participate in more local activities and stay for longer. i-SITES can also provide useful information on the state of the tourism market (as an early barometer of visitor trends). The 2015 study (McIlrath and Gordon, 2015) estimated the additional spending that i-SITES in New Zealand generated in their region. In Northland, the i-SITES were estimated to generate an additional \$9.2 million spend in the region, across accommodation, attractions, events and transport. Again, this compared well to several other smaller regions, such as Southland (\$2.6 million), Taranaki (\$2.1 million), Manawatu-Wanganui (\$6.1 million) and West Coast (\$4.8 million) but was less than that achieved in the Hawke's Bay (\$10.6 million).

⁸ We note that the i-SITE sales targets in both the Far North and Whangārei have been easily achieved, which suggests that they do not represent stretch targets.



In terms of broader economic impacts, the 2015 study estimated that Northland i-SITEs generated \$8.1 million in GDP and 118 jobs within the region. The GDP impact equated to \$8.3 per \$1 of local government spending on the i-SITEs.

Overall, it appears that i-SITEs are generating positive impacts for Whangārei and the Far North.

2.2.2 What is known about the effectiveness of sector development and investment attraction & facilitation activities?

Sector development and investment facilitation activities are primarily delivered through Northland Inc, although Councils also get involved in sector and investment projects, particularly when they are supported through the IGR.

Industry Coalitions

Northland Inc has facilitated sector groups in the past and industry coalitions more recently. Previous sector groups included the Northland Agriculture Working Group, Northland Aquaculture Development Group, the Northland Forestry Advisory Group and the Northland Tourism Development Group.

These groups provided a combination of strategic advice on the major issues and opportunities impacting on their sector and a lobbying function for support. All of the groups provided useful advice and input for shaping the analysis for the Tai Tokerau Northland Regional Growth Study. The Agriculture and Aquaculture Groups developed regional strategies for their respective industries. For example, the Northland Aquaculture Strategy had an ambition to double the value of oyster and paua production, increase greenshell mussel production twenty-fold, and to develop kingfish into a major industry by 2030.

The role of these groups changed after the release of the Growth Study and Action Plan as, for several, the Action Plan encompassed the priorities and actions they were seeking to influence and have implemented. As a result, there was less of a need for such industry groups. After 2014/15, Northland Inc facilitated and began to work with a set of more action-oriented groups. These were:

- The First Region Lumber coalition, with an intended focus on encouraging participants to develop export markets.
- The Food & Beverage coalition, with a focus on creating a Northland brand for food & beverage and undertaking joint marketing.
- The Education coalition, with a focus on developing an international education strategy and plan.
- Northland Inc also began working with the Miere Coalition, which is a national coalition of Māori/iwi organisations seeking to understand the potential of manuka honey production and to develop a collective owned honey company and brand. Māori producers and iwi in Northland are involved in the coalition.

In addition, the International Marketing Group was formed to coordinate resources into offshore promotion (discussed in the section on Destination Marketing).

Northland Inc received additional funding of \$100,000 per annum from the IGR to undertake this work with industry coalitions (and for investment promotion – see below) for a period of three years.

The following results have been achieved by the Coalitions:



Coalition	Results to date
First Region Lumber	The coalition was formed with 4 companies working under a company structure. Initially they were active in quoting on export deals. However, the growth in the domestic construction market has meant that there has been more than sufficient domestic demand for the members. This has delayed work in developing exports and the coalition is no longer active.
Food & Beverage Coalition	Northland Inc has supported the development of the Savour brand for Northland food and wine. Northland Inc also supported companies to attend and show their products at the Auckland Food and Wine show (Northland Inc support allowed for double the number of attendees in one year). It also worked with two of the companies to facilitate export deals (one in China and one in the US).
Education Coalition	Northland Inc worked with members to develop the International Education Strategy proposal, which sets out a plan for developing and finalising a strategy for the region. Education New Zealand has supported the proposal.
Miere Coalition	Northland Inc has been working with Te Roroa Honey Ltd, Te Rarawa Asset Holding Company, the Ngati Wai Trust Board, Ngati Hine Forestry Trust and Prime Holdings to support their work in undertaking an opportunity analysis and business plan.

Northland Inc has also worked with other sector initiatives including facilitating the Northland Organic Milk Producers Group and facilitating a Northland Future Farming Workshop.

Other than the First Region Lumber Coalition, it appears that Northland Inc's work with these groups is resulting in tangible benefits. Given that business representatives are taking the time to participate, this suggests they value the coalitions. Representatives are also co-funding some of the initiatives.

Our discussions with representatives from some of the coalitions suggest that these groups are delivering results beyond what would otherwise been achieved. For example, we were told that it was unlikely that the international education strategy proposal would have been developed without Northland Inc's advice and support. Northland Inc challenged the proposition and asked the proponents to prove there was an opportunity. Northland Inc also supported members of the coalition to participate in a delegation to China which resulted in international students being sponsored in the region.

Similarly, a representative from the food and beverage coalition said that several members of the coalition would not have attended the Auckland Food show without Northland Inc support and that Northland Inc played an important role in facilitating the development of the Savour brand. The representative did suggest that Northland Inc could do more to support the marketing of sectors in the region in addition to destination marketing.

Representatives from some primary sectors indicated that, at times, Northland Inc did not support industry initiatives that were underway and that they thought this was because staff in the organisation did not have a good understanding of their sector. Some also thought that Northland Inc could do more to work with existing industry groups and seek their advice on potential projects.

Investment Attraction and Facilitation

Northland Inc has worked with WDC in creating the 'landing pad' initiative which is focused on working with local opportunities to improve their investment readiness and inviting potential investors to look at investment proposals (WDC provides 0.25 of a FTE). Over the 12 months to December 2016, Northland Inc:

- Produced a Northland investment prospectus along with an accompanying video
- Held a workshop on foreign direct investment aimed at uncovering development ideas



- Hosted three investment groups related to the data centre, construction materials and marine
- Had 22 contacts with potential investors, with a focus on residential housing and developers.
- Qualified three business investment deals in marine, agricultural technology and education.

There is no information about the potential impact of this activity and no actual investment deals were reported over the first 12 months of this initiative. We consider that the initial focus on residential housing and land developers is unlikely to result in spillovers (e.g., skills development, education, international networks), which is the major rationale for facilitating outside investment. International best practice and our reviews of investment activity in other regions strongly suggest that Northland Inc (and WDC) focus investment attraction and facilitation efforts on a few key sectors rather than spreading resources too thinly – these should be sectors where Northland has competitive strength, where there is international market potential and that are consistent with wider economic development objectives.

Our understanding of the landing pad initiative to date also suggests that it provides a relatively limited form of investment attraction and facilitation services – agencies that are effective in this area undertake the following range of activities:

- Profiling investors by building a knowledge base of investors and their preferred channels, requirements and types of opportunities
- Diagnosing investment opportunities by researching capabilities, businesses and industry segments for opportunities where growth can be enhanced through foreign direct investment, and matching these with the market/investor assessment
- Lead generation – targeting investors based on the match of opportunities and investor interests and capabilities through hosting inward investment
- Deal facilitation – preparing project briefs, undertaking due diligence, providing bespoke material to facilitate deals (e.g., cost and resource benchmarking), supporting feasibility studies, liaising with Councils and other agencies to facilitate investment
- Aftercare – undertaking follow-up work with investors to ensure that investments are proceeding as planned and working with investors to identify and remove impediments to any follow-on investment
- Promotion – developing and providing a detailed value proposition on the advantages and opportunities of Northland as a place to invest.

We consider that Northland Inc and WDC will need to consider an expanded set of services for this activity to be successful.

In the absence of evaluative information on Northland Inc's industry coalition and investment activities, we again turn to national evidence to provide a perspective on what activities are more likely to be generating benefits:

- Industry development activities in New Zealand (e.g., cluster facilitation, major industry projects) have often been hindered by a lack of clear rationales, analysis of opportunities or barriers to industry growth, or objectives for the intervention. Successful interventions have occurred where an industry is at the formative stages of development and/or when there is a robust analysis of opportunities and a clear strategy for phasing out support. Northland Inc's work with industries appears to be consistent with this approach.



- Although investment attraction and facilitation activity has not brought significant *new* foreign investment to New Zealand, it can help develop additional investment from existing investors or retain existing investment that may have gone offshore. This does not appear to be the focus of the landing pad initiative. There is evidence that feasibility and opportunity advice does help inform investment decisions. There is also some evidence of wider economic benefits being generated from growth in investment from international businesses, such as regions benefiting from improved access to distribution networks offshore, the introduction of new technology and management know-how. National research suggests that benefits from investment and business attraction activities are more likely if resource is put into high quality diagnosis of investment potential, lead identification and generation and aftercare. This serves to emphasise that an extension of existing investment facilitation services should be considered.

Investment & Growth Reserve

A great deal of Northland Inc's and Councils' sector development and investment facilitation activity is associated with IGR applications.

Northland Regional Council's Investment and Growth Reserve was established in 2011 to co-invest in Northland projects that will increase jobs, household incomes and GDP. Apart from providing operational funding for Northland Inc, it is used to:

- Support feasibility assessments and business case development for major projects
- Provide loan, direct or equity funding for new or growing businesses
- Provide co-funding for major industry development and investment projects with significant potential for added value and job growth.

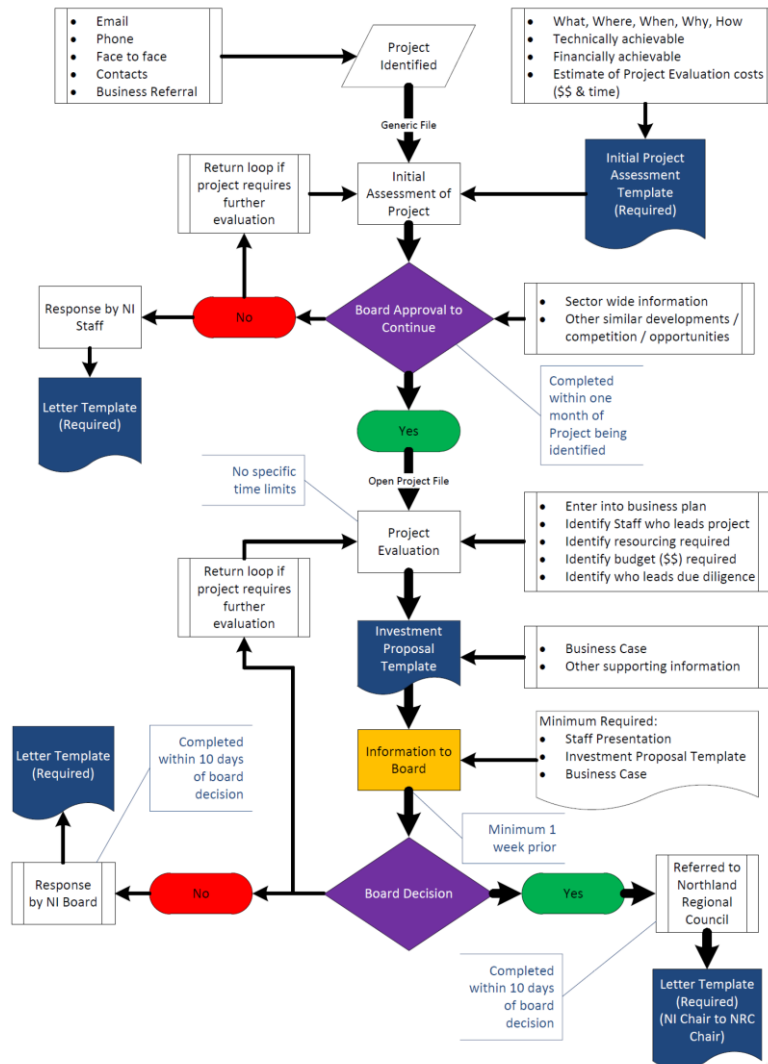
Northland Inc and NRC have developed a reasonably thorough, staged process for accessing potential projects for investment, which is aimed at ensuring that projects are treated consistently and that the appropriate type and level of investment is made. There are clearly defined process steps and stage-gates for proceed/do not proceed decisions as shown in Figure 6.

- The first major stage is for Northland Inc staff to undertake an initial assessment of the potential project. There is an initial assessment template which describes the type of project, investment requirements, desired outcomes, whether it is feasible, whether other funding sources have been sought, potential risks, project costs and timeframes. This helps Northland Inc to assess whether the project is worth spending further time and resources on. The initial assessment is considered by the Northland Inc Board and the Board is responsible for approving whether further work be undertaken on the project. Northland Inc aims to have the Board make this initial assessment within one month of a project being identified.
- Once a project is approved for further work, a detailed assessment process is undertaken. The precise process varies depending on the complexity of the project and its stage of development but there is an investment proposal template that Northland Inc must complete to ensure that all required information has been obtained during the process. This includes assessing how the project will meet the IGR criteria (i.e., contribute to jobs, incomes, GDP), whether and how the project aligns with Council priorities (e.g., improve the quality of the environment, improve the quality of infrastructure, improve community development), whether a business case has been prepared, what the expected outcomes are, what capability exists to deliver the project, why the project needs public investment, timeframe, costs, and potential economic impact. There is not a set timeframe for completing this work.



- This more detailed information is presented to the Board for consideration and they decide whether the project should not proceed or whether it should be referred to the NRC for consideration.

Figure 6. IGR application and assessment process



Source: Northland Inc

What often happens is that Northland Inc and the Board initially recommend support for a feasibility study and/or business case and, subject to this being approved by NRC, the completed study/case is subsequently considered by the Board, which then decides whether or not to recommend investment funding by NRC.

NRC considers all requests for IGR funding, irrespective of the amount of funding required.



Although this is a robust process, we consider that the transaction costs involved in approving relatively small amounts of IGR funding for feasibility studies and business cases are too high (in some cases the amounts involved are \$10,000). Interviews suggest that NRC officials can provide useful input into applications for these studies and cases (e.g., on the approach) but that input can be obtained as part of the process without needing to go through Council approval. We would expect the Board of Northland Inc to have the requisite skills to assess whether a feasibility study and business case project should proceed and be co-funded. One of the reasons for CCOs like Northland Inc is for such decisions to be made using broader expertise than is available and that is arms-length from a Council. If required, in order to manage risk, decisions over a certain level (e.g., over \$100,000) could be put through a full Council approval process.

There is not a specific template for a feasibility study or business case although Northland Inc has developed some minimum requirements for what must be included in a business case. The minimum requirements are:

1. Background to the project
 - i. Description of the project
 - ii. Purpose of the project
2. The project
 - i. Scope (road map)
 - ii. Financial summary
 - iii. Market information
3. Governance
 - i. Structure
 - ii. Risk analysis summary
 - iii. Project outcomes KPIs
4. Appendix
 - i. 5-year P&L, Balance Sheet and Cash Flows
 - ii. Revenue stream (customer name, value, volume, pricing) with supporting customer confirmation
 - iii. Detailed margin calculations (supplier pricing, supply contracts etc.)
 - iv. Explanation of operating expenses
 - v. Market research
 - vi. Risk analysis
 - vii. Funding streams (confirmed)
 - viii. CV's of key staff

We understand that the absence of a template is to allow the study/case to be adaptable to the size and risk of the project. We note that the minimum requirements do not include an assessment of the rationale for public funding nor an analysis of wider economic benefits. Indeed, the requirements are very much commercial in nature.

Our review of applications and supporting documentation for major investments found that there is quite a lot of variation in the quality the information provided to make the case for funding. Table 18 provides our assessment of major commercial and impact investment proposals, excluding the previously discussed tourism proposals.



Table 18. Profile of selected IGR sector and business project approvals

	Funding approved	Information provided	Stated public rationale arguments	Expected benefits	Estimated economic impact
REL Sawmill	<p>\$17,200 due diligence (100% of cost)</p> <p>\$750,000 loan (27 percent of total project value)</p>	<p>Application with short business plan, financials, supply agreement</p> <p>Review of operating model, markets, log supply, SWOT; due diligence by an independent expert</p>	<p>As stated:</p> <p>Community support that will help REL attract Northland forest owner support for supply to the sawmill</p> <p>Northland Inc's investment being aligned with growth goals of NPC and Northport</p> <p>A longer-term investment horizon that allows REL to optimise the sawmill operations and confirm secure cashflows before scheduled repayments are made</p>	<p>Employment:</p> <p>Direct: 10 FTEs</p> <p>Construction opportunities</p> <p>Growth in timber exports</p> <p>Income to Northport</p> <p>Market for forest owners</p>	<p>Direct: \$1.050m pa</p> <p>Indirect: \$1.855m pa</p>
Onyx Horticulture	<p>\$400,000 loan (15% of total project value)</p>	<p>Overview of the company and opportunity, short business plan, management plan, company financials and valuation, review of company and application</p>	<p>As stated: Public sector intervention will allow the accelerated growth and development of this sector in Northland</p>	<p>Employment:</p> <p>Direct 11 FTEs</p> <p>Growth in horticulture industry support services</p> <p>The creation of a new, innovative industry in the region</p>	<p>Not specified</p>

Extension 350	<p>\$30,00 business case (100% of cost)</p> <p>\$832,500 (24% of total project value)</p>	Overview of concept, business case with information on strategic case, economic case, commercial case, financial case and management case, including estimated economic benefits	Not actually clearly specified in the proposal but based on broader economic impacts, such as spillover learning/productivity improvements, that will be generated by the initiative and not captured by individual farms	Employment: Direct: 60 FTEs; Indirect: 130 FTE	Direct: \$5.00m pa Indirect: \$6.00m pa
The Orchard	<p>\$33,000 Scoping report (100% of cost)</p> <p>\$25,000 Business case (100% of cost)</p> <p>\$70,000 grant (50% of total project value)</p>	Framework document, including problem definition, financials, business model, market validation, site option analysis. Detailed site design	Not clearly specified in the proposal but based on broader innovation benefits that come from collaboration and co-working, beyond what individual organisations may capture	Employment: Direct 1 FTE	N/A
Better Water management	\$210,000 (50% of total project value)	Detailed proposal document, including potential benefits, study details, staging and costing, project outcomes, project costs, risks	Councils invest in and manage water use and there is significant opportunity to increase economic benefits, such as productivity gains, to a variety of sectors through improved access to water. Improved water use will also result in broader benefits that will not be captured by individual organisations such as reducing the impact of flood events, improving the quality of the environment, and providing opportunities for new commercial, industrial and recreational uses	N/A	Direct: \$0.133m pa Indirect: \$0.066m pa

Looking across these and the earlier tourism projects, the 'case' information provided has ranged from business plans to economic impact assessments to full business cases. Across these, the articulation of the rationale for IGR funding has been particularly poor. For example, the rationales for the REL Sawmill and Onyx Horticulture funding are not really public benefits at all. Every business generates jobs and incomes – the key is to explain what the benefits are over and above what would have occurred and that these flow through to individuals and organisations beyond those involved in the business itself. That is not to say that the projects are not good investment opportunities – just that the reasons for IGR funding have not been clearly specified.

In our view, the Extension 350 documentation provides a good example for the sort of information we would expect to see for significant projects (although even that case did not clearly specify the rationale for local government funding).

In particular, we would expect to see a much clearer explanation of the rationale for IGR funding in terms of the public benefits and additional activity that will be generated through the funding, beyond what otherwise would have happened. For example, it is possible that support for the commercial projects could have focused more on industry good opportunities, with a view to investing in transferring the lessons of the projects to the wider industries.

We also assessed the proposals put forward for feasibility study, economic impact assessment and business case work and the outcomes of that work, where available. In some cases, in our view, we do not consider the information has been sufficient to really assess the viability of the proposal and a role for local government. In other cases, the proposed work is not adequately specified. For example:

- The Ngawha opportunity analysis and pre-feasibility study were effectively desk-based assessments of market demand, wood supply and processing options. This did not involve detailed discussions at an early stage with the industry itself about the potential or the risks (which would have enabled an earlier decision to not proceed with the project).
- The Kawakawa Hundertwasser business case does not meet the typical requirements of a business case. For example, it does not include a clear strategic case and does not consider broader options such as what the project could achieve if it was part of a wider tourism offering in the district and region.
- The Orchard proposal and framework document did not specify what the broader economic impacts would be and why additional investment from local government was required to develop the proposal.
- The proposal for the Dargaville retirement feasibility study does not adequately explain why local government should be involved in funding the study, given that most of the benefits of a facility will be captured by a developer. However, a clear argument could have been made given that the study is aimed at testing whether there is a case to attract new investment into building such a facility in Dargaville.

We appreciate that the level of detail required in a feasibility study and business case will need to be tailored to the relative size and risks of the proposal, although based on our experience they should cover the following core requirements:

A feasibility study (effectively an indicative business case) should include:

- A strategic assessment about the problem/need/opportunity the projects will address, including industry demands and opportunities and market failures. This should include the context and case for change; what is being sought; and what the external drivers are.



- Objectives for the project, i.e., how the project will respond to the identified needs and opportunities; what the desired outcomes are for the proposed investment.
- An assessment of strategic alignment, i.e.,
 - How the project is aligned with international market opportunities and areas of current or future (regional or national) comparative advantage, including identification of any areas of focus/specialisation
 - How the project is aligned with regional and national priorities and any related projects underway (including the nature and scope of any existing activities being undertaken by the project proponents).
- A description of the potential scope of the proposal and key requirements, setting out the boundaries of the project and minimum, desirable and optional requirements.
- Critical success factors for the project's development and ongoing management.
- A description of different options and an initial assessment of options against objectives, scope and requirements, critical success factors, and a broad assessment of the scale of direct benefits (e.g., revenue) and costs of options.
- Identification of a preferred way forward for further assessment.
- The scale of investment for the preferred way forward and likely sources, including (financial) commitment from, and capability in, the private sector.
- The estimated broad benefits and costs to the Northland and New Zealand economy from the preferred option, including additionality and spillovers.
- The proposed approach for implementing the preferred option, including major tasks.
- The intended respective roles, contributions, rights and obligations of the private sector, local government, central government etc including any requirements from local education, training, research institutions.
- Potential risks, constraints and dependencies of the preferred option.
- Next steps (typically the steps involved in undertaking a detailed business case for the project).

A business case should include:

- A broad overview of the case for change, including investment objectives, the needs/opportunities the proposal is aiming to address, and the preferred way forward (including any update of the conclusions of the feasibility study).
- Market analysis, including the industry, market, competitors, and the value proposition to key customers/stakeholders.
- A more detailed analysis of the costs, benefits and risks of the preferred option. The benefits and costs assessment needs to include not only monetary benefits and costs but also broader economic benefits and costs. This should attempt to assess the benefits that are being captured by key stakeholders, the city, region and nation and provide an overall assessment of the net benefits of the project.
- A detailed description of the hard and soft infrastructure required (if needed), including services, technologies, facilities, expertise.



- Details on the funding model, including capital and operating funding required (including contingencies), expected revenue, projections and funding sources. This should include a description of all key assumptions made.
- Details on the arrangements for delivering the project, including
 - The proposed governance structure and operating framework
 - The project management structure
 - Project management monitoring and reporting
 - Quality assurance and risk management approach
 - Contractual arrangements
 - A description of the roles of key partners, including commitments of resources.
- Key performance indicators and how those will be assessed and evaluated over time.
- Implementation steps and responsibilities.

For projects where significant central government co-funding is desired, business cases may also need to meet the Treasury Business Case guidelines.

We consider that it would be appropriate to develop more detailed guidance and a template for feasibility studies and business cases. This will enable consistency in application assessment, make it clear to applicants what information is required and will ensure that arguments for local government investment, including rationales and broader economic benefits, are addressed.

Our experience with feasibility studies and business cases is that they require a reasonable amount of work to get right and an appropriate level of resourcing and capability. We would suggest that a greater level of resourcing go into a smaller number of high quality cases in future.

Stakeholders we spoke to echoed our assessment of issues associated with the IGR process. In some cases there had been very long timeframes involved between an initial discussion about a project and a final decision on an application (18 months in one case) and several stakeholders noted that they did not understand the process or the documentation requirements. As noted in the discussion on tourism IGR projects, there were mixed views about the quality of support offered by Northland Inc and Councils in relation to sector IGR projects. In a couple of cases, stakeholders considered that the process was stalled because of a lack of understanding about the potential of the project or sector by Northland Inc. In other cases, Northland Inc was regarded as very helpful and engaged well with the proponents. Similarly, in some cases Councils were regarded as a hurdle to projects proceeding by taking too long to provide required information or to consider applications, while in other cases the Councils were regarded as having a good understanding of the proposals and facilitated the process. We note that the two commercial projects also involved longer timeframes due to the complexity involved in determining appropriate levels of return.

The vast majority of stakeholders we spoke to considered that the key Northland Inc staff involved in sector projects were very capable, but there were several observations made that staff appeared to be stretched over too many projects.



Prioritisation and resourcing

NRC started the IGR with an opening balance of around \$1.5 million in 2011/12 and has since allocated an additional amount each year for IGR (after 2014/15 this became \$1.7 million per annum). It is able to make a case for additional funding to be added to the IGR (from the Community Investment Fund) if worthy economic development projects are identified.

\$1.15 million of IGR funding annually is allocated for Northland Inc's operations. An additional \$200,000 is allocated for feasibility studies and business cases.

We have identified that 30 projects have been approved for funding of some form through the IGR since 2013/14. However, these are not all separate initiatives as several have included initial funding for research and feasibility work and then subsequent investment funding. 23 separate initiatives have been approved for funding over the three and a half years. As of December 2016, two projects have been declined for funding (although we understand that Northland Inc has stopped several more from progressing through the IGR process).

The clear majority of project applications have been for feasibility studies and business case development (23 of the 30). The profile of funding approvals is shown in Table 19 (note that funding approvals in one year may include allocating funding for subsequent years. For example, a major component of the impact investment approval made in 2015/16 was for Northland Inc regional promotions funding of \$410,500 per annum over the three years to 2017/18):

Table 19. Profile of IGR approvals

	2013/14	2014/15	2015/16	2016/17 (first 9 months)
Feasibility studies and business cases	\$44,445	\$150,300	\$136,500	\$145,000
Loan investment		\$750,000		
Equity investment				
Impact investment	\$210,000	\$1,393,000	\$1,301,500	\$2,732,600
Total	\$254,445	\$2,293,300	\$1,438,000	\$2,877,600

In total, around \$6.86 million of support (in addition to Northland Inc operational expenditure) has been approved through the IGR since 2013/14. Despite the majority of funding approvals being for feasibility studies and business cases, this has only comprised 7 percent of the value of approvals. Impact investment applications have comprised 82 percent of the value of approvals.

In February 2017, NRC officials advised the Council that there would be limited funds available left in the IGR for the period out to June 2019. Council agreed to use investment income obtained from the Community Investment Fund to supplement the IGR in 2016/17 and 2017/18 and that decisions on other funding options for the IGR be included for consideration in the Council's LTP 2018-2018.



In our view there has been a lack of prioritisation of IGR projects – indeed, Northland Inc was encouraged to build up a large pipeline. It looks like the projects are funded on a first come, first served basis without considering what the overall pipeline of projects looks like or should be. We would have expected that some consideration would have been given to the staging of the projects, with some selected for early testing and implementation and others left for later years. This may have assisted with the profile of funding requests and approvals over time and limited the demand for additional funding to be added to the IGR.

There is an issue with the amount of funding being put into the IGR each year and current demands. It is highly likely that, even with improved prioritisation, there will be more than \$1.7 million of funding requested each year, with the consequence that the balance of the fund will reduce over time until only the annual allocation is left (effectively \$1.65 million of the funding is likely to be required for Northland Inc on an annual basis for normal operational funding, feasibility studies/business cases and regional promotions – almost the entire annual allocation). Our assessment of funding requirements is discussed later in this report.

What is the impact of the Investment & Growth Reserve?

Only a handful of IGR approvals have been for the implementation of projects, several of which have only recently commenced, so there is limited information about the economic benefits that have been generated by the IGR. The more detailed six-monthly reporting on some initiatives has naturally focused on progress with implementation rather than impact.

Our view, after reading a selection of applications and reports, is that the IGR process, particularly the feasibility studies and business cases (and despite the inconsistent content of these), has often helped project proponents to improve their planning of the projects and in determining how benefits could be generated.

Applications for IGR impact, debt and equity investments include estimates of their intended economic impact. As noted in the table above, the estimated impacts of some major projects are:

- REL sawmill (\$750,000 loan) – it is expected that the project will result in an additional 12 FTEs and \$1.05 million in direct economic impact (and an additional estimated \$1.85 million in indirect economic impact).
- Extension 350 (\$832,500 impact investment) – it is expected the project will result in an additional 60 FTEs directly (and 140 FTEs indirectly) and generate an additional \$2.45 million per annum in indirect economic impact.

One observation is that there is a large spread in the economic impact expected from equivalent levels of IGR investment – for example \$800,000-\$900,000 of investment is made in three different projects which provide a range of \$1.45 million per annum in indirect economic impact to over \$3 million in indirect economic impact per annum. Assuming there are a range of additional benefits being generated by some of the projects, that is not necessarily an issue. As noted, there is a need to be cautious in interpreting these sorts of estimates and the expected return is based on the total investment (from all parties involved) and is not the additional return resulting from the IGR investment.



Just as importantly, the IGR process and funding has leveraged a significant amount of funding from other sources, including central government and the private sector. For example, the total impact investment that has been approved amounts to \$6.14 million (including Northland Inc regional promotions funding) but the total value of the projects is \$30.88 million, so an additional \$24.74 million has been invested in the projects on top of local government funding. \$10.3 million of this is from central government so has been new to the region.

2.2.4 What is known about the effectiveness of TTNEAP support arrangements?

As discussed earlier, Northland Inc and Councils spend time and resources in supporting the implementation of TTNEAP.

Table 20 summarises the current TTNEAP governance and implementation support arrangements.

Table 20. TTNEAP implementation support

Tai Tokerau Northland Economic Action Plan	
Governance	<p>Northland Action Plan Advisory Group comprising:</p> <ul style="list-style-type: none"> • 2 business representatives • 2 local government representatives: Chair of Northland Regional Council, Mayor of Far North District Council • 1 Māori representative (nominated by Iwi Chairs) • 1 central government representative: the senior regional official
Leadership of action plan work areas/ programmes	<p>A working group comprising representatives from Northland Inc (Chair of Committee), the four Councils in the region, Iwi Consortium, Central government (MSD, MoE, TPK, MBIE, MPI, TEC, NZTA), steers the action plan work streams.</p> <p>Project teams have been established for some projects.</p>
Implementation Support	<p>Northland Inc provides implementation support. This includes:</p> <ul style="list-style-type: none"> • Administering the Advisory Group • Leading the Working Group • Providing portfolio & project management • Implementing Northland Inc led-projects <p>An action plan portfolio manager sits within Northland Inc. The Portfolio Manager reports against progress, performance and risk to both the Advisory and Working Groups, and also supports project managers to achieve milestones, including encouraging collaboration and cooperation between agencies across the projects and work streams where needed.</p>
Funding of Implementation support	<p>The Action Plan portfolio manager has been funded by MBIE and Northland Inc for a defined period. Broader implementation support provided by Northland Inc is funded by Northland Regional Council as a normal part of the funding and accountability arrangements for Northland Inc activities.</p>



Tai Tokerau Northland Economic Action Plan

Accountability for implementation support

The Northland Inc Board and Northland Regional Council (as owner) are ultimately responsible for the performance and funding of the implementation support.

As noted above, Northland Inc and Councils are involved in the Advisory and Working Groups. Northland Inc provides administration, coordination, communication and monitoring support for both Groups and for broader implementation.

Feedback we received suggests that the Working Group is working well, involving a high level of engagement at regular meetings, with decisions made on resourcing and implementation of actions. However, we understand that there is no formal reporting from that group to the Advisory Group.

There is a consistent view from interviewees that most of the decision-making, prioritisation and oversight occurs at the Working Group level rather than the Advisory Group. The Working group also engages with key stakeholders. Several interviewees did not consider that the Advisory group was playing a meaningful role.

The Advisory Group's Terms of Reference specifies that the primary role of the Group is to be transformational and to ensure an environment is established that encourages innovation, step-change and economic development. The secondary role of the Advisory Group is to oversee the implementation of the Action Plan and to monitor progress on actions. Given this, it is not surprising that the Group hasn't been particularly effective in making decisions on the Action Plan as it was not primarily set up to do this.

What has been delivered?

Progress reports on the Action Plan have been released in June 2016 and December 2016. We understand that 11 of the actions in the Action Plan have been delivered, although many others are underway. Table 21 summarises what has been achieved across the actions

Table 21. Progress with TTNEAP actions

Theme	Action	Progress
Enabler - Transport	Completion of Puhoi to Warkworth	On track
	Route Protection for Warkworth to Wellsford	On track
	Completion of Warkworth to Wellsford	To be commenced
	Completion of Wellsford to Whangārei	To be commenced
	On-line improvements for Wellsford to Whangārei	On track
	Stormwater management and flood protection for SH1 North of Whangārei	On track
	Convert Mangakahia road to State Highway	Completed
	Advocating to businesses of the value of using local port facilities	Some progress
	Completing the Kerikeri airport improvements	Some progress (design being reviewed)
	Complete the Whangārei airport improvements	Completed



Theme	Action	Progress
	Investigation into the options for the relocation of the Whangārei airport	On track
Enabler – digital	Address deficits in rural broadband, implement UFB and address mobile blackspots	Some progress – announcements on UFB2 towns made
	Implement the digital enablement plan	On track
Enabler – water	Strategic study of the opportunities associated with water storage and irrigation infrastructure	Completed
	Feasibility study to determine appropriate placement for water storage and irrigation infrastructure	Some progress
	Implement the construction of one or more water storage schemes if viable opportunities are identified	Not yet commenced (dependent on placement study)
Enabler – Innovation	Build a network of innovators and research providers to support business growth	Behind schedule
	Create relationships with tertiary providers and CRIs outside the region to enhance the resources available to the region	On track
	Develop the Orchard in Whangārei and a business support network	Orchard completed. Network being established
Enabler – Skills	Kaikohe Growth Industries Pathway	Completed
	Te Hiku Pathways – Focus for Youth NEETs	Some progress
	Workforce stocktake and planning	On track
	Establish communities of learning in Kaitaia, Taipa, Kaikohe, Whangārei, Hokianga	Some progress
	Tertiary Education Precinct/Cluster in Whangārei	Behind schedule
	Research on primary sector employers' barriers to and opportunities for accessing local labour	Completed
	QRC Tai Tokerau Resort College	Completed
	Embed Vocational Pathways from secondary to tertiary and through to employment	On track
Land and Water	Māori Forestry Collective for Te Tai Tokerau	On Track
	Te Hiku Sheep and Beef Farming Collective	Some progress
	Regional Economic Vitality Extension Initiative	On Track
	Identify fragmented Māori Land Blocks	Completed
	Build capacity, capability and participation with the honey industry	On Track
	Mānuka Planting Initiative	Completed
	Explore opportunities for commercialisation of Kingfish production	On track – investment memorandum completed
	Opportunity analysis for a processing facility at Ngāwhā	Completed
	Form a wood processing coalition to diversify and develop export markets	Little progress
	Kaipara cycleways and walkways project	Some progress



Theme	Action	Progress
Visitor industry	Rakau Rangatira – upgrade of tracks and facilities for Tane Mahuta and Kauri walks, Waipoua Forest	To commence
	National Park assessment	Some progress
	Capture opportunities from Peppers Carrington development	Little progress
	Hundertwasser Art Centre and Wairau Māori Art Gallery	Some progress
	Manea Footprints of Kupe visitor centre	Some progress
	Town and community byway development	On track
	Interpretation and communication plan	On track
	Regional tourism promotions	On track
	Define sub-regional positioning for destinations	On Track
	Community and tourism cluster engagement	On Track
	Twin Coast Discovery Route Upgrade	On Track
	Revitalise Twin Coast Discovery Route	On Track
	Completion of Pou Herenga Tai – Twin Coast Cycle Trail	Completed
	Work with the region to define the sub-regional position destinations	On Track
Specialised manufacturing and services	Installation of travel lifts in Whangārei to support the marine industry	Behind schedule
	Complete the technical design and validation of the Resin and Wax opportunity	On Track
	Support capital raising for the Resin and Wax opportunity	Not commenced (dependent on prior project)
	Facilitate the landing of the Hawaiki cable	On Track
	Facilitate the establishment of a data centre	To commence
	Identify and attract appropriate support digital industry to the region	Behind schedule
	Complete the resource consent application for the Resin and Wax opportunity	Completed

Many of the actions are on track, which suggests that implementation arrangements are effective. However, it is also clear from the list of actions that several were business as usual activities rather than being new to the region. For example, the majority of transport actions, the digital actions and several of the skill actions (e.g., communities of learning) were already agreed and underway. Other actions are actually sub-actions of a larger project rather than being different, such as several actions listed under the visitor industry which are part of the Twin Coast Discovery project.

Even taking these factors into account, an impressive amount of progress has been made on a large number of actions. However, we question whether more could have been achieved on some actions if there was a greater focus on fewer actions rather than spreading resources and implementation support.

We were told that there has sometimes been an unstructured approach to resourcing and implementing actions. For example, several stakeholders mentioned that little has been achieved in determining leverage opportunities from the Pepper's Carrington investment.



As noted in the discussion about prioritisation, there were also consistent comments from industry and community representatives that they did not understand how actions were selected for inclusion in the plan and that greater engagement at the local level would improve the quality of decision-making.

How do the arrangements compare to other regions?

Table 22 compares a selection of regional economic strategy and action plan support arrangements.



Table 22. A selection of Regional Economic Strategy/Action Plan Implementation Support Arrangements

	Waikato Means Business Economic Development Strategy and Action Plan	Canterbury Regional economic development strategy	Bay of Plenty Regional Growth Study Action Plan	Manawatū-Whanganui economic action plan / Accelerate25	Southland Regional Development Strategy (SoRDS)
Governance of the Strategy/ Action Plan	<p>Waikato Means Business Steering Group, comprising:</p> <ul style="list-style-type: none"> • 3 business reps • 1 education rep • 2 Māori/iwi reps • 2 EDA reps • 2 local government reps • 1 central government senior regional official 	<p>Mayoral Forum (includes Mayors of all councils in the region). Key partners are Te Rūnanga o Ngāi Tahu, Canterbury Development Corporation, Canterbury Employers' Chamber of Commerce and the Committee for Canterbury.</p> <p>A wider group of stakeholders from the farming, manufacturing, tertiary education, business, telecommunications, transport, tourism and welfare sectors comprises the Strategy Reference Group. This group meets with the Mayoral Forum approximately six monthly to review progress and provide advice on gaps and next steps.</p>	<p>Governance Group for the development of the Action Plan: Bay of Connections (BOC) Governance Group members, MBIE Deputy Secretary and three Mayors. Its tenure ended at the launch of the Action Plan.</p> <p>Governance Group for the implementation of Action Plan is the BOC Governance Group:</p> <ul style="list-style-type: none"> • 3 business reps • 4 EDA reps: Taupō, Rotorua, Priority One, Toi EDA • 2 Māori business reps • 1 local government rep: Chair of the Regional Council • 1 central government rep (senior regional official) • 1 rep from Collaboration Bay of Plenty 	<p>A Lead Team comprising:</p> <ul style="list-style-type: none"> • 2 regional council reps: Chief Executive and Chair • 1 local council representative: Mayor of Palmerston North City • 1 iwi rep: Ngaa Wairiki-Ngaati Apa • 1 education rep: Massey University • 4 business reps: chartered accountant, Atihau Whanganui Inc, GDM Group, CB Norwood Distributors 	<p>Governance Group comprising:</p> <ul style="list-style-type: none"> • Chair: independent company director and ex NZ Aluminium Smelter (NZAS); • 1 community group representative: Community Trust of Southland • 3 business representatives: Crowe Horwath, NZAS, professional director • 2 regional council representatives: Environment Southland (Councillor and CE) • 1 local council representative: Gore District • 1 iwi representative: Ngāi Tahu
Leadership of Action Plan work areas/ programmes	<p>Informal project teams were established to develop several of the actions in the implementation plan. Members included a mix of council officials, education organisations, business, industry associations, etc depending on the priority area and action.</p> <p>More formal reference/steering groups have been subsequently established for implementing some of the actions (e.g., Waikato Story, Māori Economic Agenda and Action Plan)</p>	<p>Each action area is the responsibility of one of the Councils.</p> <p>A lead Mayor directs each work programme and is mandated by the Mayoral Forum to provide leadership, facilitation, and advocacy for the work programme across the region.</p>	<p>The BOC Management Group steers the work streams. Members include: BoPRC (Chair), Bay of Connections Portfolio Manager, a representative from Enterprise Great Lake Taupō, 2 representatives from Toi EDA, the BOC Communications officer and the BOC Connections Support officer.</p> <p>Each of the nine priority action areas has a regional lead, responsible for management and progress reporting, and a project team.</p>	<p>Action Teams were established to develop plans for each priority action that was eventually put in the implementation plan. Each Action Team had a programme leader to oversee the plan and ensure project teams were progressing. Programme leaders were council and business representatives.</p>	<p>9 action teams were formed to develop the actions, with leaders and team members from business, councils, Ngāi Tahu, delivery agencies, Venture Southland etc. It is not yet clear whether action teams will continue in an implementation role.</p>
Implementation Support	<p>A Waikato Means Business programme manager was appointed in late 2015. The programme manager works with local government, business and NGOs to advance and promote the goals, objectives and priority projects of the plan and the Steering Group. The role is part-time.</p> <p>Other implementation support (e.g., development of a monitoring framework, an annual report on the implementation of the plan) has been provided by WRC.</p>	<p>The Mayoral Forum secretariat of three staff (hosted by Environment Canterbury) coordinates the work programme and communicates progress on the strategy (amongst its broader roles). A Chief Executives Forum also supports the Mayoral Forum.</p> <p>Canterbury Development Corporation is responsible for establishing a monitoring framework for the strategy and reporting on progress.</p>	<p>The BOC team provides implementation support: 1 full time (Portfolio Manager) + 3 part time. Functions:</p> <ul style="list-style-type: none"> • Programme management and coordination • Communications • Facilitation • Monitoring • BOPRC provides administrative and office support for the BOC team. 	<p>Initially 2 programme directors were appointed to coordinate and facilitate the development of actions for inclusion in the Action Plan. Post the launch of the Plan, the Governance Group has been considering the arrangements that will enable the Action Plan to be implemented effectively. They intend to appoint a programme leader to oversee the actions and ensure project teams are progressing.</p>	<p>A programme directorate has been established for two years, comprising a Programme Director and Project Manager (part-time positions). Environment Southland hosts the programme directorate although Southland Chamber of Commerce and Otago Southland Employers' Association offices are also used.</p> <p>Action Teams were also serviced by the lead organisation (e.g., Council, Venture Southland, Environment Southland, Chamber).</p>
Funding for implementation support	<p>The Waikato Means Business Programme Manager and other implementation support is funded by Waikato Regional Council.</p>	<p>The Mayoral Forum secretariat functions are funded by Environment Canterbury.</p> <p>Monitoring and reporting provided by CDC is funded by the Christchurch City Council as a normal part of funding and accountability arrangements for CDC's activities.</p>	<p>Funding for BOC is from BOPRC with some in-kind funding from EDAs.</p> <p>This funding supports the Governance Group, funds the Portfolio Manager, and resources some work streams.</p>	<p>Implementation support functions (e.g., coordination, communications) are currently supported by the Horizons Regional Council.</p>	<p>Funding for the programme directorate appears to be provided by Environment Southland.</p>
Accountability for implementation support	<p>The Steering Group advocates, influences, coordinates, monitors and communicates. It does not have 'direct' powers. The Waikato Regional Council is ultimately responsible for the performance and funding of implementation support.</p>	<p>Environment Canterbury is responsible for the performance and funding of implementation support.</p>	<p>The Bay of Plenty Regional Council is responsible for the performance and funding of the BOC team.</p>	<p>Lead Team's role is to define priorities, determine KPIs and appoint programme directors. However, Horizons Regional Council is responsible for the performance and funding of implementation support.</p>	<p>Governance Group takes its mandate from the Mayoral Forum. Ultimately it is the Councils that are responsible for the performance and funding of implementation support.</p>

It is important to note that several of the arrangements in other regions have only been in place for 12-18 months following the conclusion of significant regional growth studies and action planning processes. This means that, in a number of cases, the new arrangements are still bedding in and being refined.

While the governance and implementation arrangements in each region reflect their unique circumstances, there are several common features across the models of implementation support:

- Regional strategies and action plans typically have governance/steering groups comprising senior representatives of councils, business and EDA representatives, local iwi and, where applicable, the central government Senior Regional Official. The balance and level of membership varies from region to region but there is a high degree of commonality in the overall make-up of these groups.
- All regions have adopted distributed delivery models, reflecting the broad-ranging nature of actions. However, implementation is typically supported by action teams drawn from across the range of participating organisations – these teams are usually established at the outset (as the actions are being planned). Members of the action teams vary considerably from one action to the next, but are typically a mix of representatives of businesses, EDAs, educational institutions, iwi, councils and central government agencies. Implementation is also often supported by a governance group member or political leader having a lead role in overseeing and ensuring that a particular action or programme of actions is implemented.
- Implementation is typically supported by a small, dedicated team (between 1 – 3 FTEs) who provide a mix of functions: administering the governance/steering group, programme management, monitoring & communications.
- Funding of implementation support activities is generally provided through the relevant regional council. Central government has also contributed funding for implementation support for a time limited period in some regions (as it has in Northland).

Our analysis of other regional economic development implementation support models suggests the following critical success factors for implementation:

- Strong leadership from all sectors including business, iwi/hapū and local government – strategies and action plans that are not seen solely as the responsibility of one sector (e.g., local government) are far more likely to achieve buy-in and commitment from the range of organisations necessary to support implementation.
- Support from central government – effectively harnessing available central government funding and support, whether that be through infrastructure funding or access to various central government programmes and initiatives, is important to successful implementation. Ensuring clear lines of communication and support from central government is a necessary component for successful implementation.
- A realistic and well-resourced implementation plan – a number of regional economic development strategies and plans suffer from being ‘wish lists’ without realistic levels of resourcing to support implementation. A key role for programme managers is to work with action leads and governance groups to put realistic project plans in place and secure the necessary resources.
- Clearly identified roles and responsibilities – common shortcomings of regional economic strategies and implementation plans include a failure to clearly assign and mandate responsibility for leading and progressing actions and a lack of clarity regarding the roles and responsibilities that supporting agencies are required to play. Disciplined programme and project management is required to ensure there is clarity about who is responsible for delivering what.



- Genuinely collaborative action-oriented teams – All regions are characterised to a greater or lesser extent by competing interests and tensions between local and regional priorities. Those regions that are most likely to successfully implement regional economic actions are those that manage to harness a healthy spirit of collaboration, based on an understanding about areas where the regional interest is more important than the district or town interest.
- Strong monitoring and review processes – Transparent monitoring of progress against agreed milestones and timelines enables leadership and governance groups to assess progress and take corrective action where required. It also provides the means by which those leaders and governors can be held to account by the wider stakeholders (e.g., business community, ratepayers, residents, community groups) they represent.
- A capable, appropriately resourced implementation support team can play an important role in galvanising activity – while much can be achieved collaboratively, it is more likely that progress will be made and momentum maintained when there is dedicated resource to support strategy implementation.

Although not covered in the table, we also note that Waikato and Bay of Plenty have the equivalent of regional development or investment funds like the IGR that are to be used to co-fund strategic economic development actions. Our experience with regions that have investment funds is that they enable more robust feasibility and business cases to be developed on key actions/projects in the Action Plans. They also facilitate central government co-funding of major actions (as central government typically wants to see at least 50 percent of the costs covered locally).

Based on the earlier observations and these critical success factors, the following is our perspective on the strengths and weaknesses of the current TTNEAP arrangements:

- There has been genuine involvement of a cross-section of stakeholders in the implementation of actions, including co-investment. Some significant actions have been able to commence and be implemented – the Action Plan has not ended up just being a set of exploratory or pilot initiatives which can be the case in some regions.
- There is a good level of monitoring and reporting on progress with actions and this should continue.
- Overall, it is not apparent that Council participation on the current Group is a good use of resources. The role of the Advisory Group needs clarification – is it to be a sounding board or should it be a Steering or Leadership Group? We consider that the Group should effectively be the ‘owners’ of the Growth Study and Action Plan as is occurring in other regions and hence that its primary role should be to oversee and make decisions on the priorities and actions in the Action Plan, to champion the Action Plan to stakeholders and to lead some priority areas and/or actions. That is, it should be a Leadership Group.
- If the Group does become a Leadership Group, it does not have the right mix of representation. We would expect to see greater senior level business representation and representation from other key influencers on economic development in the region such as Māori/iwi, Northland Inc and NorthTec.
- As there has not been sufficient prioritisation of the actions, in our view support resources are being spread over too many projects.
- Although there are programme leaders for broad workstreams, there are not always clear leads for specific actions. Action teams and project plans should be established for priority actions. Implementation of actions would also benefit from having a Leadership Group champion associated with priority workstreams and/or actions.



- There may not be sufficient resource (1 FTE currently) providing implementation support through the Portfolio Management role – the amount of resourcing required will depend somewhat on whether the role of the Advisory Group is altered and whether the Plan is revamped and a more extensive engagement process across the region is undertaken. If the Group and Plan is altered, there will need to be additional resources for programme management for this role to remain effective.

2.3 The overall effectiveness of economic development activities

Overall, there is relatively limited hard information about the linkages between Council and Northland Inc activities and their impacts and economic development outcomes (or what the intended outcomes are in some cases). There has not been a formal evaluation of any of the Councils' or Northland Inc's services other than the Regional Partner services (through a national review).

However, on the positive side, our review has found:

- Client satisfaction with Northland Inc's business development activities is high.
- There are examples of businesses that have benefited from facilitated access to business development services in the region and a relatively high proportion of businesses accessing Northland Inc facilitated support indicate that it has helped their business, backed up by national evidence that capability vouchers and R&D funding helps to improve business practices and performance.
- Businesses and other organisations co-invest funding, time and resources in business development, destination marketing and sector development initiatives which suggests they are receiving value from those services.
- The industry representatives and other stakeholders we interviewed were generally positive about the advice, information and facilitation support that Northland Inc provided and indicated that collaborative work through industry coalitions would not have occurred without Northland Inc's support.
- Events supported by district councils are achieving good outcomes in terms of visitor numbers from outside the district (and, in some cases, the region) and spend.
- i-SITEs in Northland are meeting their performance expectations, including quality of service and customer satisfaction, and a national study suggests that they are facilitating relatively high levels of visitor expenditure compared to i-SITEs in other regions.
- Tourism product and sector development projects have leveraged considerable funding from non-local government organisations.
- Estimates of the impact of tourism product and sector development projects supported through the IGR suggest they will make a large contribution to jobs and economic value, and that some will generate broader benefits such as community pride and amenity improvements.
- A significant number of actions have been progressed through the TTNEAP. There has been genuine involvement by many stakeholders in the implementation of actions and the Working Group arrangement has improved the coordination of activity across local government and central government.

All of this is suggestive that the majority of economic development activities are having a positive impact and achieving additional outcomes.



The review has also found some areas where the effectiveness of activities could be improved or where further work is required:

- Despite Northland Inc's business development services having high levels of customer satisfaction, Northland Inc's satisfaction and net promoter scores were lower than many other regional partners, which suggests there is room to improve client engagement.
- Regional marketing activities and district marketing activities are not as well coordinated as they could be and there are perceptions that current regional marketing efforts are Whangārei-centred and not effective for the Bay of Islands.
- There is not a consistent approach to estimating event impacts pre-event and event outcomes post the event. The current emphasis on district level events is unlikely to be generating the level of benefit that would be possible from supporting regional events that attract international visitors.
- The current 'landing pad' initiative does not yet appear to be focused on high quality investment opportunities and will need to include investor profiling, investment diagnosis and after care in addition to lead generation and promotion to be effective.
- The quality of cases for local government investment in IGR supported tourism product and sector development projects has been variable. Many cases have not clearly identified the rationale for local government funding, and the broader benefits and impacts have not been well articulated for several projects.
- There has not been a clear prioritisation of tourism product and sector development projects through the IGR process which means that Northland Inc and Council resources are being stretched and that there will be limited funding available in out-years for these projects.
- The transaction costs involved in IGR assessment processes for small proposals, such as feasibility studies and business cases, are too high given that they have to go through both the Northland Inc Board and NRC. In some cases there have been very long timeframes involved in making decisions on applications.
- The current TTNEAP and its support arrangements do not reflect best practice. There has not been sufficient prioritisation of actions and there has not been clear leadership of the plan.

Because of the limited and mixed evidence available about outcomes, it is difficult to suggest that there are obvious areas of Northland Inc's or Councils' economic development activities that are not effective and that should be discontinued.

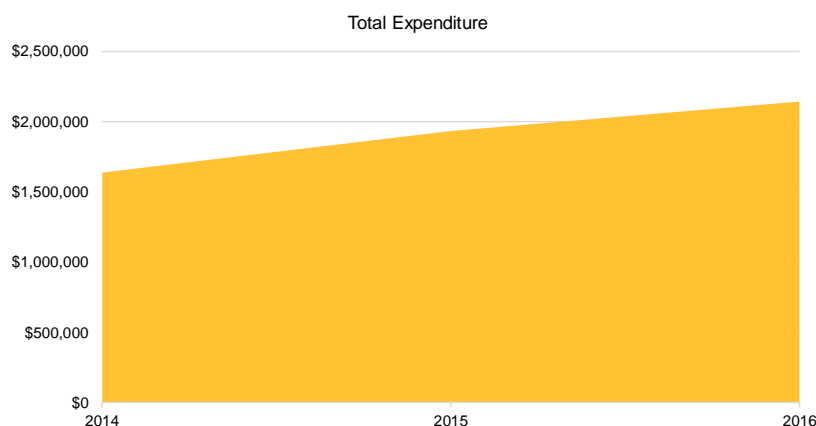
2.5. Are services delivered cost-effectively and are the costs involved in delivering the services as low as possible?

We have only been able to assess the cost effectiveness of Northland Inc's services because of a lack of suitable output and cost information on Councils' economic development activities.

Northland Inc's expenditure has increased steadily over the last three years (see Figure 7) from \$1.64 million to \$2.14 million or an increase of 14.4 percent per year.



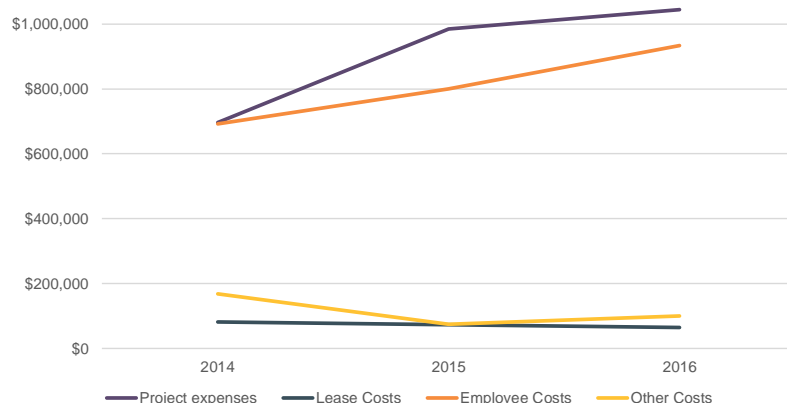
Figure 7. Northland Inc's expenditure 2014-2016



Source: Northland Inc Annual Reports

As is shown in Figure 8, which shows the major cost areas of Northland Inc, the increase is due to a combination of an increase in project expenses and employee costs.

Figure 8. Components of Northland Inc's expenditure 2014-2016



Source: Northland Inc Annual Reports

However, Northland Inc's level of most outputs also appears to have increased over the period. For example, in terms of key outputs as reported in Annual Reports, Northland Inc has:

- Increased the number of unique business engagements from 136 in 2013/14 to 199 in 2014/15 to 252 in 2015/16 (an increase of 36.1 percent per year).
- Increased the number of IGR projects and feasibility and business case applications it has assessed and recommended from 2 projects and 5 feasibility studies/business cases in 2013/14 to 3 projects and 7 feasibility studies/business cases in 2014/15 to 3 projects and 9 feasibility studies/business cases in 2015/16.
- Increased the number of industry/cluster groups it has been working with from 2 in 2013/14 to 3 in 2014/15 to 5 in 2015/16.
- Delivered an enhanced regional promotions campaign over 2015/16 and achieved an increased level of industry funding toward marketing activities.



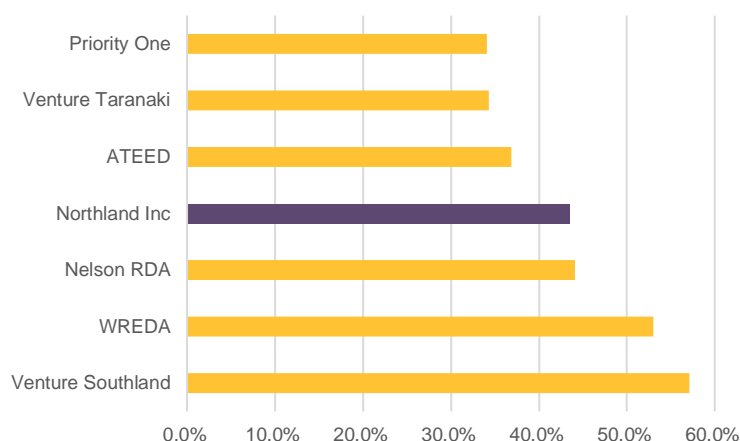
- Increased its servicing of TTNEAP through the addition of the portfolio manager and participation in Advisory and Working Group meetings.

Given this, Northland Inc appears to be delivering more outputs with the increase in funding it has received. There is no obvious reduction or increase in efficiency overall. The only reduction in outputs over the period has been the value of NZTE and Callaghan Innovation funding facilitated into the region. Northland Inc achieved an increase in the level of funding facilitated over 2013/14 and 2014/15 from close to \$640,000 to \$1,050,000 but this declined to around \$115,000 in 2015/16 (although this was largely due to a change in the application of criteria for Callaghan Innovation funding). As noted, this has increased again in the first six months of 2016/17.

Another rough measure of efficiency is the level of staff resource that is required to deliver the range of economic development support or the proportion of staff costs to total expenditure. Northland Inc is around average on this measure relative to comparable EDAs as shown in Figure 9 below, with staff costs representing 43.5 percent of its total expenditure. A couple of caveats to this are:

- We would expect larger EDAs to generally have a lower proportion of staff costs to total expenditure due to economies of scale effects. However, the Wellington EDA and Venture Southland have larger budgets than Northland Inc but also have a higher proportion of staff costs.
- Several EDAs are also responsible for i-SITEs, which tend to be more staff intensive. However, Venture Taranaki and Priority One, like Northland Inc, do not manage i-SITEs.

Figure 9. Proportion of staff costs to total expenditure across selected EDAs, 2015/16



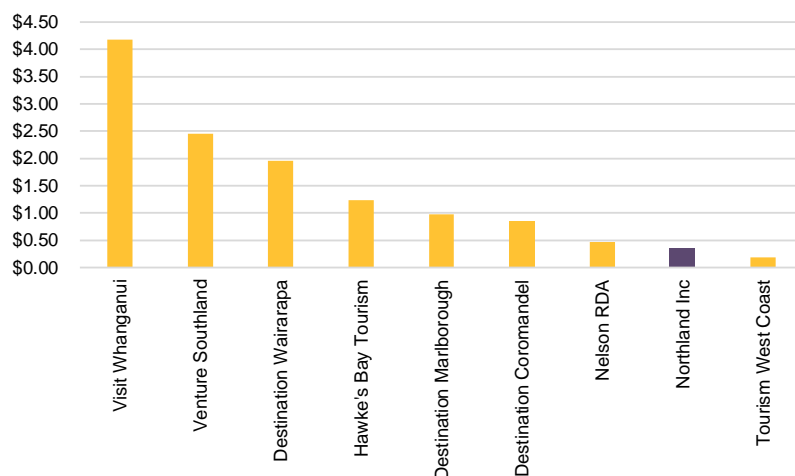
Source: MartinJenkins calculations

The efficiency of Northland Inc's regional marketing activities can also be roughly assessed by considering visitor expenditure and nights per dollar invested, relative to other comparable agencies. Again, this is only a rough measure as visitor expenditure and nights are affected by a range of activities beyond destination marketing support.

Northland Inc is regarded as a 'tier 3' or medium RTO based on its scale (budget). The average Council investment in regional marketing activities per guest night for tier 3 RTOs in 2015/16 was \$0.64 (MacIntyre, 2016). Northland Inc was well below average at \$0.35 and hence Northland's destination marketing spend was more efficient than most equivalent RTO areas.



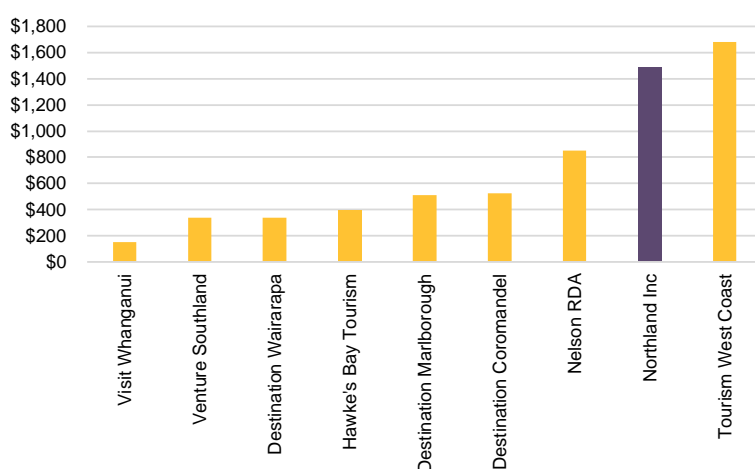
Figure 10. Average council marketing investment per guest night, Tier 3 RTOs, 2016



Source: Based on MacIntyre, 2016.

In 2016 the region achieved \$1,490 of visitor expenditure per \$1 of Council investment in visitor promotion and marketing compared to a tier 3 RTO average of \$703 (MacIntyre, 2016), so was well above average on this expenditure measure. Northland Inc performed better most other tier 3 RTOs on this measure, other than Tourism West Coast.

Figure 11. Visitor expenditure per dollar of Council marketing investment, Tier 3 RTOs, 2016



Source: Based on MacIntyre, 2016.

These figures should be regarded as indicative as different Councils and RTOs appear to include or exclude different types of expenditure as marketing investment when answering the survey.

Overall, there are no obvious areas where major reductions in costs is possible although, as noted earlier, there are opportunities for some efficiencies associated with improving IGR processes (reducing time spent on application processes).



2.5.1 Potential for increased co-funding

It is possible that Northland Inc services could be delivered more cost-effectively (particularly from NRC's perspective) if there was a greater level of co-funding from other parties (noting that, in 2015/16, around \$437,000 or 20 percent of Northland Inc's funding came from non-Council sources – 13 percent of that was from central government).

As noted, WDC does contribute \$105,000 in funding through its joint resourcing arrangement with Northland Inc. KDC and FNDC do not currently contribute funding to Northland Inc and both invest relatively low levels of funding in economic development on a business and population basis, although both receive Northland Inc outputs. To a certain extent this reflects the fact that Northland Inc's operational funding is provided by NRC through a regional fund (the IGR) and hence ratepayers across the region and each district are already effectively contributing to these services. However, to the extent that the districts may want to see more tailored or specific support, it would be worth exploring the potential for KDC and FNDC to contribute more to Northland Inc's annual budget (for example, using a similar approach to WDC). This is discussed later in the report when we consider options for improving delivery. As previously noted, FNDC also indicated that they had allocated funding to potentially support Northland Inc in delivering a programme of work in the Far North but that a programme of work has not been agreed.

There is also potential for greater levels of industry co-funding. Business development and sector development activities are co-funded and there are already significant levels of non-local government funding being invested in IGR projects. However, regional destination marketing activities are not highly co-funded. In 2015/16, 5 percent of Northland Inc's marketing budget was contributed by industry. In contrast, the destination marketing activities of many other RTOs are co-funded to a higher degree by industry through partnership marketing and business memberships, for example, in the Waikato, Bay of Plenty, Eastland, Hawke's Bay, Lake Taupo, Marlborough, Nelson-Tasman and West Coast. In 2016, on average, industry contributed around 8 percent of RTO funding across New Zealand. Tier 3 RTOs that are similar in scale to Northland Inc had an average industry funding contribution of 12 percent.

As discussed earlier, the Bay of Islands Marketing Group actually contributes a significant amount of private funding to local promotion efforts. There is likely to be greater opportunity to leverage this investment for regional marketing.

The proportions above also do not account for funding that RTOs receive through other business contributions such as targeted rates. Several localities or regions attempt to ensure that the primary beneficiaries of visitor and marketing activities contribute more to these activities than those that are less likely to benefit. This is often through the adoption of a differential targeted rate for destination marketing (with accommodation and tourism operators paying more than other commercial operators, for example). This approach or similar mechanisms are used by Councils in the Hawke's Bay, Rotorua, Marlborough, Kaikoura, Hurunui, Mackenzie, West Coast, Dunedin, Central Otago, and Queenstown, amongst others (and a more specific rate has just been approved for introduction in Auckland). Some regions and the Department of Conservation are also considering options for charging visitors for access to visitor attractions (e.g., walkways, cycleways), for example, through parking fees.

We note that these options are not currently used in the region and they should be considered in order to obtain a greater private sector contribution to destination marketing and management activities in future. Such options should be assessed as part of the proposed visitor and events strategy for the region.



2.6 Assessing whether the benefits of economic development activities exceed the costs

The lack of a formal evaluation of any economic development activities in the region or substantive assessments of impacts (other than for events and some elements of business development support) makes it impossible to definitely state that the benefits of these activities exceed the costs (for example, we cannot estimate a benefit:cost ratio based on the information available). However, we consider that this is likely, based on what is being delivered, the impact information that is available, industry co-funding and resourcing of several activities and feedback from stakeholders.

This situation is not unique to Northland and most other regions and Councils undertake relatively limited evaluation and provide limited evidence about the benefits of their economic development activities relative to costs. This is because evaluating the effectiveness of economic development activities is difficult and requires investment in staff time and capability and typically external expertise. Key issues are:

- Changes in outcomes (e.g., a business's productivity levels or jobs, visitor expenditure in the region) cannot simply be attributed to an intervention because they will be influenced by a range of other initiatives and external factors, including changes in economic conditions, changes in demands in key markets, competition, changes in resources, and local and national policy and regulatory conditions.
- A particular activity may impact on a range of outcomes (so there isn't a one-to-one relationship), and outcomes will also influence each other (e.g., an initiative might initially help increase the R&D of a business and its levels of employment, but the increase in R&D will improve the performance of the business over time and lead to further increases in employment).

However, assessing the benefits of these activities can be improved in the first instance by more clearly identifying the linkages between outputs, immediate impacts and short- to medium-term outcomes and capturing better feedback from business and industry clients about their views on the changes that have resulted from activities.

We suggest that Councils and Northland Inc develop an agreed output and outcome framework that sets out an intervention logic about how the range of activities delivered by each organisation contributes to desired outcomes. It should tell a clear, logical story about the causal links between the issues or opportunities that the economic development activities are aiming to address, the activities and outputs, and the desired short-, medium- and long-term outcomes. That is, it should help explain why initiatives are being invested in and how this is likely to contribute to outcomes.

The intervention logic should reflect the following components:

- problem/opportunity definition – explaining why resources are being used and activities are being undertaken
- inputs – what resources are being used
- activities – what initiatives are being undertaken and services are being provided using the inputs
- outputs – the application of activities to different participants (i.e., the direct product of those activities)
- outcomes/impacts – what changes/benefits occur as a result of the outputs, including:
 - short-term (changes in awareness, knowledge and learning, motivations, access to resources). These are observable in the first 1-2 years and generally directly attributable to the activities. Examples might include visitors having better awareness of attractions in the



region, businesses having improved access to skills, increased collaboration between businesses in the region, and businesses experiencing reduced costs for undertaking certain activities.

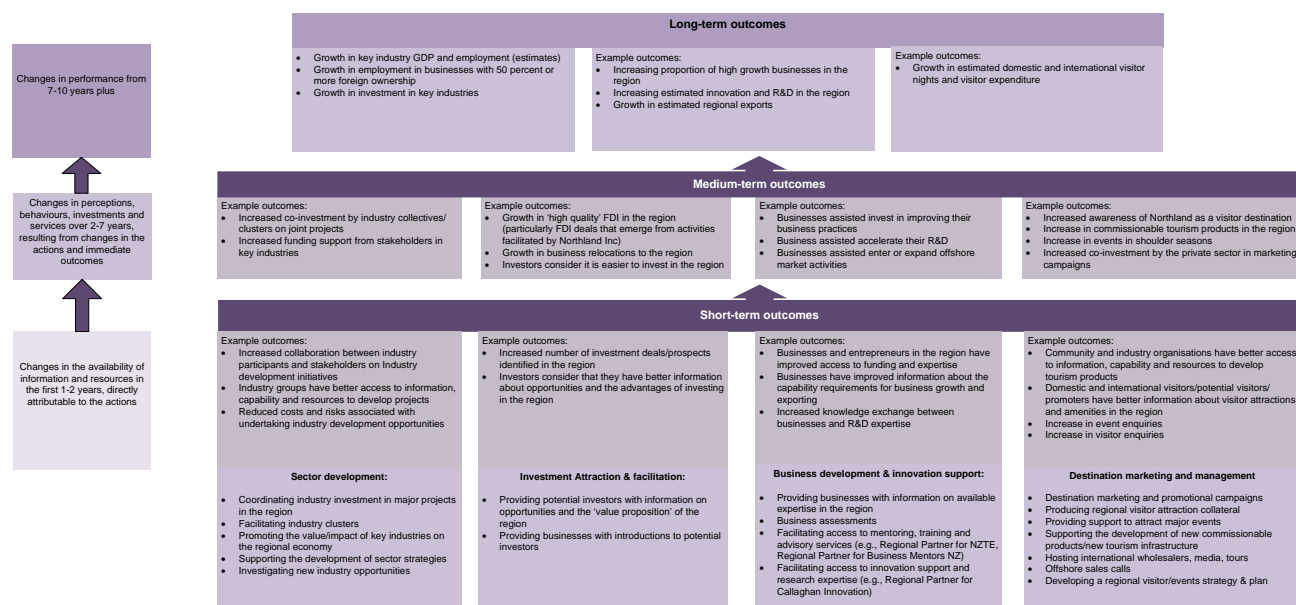
- medium-term (changes in behaviours, practices, investments). These will occur over 2-7 years. They might include increased investment by the businesses that are supported by an initiative, improvements in business practices by those supported, or increased exchange of know-how between businesses involved in an initiative.
- long-term (sustainable changes in investments and business performance and economic impacts). These may take up to 7-10 years or longer. They include changes in levels of innovation, business growth and visitor expenditure growth, and ultimately changes in regional employment and GDP.

The framework should clearly be aligned with the proposed revamped TTNEAP. The framework will need to be realistic about what can be measured and the resourcing (staff time and funding) required to assess performance relative to the investment being made in economic development activities.

However, we believe developing and applying such a framework will be manageable. Changes in short-term and medium-term outcomes could be assessed by asking additional questions in client satisfaction surveys or through the use of a business/client panel (for example, selecting 100 representative clients across economic development activities from which a sample could be selected on an annual basis to answer an online survey and/or to participate in interviews). Many of the likely long-term and economic outcomes will be available from regional and national research.

An example of the types of short-, medium- and long-term outcomes that such a framework could contain are shown in Figure 12 below (this is indicative only).

Figure 12. Example hierarchy of outcomes for Northland economic development activities



Performance measures and methods of collecting these can then be identified for reporting on outcomes.



Developing such a framework would also help to establish an indicative plan for monitoring and evaluating Northland Inc's and Councils' progress towards intended impacts and outcomes.



3. HOW SHOULD THE SERVICES BE DELIVERED?

Summary

Economic development services that are targeted at a common client base, aimed at addressing similar issues and opportunities and achieving common outcomes are typically delivered together in New Zealand to ensure efficiency and effectiveness. Hence, like Northland Inc, several regional economic development agencies in New Zealand deliver a full spectrum of services including business development support, sector development support, and regional destination marketing and management activities. There are generally not good reasons for splitting services across different organisations.

Most economic development activities are also not core to the effective functioning of Councils, nor do they require frequent Council decision-making. Indeed, in several cases, advice on the services requires commercial experience. Moreover, businesses may be less willing to engage directly with a Council than an arms-length entity due to concerns about confidentiality and impartiality (even if this is more about perception than reality). As such, most economic development activities should be delivered arms-length from Councils. The exceptions tend to be strategy development and economic intelligence and analysis, which often do require close integration with other Council activities.

These factors, the identified areas for improving economic development activities, and an assessment of practical delivery options against a range of criteria suggest that the best approach for enhancing the existing model is:

- For Northland Inc to become a jointly-owned CCO, with joint shareholding across the four Councils and a Joint Committee to provide direction and oversee Northland Inc's performance and resourcing.
- To extend the delivery of Northland Inc into each district through a hub and spoke delivery model, for example, by having representation and joint resourcing arrangements with the district Councils and potentially the Bay of Islands Marketing Group and/or other promotional groups.
- To increase Northland Inc's destination marketing activity relative to other activities, including adding the current three-year regional promotion budget into their baseline and identifying opportunities for reallocating funding from other activities. The increase in activity should include the introduction of a major regional events facilitation and marketing role. The activity should be guided by the development of a regional visitor and events strategy.
- To improve engagement between Northland Inc & Councils and Māori/iwi organisations on economic development priorities and services. This could also include a joint servicing arrangement with Iwi Chief Executives and/or other Māori fora or organisations.

These delivery improvements should be implemented in conjunction with:

- An enhanced approach for determining economic development priorities between Councils and Northland Inc, for example through an annual strategy session and workshops between Northland Inc and the proposed Joint Committee of Councils.
- Improved reporting on economic development activities through the introduction of the proposed output and outcome framework and monitoring the impacts that key activities are having on clients and projects

Key benefits associated with the recommended arrangements include:



- Greater alignment of economic development priorities and outcomes across Council/s and Northland Inc and hence better opportunity to leverage the resources of all to achieve common goals.
- Relatively little disruption to Northland Inc or Council operations and delivery as a result of implementing changes.
- Reduced compliance costs for Northland in reporting to different Councils.
- Improved measurement of economic development activity performance and impacts and subsequently a better ability to make appropriate changes to resource and investment decisions.
- Increased flexibility/agility by being able to make decisions about changes to activities across Councils and Northland Inc through the Joint Committee structure, which would have previously necessitated a reliance on a larger number of decision-making mechanisms across Councils.
- Increased opportunity to identify efficiencies in delivering activities across all Councils and Northland Inc as a result of increased engagement.

Key costs and risks associated with the recommended arrangements include:

- An increase in Council staff and Councillor time required to develop and agree on: priorities with Northland Inc; the Shareholders Agreement; the Joint Committee role and structure; and the outcome and output framework. Some Councils (e.g., KDC and FNDC) will now be expected to participate in additional meetings and workshops with Northland Inc.
- An increase in Northland Inc staff and Board time required to help develop the outcome and output framework, improve reporting and participate in workshops with the Councils. This may divert resources away from delivery.
- Time and costs associated with public consultation on the changes to the CCO arrangements. This can be minimised by utilising existing consultation processes, such as those associated with the update of the LTPs and Annual Plans.
- Costs involved in extending Northland Inc's services into districts (e.g., set-up costs, coordination costs) although some costs could be minimised by sharing overheads with others.
- A risk that Councils will attempt to influence operational rather than strategic matters through the new engagement/communication mechanisms.

In our view these costs and risks are manageable and will not outweigh the benefits of the proposed arrangements. We consider that the proposed changes should be cost neutral in the medium-term.

In addition to changing delivery arrangements, two other areas of economic development activity need to be enhanced to improve alignment and ensure sufficient resourcing:

1 The operation of the Investment & Growth Reserve, including

- Focusing the fund on impact investments (and associated feasibility studies and business cases) as the broader economic development rationales and benefits from commercial projects are limited.
- Introducing guidelines and templates for feasibility studies and businesses cases to ensure that additional and wider economic benefits are clearly assessed and specified.
- Prioritising the pipeline of projects to focus on those with the greatest potential impact and public benefits, aligned with regional economic development priorities.



- Enabling the Northland Inc Board to make decisions on feasibility and business case applications, up to an agreed maximum (e.g., \$100,000), with NRC officials providing advice as part of the process.

2 TTNEAP and its support arrangements:

- Revamping TTNEAP to become a regional economic development strategy and plan, with agreed priority areas, goals and outcomes and which is aligned with Northland Forward Together, He Tangata, Council Plan, Northland Inc priorities and relevant central government plans. The aim should be for the strategy and plan to more aspirational about the future of the region and to provide greater direction about how economic development activities will support this future.
- Revamping the TTNEAP Advisory Group so that it provides direction and decision-making on priorities and involves stronger business leadership and a genuine partnership between local government, Māori/iwi, the business community and central government.
- Holding strategic workshops between Councils, Northland Inc, business leaders, Māori/iwi leaders and other major economic development partners to discuss and update the priorities and Plan annually.

3.1 Does the existing model need to change?

Our assessment is that the economic development activities are generally effective and reasonably efficient, but we have identified several areas that can be improved:

- Improved prioritisation and alignment of outcomes, resourcing and activities
- Extension of services into districts and for Māori/iwi
- Improved monitoring and assessment of impacts
- Improved engagement with some sectors and clients.

The question is whether the current NRC CCO model and mix of services delivered by Northland Inc should change in order to address these areas of improvement, for example, for some services to be delivered directly by Council or for some services to be contracted to other parties. To assess this, we first consider the types of services that should be delivered together and whether services should be delivered internal to or external from Councils.

3.1.1 What services should be delivered together?

Services that are mutually reinforcing, which reflect common issues and opportunities, which are targeted at achieving common outcomes and involve a common client base should generally be delivered together for both efficiency and effectiveness reasons unless there are good reasons why that is not possible. That is why the following economic development services are generally delivered together in other regions of New Zealand:

- Regional visitor and events attraction, promotion and marketing – these activities involve marketing the advantages and amenities of the region, domestically and internationally, to attract additional spending into the region.
- Business development, investment attraction and internationalisation support. These services are typically focused on business opportunities and are aimed at building capability and connecting businesses to networks, in order to increase productivity and value added.



- Skills support, promotion of innovation and industry development support. These services are focused on improving business and industry access to resources they need to produce goods and services.
- Strategy development and economic intelligence and monitoring. These activities require analysis and access to a wide range of data and research.

In some cases all of these activities are delivered together by the same agency (see Appendix 3), reflecting commonalities across broader groups of clients and opportunities (e.g., industries that benefit from business development support may also require and benefit from skills, sector development support and investment attraction). Examples of this are in Auckland (ATEED), Taranaki (Venture Taranaki), Wellington (WREDA), Nelson-Tasman (NREDA).

In other cases, regional visitor and events attraction and promotion are delivered separately from the other services reflecting the emphasis that the region or locality places on the importance of tourism in the economy (e.g., Bay of Plenty, Taupo).

Within visitor promotion and marketing activities, i-SITE information services are often delivered separately (e.g., via Councils or via independent organisations) as they can be more customer service oriented than developmental in nature.

As noted earlier, district or city improvement initiatives are typically delivered separately to these services, often through town and business associations, reflecting a specific group of stakeholders and location specific set of opportunities (rather than regional opportunities or needs).

3.1.2 Are services best delivered in-house or externally?

In thinking about whether economic development services or activities are best delivered within a Council or through an external agency (e.g., Council Organisation or contracted to an outside organisation), the following questions can be considered:

- *Are they of high strategic importance to a Council, i.e., do the activities give effect to key Council plans, objectives and policies and hence require close coordination and integration with other Council activities? Are there strategic relationships involved that a Council wants to maintain?*

The answer for most of the economic development activities noted above is no – they tend to be operational in nature. That's not to suggest the activities are not important – rather they are not core to the Councils' business or as critical to the Councils' long-term plans and goals in the same way that infrastructure planning investment is, for example. The exception is the development of economic (and related) strategies and collection of market and industry intelligence, which can be core to the effective functioning of Councils.

- *Are the activities significant in scale and scope and do they involve major risks that need to be managed, i.e., is there a need for frequent Council decision-making?*

If there is a high level of risk and significant expectations attached to activities, for example for initiatives involving significant levels of investment, there may be a desire for greater control over what is provided and for the outcomes. In these circumstances there may be a preference to manage the risk in-house.

However, again, the answer is no for most economic development services. The exceptions can be industry development initiatives which involve investment in significant industry assets (e.g., research or innovation centres) and investment attraction efforts which involve decisions on significant land/properties or facilities.

- *Are decisions on activities commercial in nature and should be arms-length from Council?*



The answer for most economic development activities is yes. In several cases (e.g., funding for major projects, on investment opportunities, on marketing initiatives, on events) decisions benefit from commercial and entrepreneurial insight. In some cases, the business community would expect decisions to be free from any perceived political influence. Again, the exception is strategy development activity.

- *To what extent do Councils have an advantage in providing the activities? Who has access to the best information to guide implementation and the ability to organise and secure resources from industry?*

A Council may wish to consider providing the activity itself if it has particular advantages in doing so (i.e., it can provide the service more efficiently or effectively than other providers).

However, as much of the information and networks required to be effective in economic development is derived from the private sector, an agency with a private sector Board may have a better ability to obtain this information (although this could also be obtained through an advisory board to Council). Similarly, although this may not be the reality, it can be perceived by the private sector that an external agency, with a private sector Board, has more credibility and impartiality. Some businesses may not be willing to work on economic development initiatives directly with a Council if they have existing issues with other Council activities (e.g., consenting).

Are the activities complex?

If there are difficulties in specifying the nature of the outputs required or if there is likely to be a need to frequently change the outputs, it is unlikely that the activities will be able to be contracted out efficiently or effectively.

- *To what extent are there existing potential providers of the activities?*

If there are existing potential providers of the activities (e.g., business advisory companies), it may be preferable to contract directly to these providers as they may have the skills and networks to deliver effectively and efficiently. If there is no real existing or potential provider, then delivery by the Council or one of its organisations will likely be required (at least initially).

These questions and answers suggest that most economic development services should be delivered by an external agency, although there is a case for strategy development support and economic intelligence gathering and analysis to be undertaken by Council/s.

The structure and form of several economic development agencies is provided in Table 23 below. As is clear, the delivery of economic development activities in most parts of New Zealand occurs through external agencies, although there are a few examples where several services are delivered by business units within Councils (e.g., Dunedin, Thames-Coromandel, Marlborough). As is also apparent, several regions (e.g., Nelson-Tasman, Wellington, Manawatu, Christchurch, Southland) are in the process of combining or have recently combined tourism and economic development functions into a single agency.



Table 23. Structure, form and funding arrangements of economic development agencies

EDA	Relationship with Council	Form	Shareholders/ major funders	Other significant local government funders
Northland Inc	CCO	Limited liability company	Northland Regional Council	Whangārei District Council
ATEED	CCO	Limited liability company	Auckland Council	N/A
Thames-Coromandel Economic Development	Business Unit	Group	N/A	N/A
Destination Coromandel	CO	Trust	Thames Coromandel District Council, Hauraki District Council	N/A
Priority One (Western BOP)	Independent	Incorporated society	Tauranga City Council, Western Bay of Plenty District Council	As a membership based organisation, Priority One has a range of funders. Significant funders include: Bay of Plenty Regional Council, BOP Polytechnic, Port of Tauranga, Craigs Investment Partners, The University of Waikato, Trustpower Ltd, Zespri International, Cooney Lees International
Tourism Bay of Plenty	CCO	Trust	Tauranga District Council, Western Bay of Plenty District Council	Whakatane District Council
Central Economic Development Agency (Manawatu)	CCO	Limited liability company	Palmerston North District Council Manawatu District Council (50:50)	N/A
Wellington REDA	CCO	Limited liability company	Wellington City Council Greater Wellington Regional Council (80:20)	None as yet
Economic Development Marlborough	Business Unit	Group	N/A	N/A
Destination Marlborough	Independent	Trust	Marlborough District Council (via targeted rates)	

EDA	Relationship with Council	Form	Shareholders/ major funders	Other significant local government funders
Nelson Regional Economic Development Agency	CCO	Limited liability company	Nelson City Council	Tasman District Council
Canterbury Development Corporation	CCO	Limited liability company	Christchurch City Holdings Ltd (Christchurch City Council)	N/A
Christchurch and Canterbury Tourism	Independent	Trust	Christchurch City Council	Mackenzie District Council
Note – the two agencies and Christchurch City Council's event units are being merged into a new CCO – ChristchurchNZ				
Aoraki Business and Tourism	CCO	Limited liability company	Timaru District Council	Mackenzie District Council Waimate District Council
Enterprise Dunedin	Business Unit of Council	Group	N/A	N/A
Venture Southland	Joint Committee of three Councils	Joint Committee Note there is a proposal to make Venture Southland a Joint CCO of the Councils	N/A	Invercargill City Council Southland District Council Gore District Council Environment Southland

Sources: Annual Plans and Annual Reports of EDAs, RTOs and Councils

3.3 What arrangements are likely to be effective and efficient options for delivering economic development activities in Northland?

Section 17A of the LGA requires that we consider the following options in considering delivery improvements:

- Governance, funding and delivery by a Council (e.g., bringing all delivery in-house)
- Governance and funding by a Council (e.g., NRC) with delivery by a CCO owned wholly by the Council
- Governance and funding by a Council or jointly by Councils and delivery through a CCO owned wholly by one Council or a jointly owned CCO
- Governance and funding by a Council (e.g., NRC) or jointly by Councils with delivery by another local authority or authorities
- Governance and funding by a Council or jointly by Councils with delivery through another organisation (i.e., contracting out all delivery).

Practicable options are not necessarily practical. Practicable simply means that an option is able to be implemented – it does not mean that it is sensible.

We discounted the option of bringing all economic development functions in-house to a Council or Councils, given that most are not well aligned with core functions of the Council and given the business perception issues (i.e., businesses may not be prepared to share confidential information with a Council if they are also involved in negotiating terms for consents or services). We also discounted the option of contracting all services to a range of industry/private organisations given that this would likely not be any more efficient (for example, it would require procuring and managing multiple contracts) or effective than the status quo and provide less oversight and control for Council (and hence limited potential to achieve greater alignment with Council priorities). We do not believe there is a single external agency in the region that has a broad enough scope of interests or expertise to be contracted to deliver all services.

Finally, we also considered and discounted the option of using two CCOs, with Northland Inc to remain an NRC CCO and focus on delivery to central and western parts of the region (Whangārei and Kaipara) and for FNDC to use FNHL to deliver economic development services in the Far North (on the basis that they had previously been contracted to deliver some of these services by FNDC). However, we do not consider that this option will be particularly effective or efficient.

First, economic development services are not a core role to FNHL and there would be a reasonable learning curve for the organisation. Second, there would be a duplication of roles and overhead between Northland Inc and FNHL to deliver the same sorts of services in different parts of the region (and less opportunity for economies of scale or scope in delivery). Third, there is likely to be some overlap in delivery, for example, industries do not operate on the basis of district boundaries and hence sector facilitation work (e.g., industry coalitions) would likely require the presence of and advice from both Northland Inc and FNHL. Finally, we would assume that central government would prefer to contract with a single agency to deliver Regional Partner services in the region and hence one agency may end up delivering in the geographic space of the other agency anyway.

Given the regional context and the preceding analysis, in our view practical options for consideration are the following:



1. **The Status Quo**, i.e., not changing anything related to governance, funding or delivery of economic development services. This would be potentially on the basis that the current arrangements are not 'broken' so there is no need to make any changes.
2. **Enhanced Status Quo** – this would mean that Northland Inc would remain a CCO of NRC, but that:
 - additional mechanisms would be adopted to ensure more effective engagement and communication between Northland Inc, Councils and other economic development partners (e.g., six-monthly workshops).
 - Northland Inc would extend its delivery into the Far North, for example, by having representation based in FNDC and/or a co-funded resource with FNDC.
3. **Refocusing Northland Inc.** This would involve transferring some of Northland Inc's current activities to Councils. This could be argued on the basis that Northland Inc is trying to do much and should focus on delivery. This would mean transferring services that are more closely aligned with roles of Councils such as the portfolio management role for TTNEAP and IGR applications associated with major strategic projects. Northland Inc would focus on delivering business development, sector facilitation, investment attraction & facilitation and destination marketing support.
4. **Leveraging other providers.** This would involve changing Northland Inc from a CCO to an independent organisation and for Councils to contract with Northland Inc and potentially other organisations (e.g., Chambers) for economic development services. This could be argued for on the basis that districts could contract for the specific services and reach they would prefer and that introducing some competition may incentivise improvements in the quality of delivery. This type of model is used in Western Bay of Plenty (Priority One), Hawke's Bay (Business Hawke's Bay) and Taupo (Enterprise Great Lakes Taupo).
5. **Extended Regional Model.** This would involve converting Northland Inc from a NRC CCO to a jointly owned CCO, with all Councils in the region taking an ownership and governance role in Northland Inc and jointly contributing funding to Northland Inc. This would also involve Northland Inc extending its presence in different districts through having satellite offices or joint staff with the respective Council. This option could be argued on the basis that joint ownership and an extended regional model will improve alignment of prioritisation, resourcing and delivery.

What are the pros and cons of different options?

The pros and cons of different options can be assessed on the following criteria:

- Practicality – will the model be able to be implemented and will the changes be relatively easy to make with minimal disruption to existing services? For example, you would not want destination marketing activities to stall because of a change process.
- Effectiveness – will the model be likely to be effective in delivering the required services and required areas of improvement and in achieving economic development objectives?
- Representation of and responsiveness to economic development needs and communities of interest. For example, is the model likely to be responsive to the needs of different industries, to Māori/iwi, to different districts?
- Likely costs of change – the costs need to be considered relative to likely efficiencies that would be possible and the level of investment in services.
- Capacity to deliver services – will the model ensure that activities are delivered or administered by an entity with the capacity to deliver the required range of services?



- Accountability to key funders and alignment with funders' priorities – to what extent is the model likely to ensure accountability to Councils and other funders?
- Ability to attract/retain the right expertise to deliver the services (at governance and staff levels). For example, experts might be attracted to a model that has a greater scope of services.
- Ability to leverage resources of others (e.g., central government funding, private sector funding). For example, as noted, central government agencies like NZTE and Callaghan are more likely to want to fund a regional partner that has full regional reach rather than a range of agencies.

Our assessment of the four options is provided in Table 24 below, including a rating of the options on a 1-10 scale.



Table 24. Assessment of options for enhancing the delivery of economic development services

Criterion	Weighting	1. The Status Quo	2. Enhanced Status Quo	3. Refocusing Northland Inc	4. Leveraging other providers	5. Extended regional model
Practicality	10%	10	8	6	4	7
Effectiveness	30%	5	6	6	6	7
Representation and responsiveness	25%	3	6	4	7	6
Costs	5%	10	8	7	4	7
Capability & Capacity	15%	4	6	5	7	6
Accountability	10%	5	6	6	3	8
Ability to attract expertise	0%	5	5	5	7	6
Ability to leverage resources	5%	5	6	4	6	6
Unweighted total		47	51	43	44	53
Weighted total		51	63	53	58	66.5
What are the major advantages of this option?	<ul style="list-style-type: none"> • No costs involved • No disruption to existing services • Limited disruption to existing services • Low cost – some minor costs to Councils from increased participation in priority setting and costs to Northland Inc from extending delivery into districts. • Could be increased responsiveness to different communities if Northland Inc extends its reach • Some increased accountability • Limited costs except for Councils taking on extra services • More accountability to Councils for strategic and major project economic development services • Likely to be able to extend reach through contracting • May be closer to businesses/industries depending on providers • Likely to be able to leverage resources of the private and non-government sector • Contracting out helps to ensure high level of expertise is used • Reinforces regional mandate of Northland Inc • Ensures joint Council discussion and influence over priorities • Reduces reporting costs for Northland Inc • Improves coordination of services with and between Councils (and potentially other providers) • Low risks to service delivery 					

						<ul style="list-style-type: none"> Increases accountability across Councils improves reach of services Will better enable efficiencies to be identified across Councils
What are the major disadvantages of this options	<ul style="list-style-type: none"> Will not improve the existing situation and deal with the issues that have been identified 	<ul style="list-style-type: none"> Will depend on improved relationships across Councils and Northland Inc being maintained over time Limits the ability to identify greater efficiencies over the long-term across Council and Northland Inc activities 	<ul style="list-style-type: none"> May end up being less responsive to businesses for some services Councils will need to find internal resourcing to assess and facilitate major projects Some services may end up being split across Councils, reducing efficiency 	<ul style="list-style-type: none"> High transaction costs associated with contracting Likely limited alignment across different services Limited accountability to Councils beyond contractual reporting 	<ul style="list-style-type: none"> Some costs involved in changing model Increased costs on some Councils in participating (e.g., Committee involvement and servicing, possible resourcing) 	

Note 1 = rates low on that criteria, 5 = moderate, 10 = very high (note that 10 represents a very low cost and 1 represents a very high cost on the rating for likely costs of change)

On the basis of equal weighting of criteria, option 5 ranks the highest but only slightly over the enhanced status quo. This is not surprising given that option 5 is effectively a more structured form of the enhanced status quo. We then applied a greater weighting to the effectiveness and representation & responsiveness criteria, given that these are the key criteria and opportunities for improvement. Option 5 continued to rate the highest and by a slightly larger margin.

In more detail, the pros and cons of the highest-ranking options are discussed below.

i) Enhanced Status Quo

As noted, this option would see Northland Inc continue to be an NRC CCO and provide its existing services, but with several processes put in place to improve communication and engagement between Northland Inc and Councils in the region, and across Councils. It would also see Northland Inc extending its services to the Far North by adopting a joint resource with FNDC (as is currently the case with WDC). This could also include improvements to:

- the process for setting strategy, priorities and relative levels of investment across activities and Councils
- reporting of impacts to Councils.

The major benefits of this option are that this is a relatively simple option to implement given there will not be a change in delivery responsibilities and, if it is implemented well, will improve accountability to and alignment with Councils' priorities. There should be no risks to the ongoing delivery of services. Ultimately this should improve the effectiveness of strategic decision-making and Councils' confidence in Northland Inc's ability to deliver on Council goals. Improved outcome reporting and monitoring should also result in improvements to services over time, as there will be a better basis for adjusting services and making related resourcing decisions. Although there are costs involved in implementing this option, these are likely to be largely in relation to Council and Northland Inc time (although ultimately, efforts to improve engagement may subsequently save time required for 'formal' reporting).

The major potential downside of this option is that there is the risk that there will be no substantive change if there is not a sustained commitment to the new approach. Implementing this option will require that Councils (executive and officers) and Northland Inc (Board and senior management) commit to the new ways of engaging.

Another risk that will need to be managed with increased communication and engagement is that Councils may be tempted to provide advice on areas beyond strategy and priority setting and be drawn into operational matters. A key rationale for the CCO is that operational matters remains arms-length from Council and that decisions on individual projects and clients are free of political influence. This needs to be maintained.

ii) Transferring relevant services to a Council or across Councils

This option would see Northland Inc's functions in supporting the governance and implementation of TTNEAP and supporting applications for major IGR applications transfer to NRC and/or other Councils on the basis that such roles are well aligned with Councils' general leadership and direction setting roles, i.e., their roles in developing strategies, urban and district plans in partnership with the community, and ensuring an economic development lens is built into Council activities.

A major benefit of this option is that this is most likely to result in TTNEAP being directly aligned with NRC's (and other Council) goals and priorities as the Council itself will be responsible for supporting TTNEAP. This option may also result in some efficiencies and possibly economies of scale in reviewing and updating TTNEAP as this will be part of a broader Council team and resources responsible for planning.



However, this option on its own will not necessarily result in Northland Inc's services being well aligned with strategic priorities in the absence of improved communication and engagement between Northland Inc and the Council/s. In addition, despite the potential for efficiencies, there is also the potential for increases in costs in the short to medium term because Northland Inc already has established systems and capability for supporting TTNEAP.

In terms of the IGR, greater Council involvement in facilitating and assessing applications would likely improve the quality of the public rationale justifications for projects. However, it would also likely reduce the level of commercial acumen that is applied to the projects unless a private sector advisory group is established to provide advice (which would increase transaction costs).

Councils would also need to find and allocate resources to the new functions (although could reallocate funding for this from Northland Inc).

iii) Leveraging other providers

This option would see NRC no longer having an ownership interest in Northland Inc and for Northland Inc to contract with NRC and other Councils for the delivery of economic development activities in the region. Councils could contract with other providers in the region (e.g., industry groups, iwi organisations) to deliver some economic development services.

The major potential benefit of this option is the possibility of leveraging the resources and expertise of the private and non-government sector, which may have a greater capacity to deliver some types of services and be able to draw on their networks to reach a greater range of clients. Introducing competition may result in greater innovation and flexibility in service delivery. It would also allow Northland Inc to focus on a smaller set of services and potentially achieve more through those services. This option would be relatively straightforward to implement if a suitable private provider or a small number of suitable private providers can be found and would involve separate contracts for services with these organisations via NRC and/or other Councils.

However, the feasibility of this option is limited by the capability that exists in the private sector and non-government sector in the region to deliver these services at least as effectively and efficiently as Northland Inc. As noted, Northland Inc is doing a reasonable job in delivering services and no obvious areas of inefficiency have been found. It is doubtful that a new provider would perform as well, at least in the short to medium term. The Chamber of Commerce is the most likely candidate to deliver some services such as business development services, as Chambers play a larger role in delivering these services in some other regions, but our observation is that they currently do not have the resources or reach to deliver a broader range of services in Northland.

In addition, the potential to obtain economies of scale in delivering certain activities and economies of scope across activities is more limited if activities are split across providers.

The other key disadvantage of this option is that it is likely to result in higher administration costs for delivering the same services – effectively there will need to be at least one additional funding agreement with another organisation that will need to be monitored and reported on. In addition, the Council/s are likely to have less of an ability to influence the service priorities of a private or non-government sector organisation.

iv) Extended regional model of delivery

This option would see Northland Inc become a jointly-owned CCO, with joint shareholding across NRC, FNDC, WDC and KDC (e.g., each Council's shareholding could be proportional to their level of funding in Northland Inc). This would be similar to new economic development agencies that have been developed in Wellington and Manawatu, which involve a joint shareholding arrangement



between the key councils involved, reflecting the regional nature of the entities. A joint CCO option is also currently being considered for the economic development agency in Southland.

On the plus side, a joint ownership arrangement would reinforce the regional mandate of Northland Inc and ensure joint Council discussion on and influence over strategic priorities, improving alignment of interests and resources. It would also reduce compliance costs that Northland Inc faces currently in reporting separately to different Councils/Council Committees. Maintaining the purchase of services through a single CCO will ensure the coordination of the full range of economic development activities. A major benefit will be the opportunity to identify efficiencies in delivering activities across all Councils and Northland Inc, which are more likely to emerge from the increased discussion and engagement across the organisations.

It would also be possible to add additional shareholders (e.g., iwi organisations, industry organisations) over time, which would increase private sector involvement.

This arrangement would entail additional costs related to:

- Establishing a Shareholders Agreement between NRC and the other Councils to govern the relationship between shareholders.
- Establishing a Joint Committee across the Councils to provide direction to Northland Inc and jointly recommend Northland Inc Board appointments (with associated servicing costs). There is a risk that reporting and decisions made by the Joint Committee would be relitigated by individual Councils if other representatives did not consider they were able to have sufficient influence or receive sufficient information via the Joint Committee.
- Developing a joint SOI and agreement for services between the Councils and Northland Inc. For efficiency reasons we would suggest that the management of the SOI and service agreement would occur through one of the Councils on behalf of all (likely NRC given its existing role).

It is likely that establishing Northland Inc as a joint CCO will require public consultation which will have some cost and resource implications.

From NRC's perspective, it would slightly diminish their influence and result in the Council bearing higher servicing costs (e.g., ensuring all Councils receive Joint Committee papers etc).

Another key element of this model is for Northland Inc to extend its delivery into each district through a 'hub and spoke' delivery model. As shown in Figure 13 (which is illustrative), this could involve:

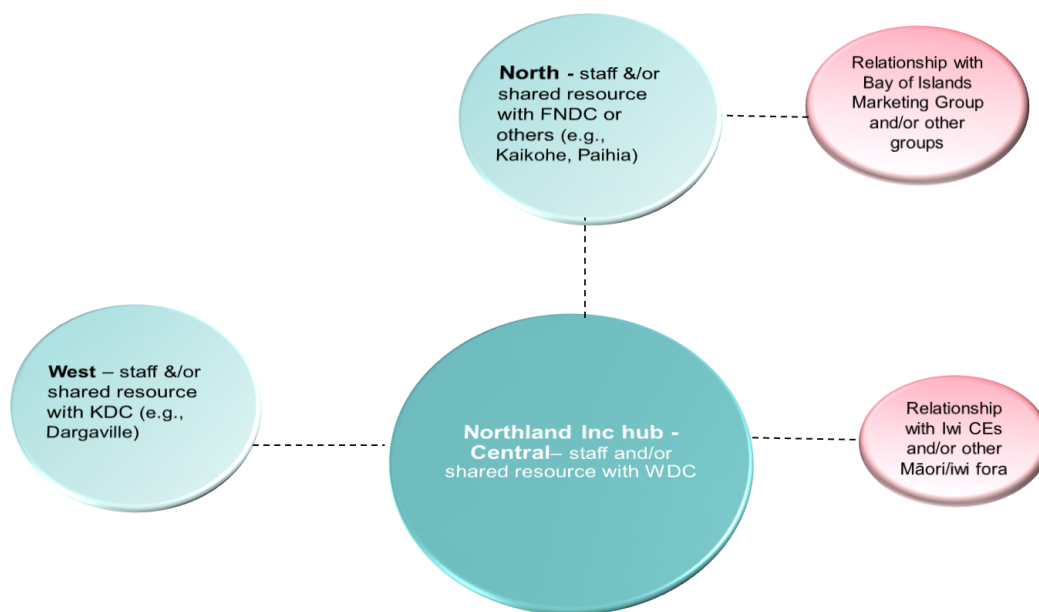
- Northland Inc having staff members in the Far North (e.g., for business development and destination marketing activities), which could include shared resource with FNDC (e.g., person working half-time for FNDC and Northland Inc as per the current WDC arrangement) and/or with Bay of Island's Marketing Group or other promotional groups.
- Northland Inc maintaining the 'landing pad' joint resource with WDC and possibly extending this to include a marketing resource.
- Northland Inc having a joint staff member with KDC, for example, focused on destination marketing.

This could also involve joint resourcing with the Iwi CEs consortium or other Māori fora or organisations.

The advantage of this element of the model is that it will improve the reach and responsiveness of the activities into districts and will enable efficiencies to be more easily found across Northland Inc and Council supported economic development activities over time. There will be costs involved in extending Northland Inc's services in this way, including set up and coordination costs for Northland Inc, although costs could be minimised by sharing overheads with other organisations (e.g., office space).



Figure 13. Hub and Spoke Delivery Model



The exact form of regional delivery would need to be a decision of the Northland Inc Board.

3.4 What is the recommended option?

Overall, our assessment of the pros and cons of the options suggests that the best option is to extend the existing model through converting Northland Inc to a joint CCO and improving its delivery reach.

However, for this model to address all of the required areas of improvement that have been identified, the following areas of service and resource changes should also be implemented:

- 1 As noted, Northland Inc's destination marketing activity needs to be increased relative to other areas of economic development activity. At a minimum, we consider that the current three-year allocation of \$310,000 per annum for regional tourism promotions that Northland Inc is receiving from the IGR should be added to their baseline. However, Northland Inc and NRC should also consider opportunities for reallocating funding from other activities, for example IGR application support. Currently, as noted earlier, around 23 percent or over \$560,000 of Northland Inc's current budget goes towards sector development/investment project support associated with the IGR. Assuming that the number of IGR projects supported each year reduces to 2-3 and noting that \$200,000 of that is for feasibility studies and business cases, we could expect that \$150,000 to \$200,000 of that allocation could be made available for destination marketing.

As noted, there is also likely to be opportunities to obtain leverage from district marketing activities and funding through Northland Inc extending its services into the districts.
- 2 As was discussed earlier, the region current lacks a major events capability and we consider that Northland Inc should add a major regional events facilitation and marketing role to its destination marketing and management activities. Again, the extension of its services into the districts will better enable coordination and leverage of this function with district-focused event activities.



- 3 To ensure that Northland Inc and Council destination marketing and management activities (including events) are focused on the right priorities and opportunities, Northland Inc and the Councils should work with partners and stakeholders to develop a regional visitor and events strategy and plan for the region. As suggested earlier, the events component of the strategy should consider how the region will cultivate strategic events, align marketing and promotion with events, build and expand district events that are unique to the region, attract events and conferences aligned with the region's advantages, and ensure appropriate sequencing of events.
- 4 There is a need to improve the level of engagement between Northland Inc/Councils and Māori/iwi organisations on economic development priorities and to improve Northland Inc's servicing of the Māori economy. The model provides for the potential to increase the level of engagement with Māori through a joint resourcing approach with the Iwi Chief Executive's collective or other Māori/iwi fora or organisations.

3.4.1 Enhancing communication and engagement

The current model can also be enhanced by improving Council and Northland Inc engagement in setting priorities and communicating impacts/outcomes. In addition to the use of a Letter of Expectations from Councils to Northland Inc, improving the key performance measures, and adopting an agreed output and outcome framework, which have been discussed earlier, we recommend:

- a Workshop sessions between Northland Inc and the Joint Committee of Councils to discuss key developments during the year (up to twice per year).
- b An annual strategy session involving representative Councillors, the Chief Executive and senior management of Councils, and Northland Inc's Board, Chief Executive and senior management. Representatives from major industry, support and iwi organisations should also be invited to the annual strategy session.
- c Regular meetings between the Chief Executives of the Councils and Chief Executive of Northland Inc (e.g., quarterly).
- d Improved reporting by Northland Inc and Councils on economic development activities.

Most of these process improvements are relatively straightforward. We elaborate on ways to improve reporting below.

Improved Northland Inc and Council reporting on economic development activities

We noted earlier that Northland Inc's and Councils' economic development performance measures and targets are either output related or focused on long-term outcomes rather than providing useful information on the impact of activities. We have suggested that an output and outcome framework and associated set of outcome measures be developed to fill this gap. Once that has been completed and appropriate processes are put in place to collect information on these outcomes, we would then expect Northland Inc's and Councils' reports to include an assessment of progress on these outcome measures.

The framework will also help to ensure that appropriate information gathering and monitoring arrangements are put in place to enable longer-term evaluation. We would suggest that a full evaluation of economic development activities be undertaken by 2020.

We also consider that Northland Inc's reporting would benefit from:



- Northland Inc explaining the impact that key activities are having on clients and projects at least on a qualitative basis. Our discussions with Northland Inc and businesses revealed that they can often describe the impacts that services are having.
- Providing advance notice of key upcoming developments in the next reporting period. This will allow the Councils to identify if there issues they need to discuss further in upcoming meetings and workshops with Northland Inc.

We consider that there are elements from other models of economic development agency reporting that Northland Inc could draw on, such as ATEED, Venture Taranaki and Venture Southland which provide a good balance of output and outcome reporting and which highlight upcoming developments.

3.5 What are the key benefits and costs of change?

Key potential benefits associated with the recommended improvements include:

- Greater alignment of economic development priorities and outcomes across Council/s and Northland Inc and hence better opportunity to leverage the resources of all to achieve common goals.
- Relatively little disruption to Northland Inc or Council operations and delivery as a result of implementing changes.
- Reduced compliance costs for Northland in reporting to different Councils.
- Improved measurement of economic development activity performance and impacts and subsequently a better ability to make appropriate changes to resource and investment decisions.
- Increased flexibility/agility by being able to make decisions about changes to activities across Councils and Northland Inc through the Joint Committee structure, which would have previously necessitated a reliance on a larger number of decision-making mechanisms across Councils.
- Increased opportunity to identify efficiencies in delivering activities across all Councils and Northland Inc as a result of increased engagement.

Key costs and risks associated with the recommended improvements include:

- An increase in Council staff and Councillor time required to develop and agree on: priorities with Northland Inc; the Shareholders Agreement; the Joint Committee role and structure; and the outcome and output framework. Some Councils (e.g., KDC and FNDC) will now be expected to participate in additional meetings and workshops with Northland Inc.
- An increase in Northland Inc staff and Board time required to help develop the outcome and output framework, improve reporting and participate in workshops with the Councils. This may divert resources away from delivery.
- Time and costs associated with public consultation on the changes to the CCO arrangements. This can be minimised by utilising existing consultation processes, such as those associated with the update of the LTPs and Annual Plans.
- Costs involved in extending Northland Inc's services into districts (e.g., set-up costs, coordination costs) although some costs could be minimised by sharing overheads with others.
- A risk that Councils will attempt to influence operational rather than strategic matters through the new engagement/communication mechanisms.

In our view these costs and risks are manageable and will not outweigh the benefits of the proposed arrangements. We consider that the proposed changes should be cost neutral in the medium-term.



3.6 Other issues

Making changes to the delivery model will not guarantee success. There is no 'ideal' economic development agency model in New Zealand and all have their pros and cons. The success or failure of economic development arrangements ultimately comes down to commitment, leadership and execution – ensuring that there is:

- buy-in from key economic development partners (e.g., business community, Māori/iwi, local government)
- alignment between the activities delivered and key economic development priorities
- sufficient resourcing and capable staff involved in delivery
- an ongoing commitment to open and positive relationships between the delivery entity/entities and their key funders.

As has been discussed earlier in this report, there are two other major areas of economic development activities that need improving, which relate to achieving buy-in and alignment and ensuring sufficient resourcing – the Investment & Growth Reserve and TTNEAP arrangements.

Improving the operation of the Investment & Growth Reserve

As was discussed in the assessment of the IGR, the operation of the Fund needs to be improved by clarifying its objectives and criteria and simplifying its assessment processes.

First, we consider that as the objectives of the Fund are (appropriately) focused on achieving economic development benefits then the Fund should focus on economic development rather than commercial projects and returns. Certainly, if a project is also going to achieve private returns in addition to broader returns then repayment options should be considered, but this should not be a primary consideration. As such, we consider that the IGR should no longer provide equity and loan funding as these types of projects are not typically geared towards economic development returns. The IGR should be limited to impact investments and related feasibility studies and business cases.

In addition, as was noted, the public rationales for the commercial projects supported to date have been weak and we consider that they may not fit within the roles of local government as specified in the LGA. Instead, the IGR should be focused on industry-good and significant investment projects (those that bring new investment into the region) as these are where the public rationales will be strongest.

This change should be supported by ensuring that:

- potential applicants understand that decisions on funding will be focused on additional and wider economic benefits that will be generated
- feasibility and business cases clearly articulate these types of benefits and the public rationale for investment. This should be aided by introducing guidelines and templates for feasibility studies and business cases.
- the pipeline of proposals is prioritised to focus on those with the greatest potential impact and public benefits. The aim should be to focus on quality and alignment with priorities rather than quantity (e.g., 2-3 proposals per annum).



Second, the operation of the Fund can be made more efficient by enabling the Northland Inc Board to make decisions on feasibility and business case applications, at least up to an agreed maximum. This will reduce the costs involved in assessing applications incurred by the Council, Northland Inc and applicants. Given the need to ensure higher quality public rationale arguments for the investments, NRC officials' advice should still be provided as part of the process. As there is also a need for higher quality feasibility studies and business cases (and hence a smaller number of and higher levels of funding each into each study or case), we would suggest that the Board be able to make decisions up to \$100,000. The proposed Joint Committee of Councils would make decisions on impact investments.

Third, as shown in Table 25, given the funding we have suggested be included as part of Northland Inc's baseline for marketing and our estimates of the current pipeline of proposals, the IGR may need an injection of at least \$2 million over the next three years if the major projects continue to be progressed. Our estimate of the pipeline is based on the projects that are currently under development such as the Manea: Footprints of Kupe proposal, the Whaingaroa tourism strategy, the Waipoua Forest tourism initiative and the Cape Brett Walkway.

The expected funding gap could be covered by transferring additional funding from the Community Investment Fund and NRC should be prepared to make a provision for this. However, we cannot recommend a specific annual increase without a detailed review of the projects under development and the pipeline being prioritised.

Table 25. Estimated IGR commitments and balance

	2017/18	2018/19	2019/20
Estimated IGR funding available	\$1,815,738	\$2,147,862	\$2,939,063
Northland Inc operations	-\$1,222,176	-\$1,246,620	-\$1,271,552
Business case & feasibility studies	-\$200,000	-\$200,000	-\$200,000
Regional promotions	-\$310,500	-\$310,500	-\$310,500
Current IGR commitments	-\$550,000	-\$800,000	-\$700,000
Total	-\$466,938	-\$409,258	\$457,011
Expected pipeline		-\$800,000	-\$800,000
Balance forward from previous year	\$806,902	\$339,964	-\$869,294
Potential closing balance	\$339,964	-\$869,294	-\$1,212,283

Improving TTNEAP and its support arrangements

As was discussed earlier in this report, TTNEAP is not regarded as a regional plan and has not influenced Council outcomes or stated priorities, although is influencing Council activities. Councils are involved in supporting the implementation of the Plan through participation in the Advisory and Working Groups, through IGR applications that co-invest in actions from the Plan, and through Northland Inc's portfolio management role. Community groups, Māori/iwi and businesses are not particularly engaged in the Plan process. There are too many actions in the Plan, which means resources for implementation and monitoring are being thinly spread.

Although having Northland Inc as a joint CCO will encourage greater alignment of economic development priorities and resources, improving TTNEAP and its support arrangements will enable even greater value to be obtained from the combined resources of local government, central government, Māori/iwi and the private sector. This includes:



- Revamping TTNEAP so that there is agreement on priority areas, goals and outcomes across stakeholders and a focus on fewer, major actions. Effectively TTNEAP should become a combined strategy and plan, which is more aspirational about the future of the region and the districts and that provides greater direction about how economic development activities will support this future. This will require a new engagement process with businesses, Māori/iwi and communities across districts to review and revise the Plan. The aim should be for TTNEAP to be well aligned with Northland Forward Together, He Tangata, Council Plans, Northland Inc priorities and relevant central government economic development plans such as the Business Growth Agenda and He kai kei aku ringa. In our view this will take around 12 months to do properly.
- Revamping the TTNEAP Advisory Group so that it provides direction and decision-making on priorities. This Group should have strong business leadership and be a partnership between local government, Māori/iwi, the business community and central government. It should agree on economic development priorities and recommend actions for support and funding to partners. Members of the Group should engage with industry, Māori/iwi and the community to revamp the Plan and update the Plan annually.
- Holding strategic workshops between Councils, Northland Inc, business leaders, Māori/iwi leaders and other major economic development partners to discuss and update the priorities and Plan annually.

A revamp of TTNEAP and a more substantial engagement process with stakeholders will require an extension of Northland Inc's portfolio management role. Additional resourcing for this role should be discussed with central government.

A more detailed discussion of how TTNEAP can be improved will be provided in a report on a Refresh and Review of TTNEAP commissioned by MBIE.



4. HOW SHOULD THE IMPROVEMENTS BE IMPLEMENTED?

4.1 Key opportunities and recommendations

The key opportunities for improving economic development arrangements that have emerged from this review are summarised below as well as related recommendations for addressing them:

4.1.1 Strategy and priority setting

Findings

- There is not an agreed economic development strategy, goals or priorities to provide clear guidance on activities that should be delivered in the region. TTNEAP is not regarded as the agreed regional plan by several key stakeholders.
- There are relatively few areas of clearly consistent economic development priorities and outcomes across all of the local authority LTPs and mixed alignment with and between TTNEAP and He Tangata.
- The current TTNEAP and its support arrangements do not reflect best practice. There has not been sufficient prioritisation of actions and there has not been clear leadership of the plan.
- This lack of alignment about priorities and outcomes means that it is unlikely that the levels of resource going into each economic development service/activity area are consistent with Councils' or other partners' priorities for economic development.
- There is limited discussion between Northland Inc and the Councils on priorities or the level of investment going into different activities.

Recommendations

- The Councils and Northland Inc work with Māori/iwi, central government, key industry and economic support organisation representatives to develop a regional economic strategy and plan that sets the goals and priorities for economic development in the region.
 - This should effectively be a revamp of TTNEAP and should aim to align Northland Forward Together, He Tangata, Council Plans, Northland Inc priorities and any relevant central government plans (e.g., Business Growth Agenda, He kai kei aku ringa).
 - The process needs to involve engagement with businesses and communities across the region.
 - The process should be led by a revamped TTNEAP Advisory Group, which involves stronger business leadership and a genuine partnership between and representation from local government, Māori/iwi, the business community and central government.
- District-level economic plans and activity-specific strategies (e.g., a visitor and events strategy) need to be aligned with the regional strategy over time.
- Northland Inc should become a jointly owned-CCO, with joint shareholding across the four Councils and a joint Council Committee to provide direction and oversee Northland Inc's performance and resourcing.



- Councils and Northland Inc should adopt a broader range of mechanisms to discuss and agree on Northland Inc's objectives and priorities each year, including an annual strategic workshop with economic development partners and stakeholders, workshops between Northland Inc and the Joint Committee of Councils, and a Letter of Expectations that sets out the combined Council expectations about outputs, outcomes, performance measurement and reporting.

4.1.2. Opportunities for improving the service mix and reach

Findings

- There are no major gaps in the types of economic development activities supported and provided by Councils and Northland Inc. There is little overlap in economic development activities across organisations and generally good working relationships across organisations delivering economic development activities.
- There are areas of economic development activity that appear to be under-resourced and under-delivered based on identified opportunities, comparisons with other regions and stakeholder feedback. These are: regional destination marketing, major regional events promotion and coordination, Māori/iwi economic development and the reach of some services into different districts.
- The quality of cases for local government investment in tourism product and sector development projects through the IGR has been variable. A lack of prioritisation of tourism product and sector development projects is stretching funding and resources.

Recommendations

- Northland Inc should extend its delivery across districts through a hub and spoke delivery model, for example, by having representation and joint resourcing arrangements with the district Councils and potentially the Bay of Islands Marketing Group or other promotional groups.
- Northland Inc and Councils should extend the delivery of economic development activities to Māori/iwi organisations and discuss the potential for a joint servicing arrangement with Iwi Chief Executives and/or other Māori fora or organisations.
- Resourcing and delivery of regional destination marketing should be increased relative to other forms of regional economic development activity.
 - The expansion of activity should include major regional events facilitation and marketing.
 - The current three-year regional promotion budget funded through the IGR should be added to Northland Inc's baseline.
 - Northland Inc should work with NRC to identify potential areas for reallocating funding from other activities.
- A regional visitor and events strategy should be developed to help prioritise tourism product development, coordinate district and regional marketing efforts, determine how to create better leverage from events, and to identify appropriate levels and sources of funding for destination marketing and management activity in the region over the long-term.
- The IGR should be refocused to support impact investments (and associated feasibility studies and business cases) and the pipeline should be prioritised to focus on those with the greatest potential impact, aligned with regional economic development priorities.
 - Guidelines and templates for feasibility studies and business cases should be introduced to ensure that additional and wider economic benefits are clearly assessed and specified.



4.1.3 Opportunities for getting greater value from NRC investment

Findings

- There is no evidence of major areas of inefficiency in Northland Inc's delivery of services, although there are opportunities for process efficiencies associated with IGR applications.
- Neither FNDC nor KDC currently contribute funding to Northland Inc's operations. WDC contributes close to 5 percent of Northland Inc's budget through its joint resourcing arrangement and the landing pad initiative.
- Northland Inc's marketing activity currently has relatively low levels of industry co-funding.

Recommendations

- NRC should discuss appropriate levels of funding support for Northland Inc from the other Councils as part of the process for implementing the joint CCO arrangement.
 - There will be a stronger basis for these discussions once there are agreed economic development priorities across the Councils. In the first instance, we recommend that FNDC and KDC consider adopting a joint Council-Northland Inc resourcing arrangement similar to the arrangement that WDC has implemented.
- Councils should assess the costs and benefits of introducing a differential rate or other charging arrangements for destination marketing activities as part of the development of the visitor and events strategy, including whether and how such mechanisms could be implemented.

4.1.4 Assessing and reporting on activities and impacts

Findings

- There is limited information on the impact of economic development activities, except for some forms of business development support and district events.
- There is not a consistent approach to estimating event impacts pre-event and event outcomes post-event.
- The broader economic development benefits of economic development activities are not well reported. There has not been a formal evaluation of economic development activities in the region.
- Performance measures are either focused on output measures or long-term outcome measures rather than on intermediate outcomes and the quality of outputs.

Recommendations

- The Councils and Northland Inc should develop an output and outcome framework that sets out the intervention logic between the resources being used for economic development, the activities being delivered and outputs, and the desired short, medium and longer-term outcomes.
- Councils and Northland Inc should develop and adopt a monitoring and evaluation plan, which should specify how performance information will be collected, to consistently measure and report on economic development activities. This should include a formal evaluation of activities at an appropriate time (e.g., in 2020).



4.2 Sequencing

There are many recommendations and several are inter-related. It is essential that the implementation of these recommendations be appropriately sequenced to ensure that there is minimal disruption to the ongoing delivery of services, adequate resources are available for any particular task, and that appropriate time is taken to ensure that the changes result in the desired outcomes. In addition, key recommendations will need to be aligned with Council planning processes.

We make the following observations about sequencing:

- Revamping the TTNEAP will take some time to do well and get right. Our experience is that it takes at least 12 months to re-develop an economic development strategy or plan. If the refresh is kicked off in the third quarter of 2017 (calendar year), a new strategy and plan is unlikely to be in place until toward the end of 2018.
 - Ideally the regional visitor and events strategy should be developed concurrently with this broader strategy for process efficiencies and to ensure that the two strategies are consistent.
- The Councils and Northland Inc can begin to implement new approaches for engaging to discuss economic development priorities, for example scheduling a strategic workshop with economic development partners and stakeholders.
- Councils and Northland Inc could commence the development of an initial output and outcome framework based on current activities and Northland Inc's business plan, with a view to finalising this before December 2017. This will also need to be updated once the proposed regional economic strategy and plan is developed.
- The introduction of the joint CCO model is likely to require a formal process of public consultation and this should be aligned with Councils' annual plan and long-term plan processes.
 - In the event that one or more of the Councils are not prepared or able to support a joint CCO model initially, the arrangements should be open to allowing Councils to opt in at a later stage.
- Initial changes in the level of Northland Inc's destination marketing activity relative to other activities can be made relatively quickly, for example, through a recommendation to the NRC to include the IGR-funded regional promotions allocation in Northland Inc's baseline.
- Changes to IGR's funding parameters and assessment processes should also be able to be made relatively quickly through recommendations to NRC.

It is important to note that the implementation of these recommendations will require that Councils and Northland Inc have sufficient capacity and capability. Implementation is likely to require the allocation of specific resourcing from Councils and Northland Inc over 2017/18.

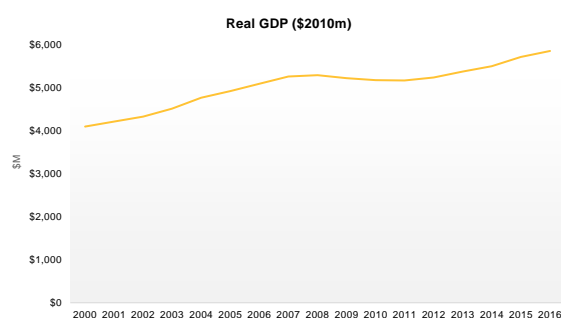


APPENDIX 1: NORTHLAND ECONOMIC AND INDUSTRY TRENDS

General regional economic trends

In 2016, Northland's real GDP (\$2010) was estimated at close to \$5.85 billion. Estimates indicate that the Northland region achieved real GDP growth of 1.4 percent per annum over 2006-2016, just below the national 1.8 percent per annum growth rate.⁹ However, over 2011-2016 real GDP growth in the region has been the same as New Zealand's at 2.5 percent per annum.

Figure 14. Growth in real GDP in Northland



Source: Infometrics regional database

Figure 15. Compound annual growth in real GDP for Northland and New Zealand



Employment growth (filled jobs) has been below the New Zealand average – at 0.7 percent per annum over the last decade compared to 1.2 percent per year nationally. There was stronger growth in jobs in Northland over 2011-2016 at 1.2 percent per annum, but this was still slower than job growth nationally (1.9 percent per year).¹⁰ Unemployment has been relatively high at 8.1 percent for the year to December 2016 compared to 5.1 percent nationally (and has been consistently above the national average over the long-term). The unemployment rate in 2016 was higher in Northland for both European (6.1 percent compared to 3.9 percent nationally) and Māori ethnicities (18 percent compared to 11.4 percent).

The region's population was estimated at 171,400 in 2016. Population growth has been around average over the last ten years at 1.2 percent per annum, but has fallen below the national average over the last five years at 1.1 percent per annum (compared to 1.4 percent per annum nationally).¹¹

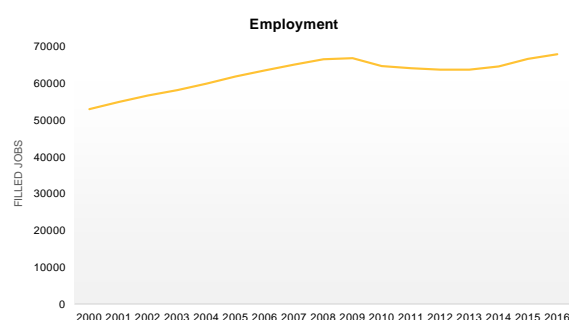
⁹ Real GDP estimates from Infometrics Economic Profile for Northland for 2006-2016.

¹⁰ Infometrics economic profile for Northland.

¹¹ Ibid.

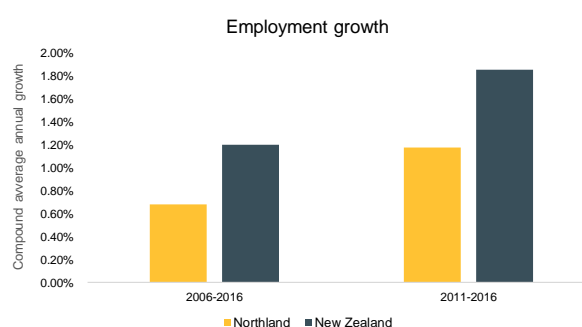


Figure 16. Growth in employment in Northland



Source: Infometrics regional database

Figure 17. Compound annual growth in employment for Northland and New Zealand



Estimated productivity in the region is lower than nationally at around \$86,100 compared to \$94,600 in 2016¹² but has grown at a higher rate than nationally over the last ten and five years (for example, GDP per FTE in Northland has grown by 1.3 percent per annum over 2011-2016 compared to 0.7 percent per annum nationally).

Real GDP per capita is also much lower in Northland than nationally, at around \$34,150 compared to \$47,600 in 2016. Estimated growth in real GDP per capita has been below the national average over the last decade at 0.2 percent per annum, but grew more strongly over the last five years (by 1.4 percent per annum compared to growth nationally of 1.2 percent per annum). Mean annual earnings (\$51,400 in 2016¹³) and median annual personal income (\$23,400 in 2013¹⁴) are lower than national figures (\$57,800 and \$28,500). Similarly, median household income in the region is much lower than median income nationally – in 2013 the median household income in Northland was \$46,900, compared to \$63,800 nationally.¹⁵

In short, although the economy has grown relatively well in value terms over the last five years, employment growth is still below national levels and incomes remain low.

District growth

Whangārei makes up almost 60 percent of the region's economy, at around \$3.9 billion of GDP in 2016 (\$2010), with the Far North making up close to another 30 percent or \$1.7 billion.

There are some different patterns of growth across the three Districts. Kaipara and Whangārei have achieved relatively strong growth in real GDP over the last decade, while the Far North grew relatively slowly. Similarly, over the last five years, Kaipara has achieved strong growth (4.3 percent per year) and Whangārei has achieved average growth (2.7 percent per year), while the Far North achieved relatively low growth (1.4 percent per year).

¹² A rough estimate of productivity as defined as GDP per employee. From Infometrics economic profile.

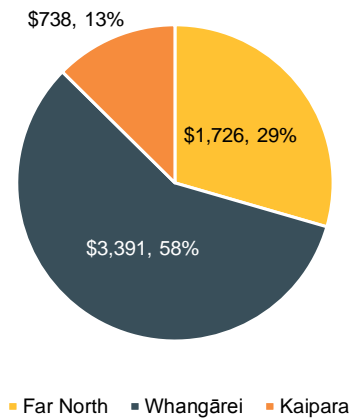
¹³ Infometrics economic profile.

¹⁴ Based on Census 2013.

¹⁵ Based on Census 2013.

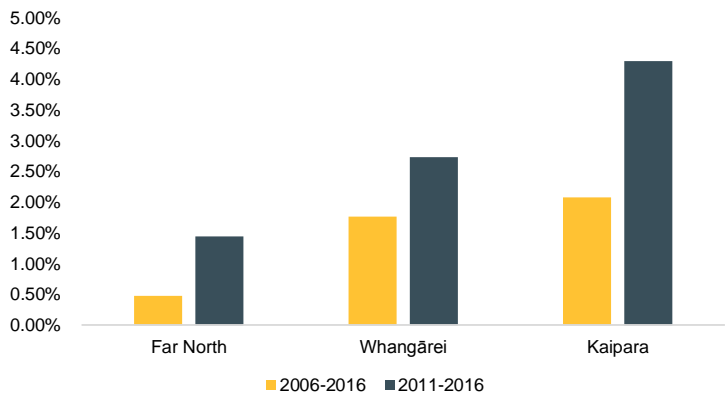


Figure 18. District contribution to Northland GDP (\$2010)



Source: Infometrics regional database

Figure 19. Compound average growth in GDP across Northland districts



Source: Infometrics regional database

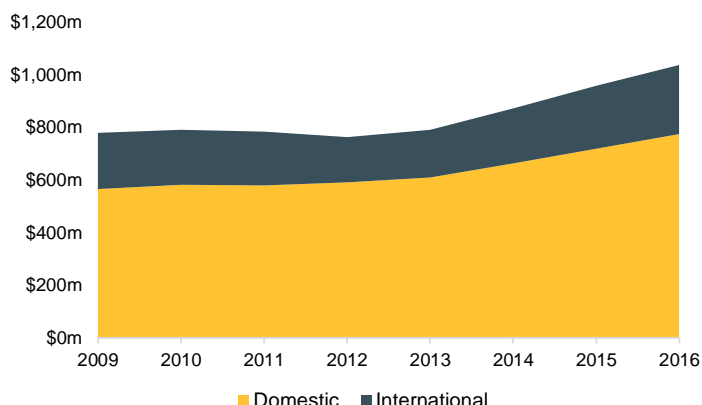
Similarly, Whangārei and Kaipara have achieved relatively strong population growth compared to the Far North. Whangārei contributes 51 percent of the population (87,700) and has grown by 1.4 percent per annum over 2006-2016 and Kaipara has grown by 1.6 percent per year. The population of the Far North has grown by 0.8 percent per year over the same period.

The visitor economy

Visitor spending in the region is relatively high. Visitor expenditure in the year ended December 2016 was 1.037 billion. This is higher than many than regional tourism organisation areas of similar scale such as Taranaki (\$335 million), Nelson-Tasman (\$627 million), Southland (\$608 million) and the Hawke’s Bay (\$583 million). Visitor expenditure has grown moderately over 2011-2016 at 5.8 percent per annum compared to 6.2 percent per annum nationally. There has been strong growth in expenditure since 2013 at 9.5 percent per year (again similar to visitor expenditure growth nationally of 9.8 percent per year).



Figure 20. Growth in visitor expenditure in Northland over 2009-2016 (\$m)



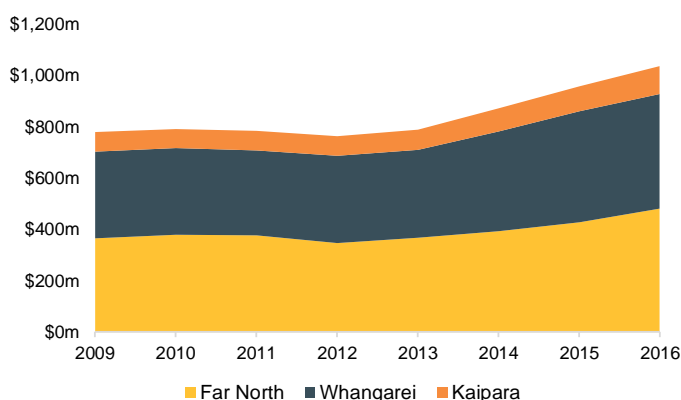
Source: MartinJenkins using MBIE regional tourism estimates

Commercial accommodation nights increased by 2.9 percent per year over 2011-2016, which was lower than the growth rate nationally (3.8 percent per year). Northland's average length of visitor stay in the year ended December 2016 was 2.2 days, slightly higher than the New Zealand average of 2 days.

International visitor expenditure has grown over the five years by 5.2 percent per annum, well below the average New Zealand growth rate (8.9 percent). The number of international visitors increased by 7 percent per year over the same period (compared to 10 percent per year nationally). However, international visitor nights in commercial accommodation only increased by 0.2 percent per annum over 2011-2016 compared to 4.9 percent per year nationally.

Domestic visitor expenditure has grown relatively strongly over the period, by 5.9 percent per annum compared to 4.5 percent per annum across New Zealand overall. Domestic commercial accommodation guest nights increased by 4.5 percent per annum over 2011-2016, higher than the growth experienced across New Zealand as a whole (3 percent per annum). The region has a relatively high proportion of domestic expenditure at 75 percent of total visitor expenditure compared to an average of 58 percent across New Zealand.

Figure 21. Growth in visitor expenditure in Northland's Districts over 2011-2016 (\$m)



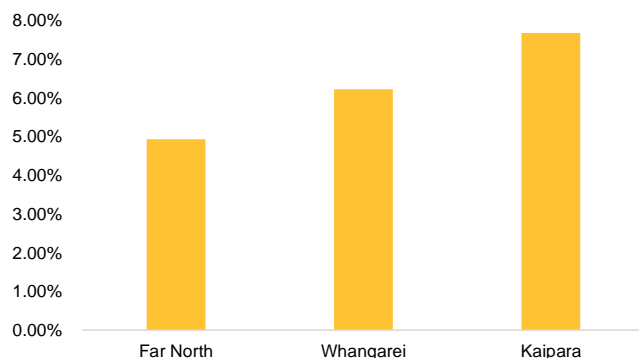
Source: MartinJenkins using MBIE regional tourism estimates

Around 46 percent of visitor expenditure in the region in the year ended December 2016 was spent in the Far North and 43 percent in Whangārei, with the remainder (11 percent) spent in Kaipara.



Kaipara has experienced very rapid growth in visitor expenditure over the last 5 years at 7.7 percent per annum on average, although this is from a very small base. The Far North has experienced lower than average growth in visitor expenditure relative to national growth (4.9 percent per annum), while visitor expenditure in Whangārei has grown at the national rate (6.2 percent per annum).

Figure 22. Compound average growth in visitor expenditure over 2009-2015



Source: MartinJenkins using MBIE regional tourism estimates

Northland has a somewhat different profile of visitor expenditure than expenditure nationally. In 2016, 16 percent of expenditure was on retail sales of alcohol, food and beverage compared to 10 percent nationally, with 14 percent on fuel related retail sales compared to 9.0 percent nationally. Only 20 percent was on 'other' retail sales compared to 25 percent nationally.

Industry performance

The Northland economy is neither highly diversified nor highly concentrated in a particular sector or sectors. It has an average tress index of around 48¹⁶, which has remained fairly constant over the last decade.

Petroleum and coal product manufacturing represents 8.4 percent of the regional economy, health care and social assistance represents another 7.4 percent, and property and real estate services another 7.1 percent. Other major sectors include dairy cattle farming (4.9 percent), education and training (4.4 percent), professional, scientific and technical services (3.6 percent), and construction services (2.7 percent).

Petroleum and coal product manufacturing performed well over 2011-2016, achieving 8.1 percent real GDP growth. The region has a strong comparative advantage (high location quotient) in petroleum and coal product manufacturing, reflecting the role of Refining NZ.

Dairy cattle farming also performed well over the last five years, growing by 4.4 percent per year despite the fall in dairy prices over the period. The region also has a revealed comparative advantage in this industry.¹⁷

¹⁶ MartinJenkins calculations

¹⁷ As measured by the employment location quotient.



The largest service sectors have performed less well, with health care and social assistance growing by 1.4 percent per annum over the last five years, education and training growing by 0.7 percent per year, and professional, scientific and technical services remaining relatively static (growing by 0.3 percent per annum over 2011-2016). However, property and real estate services have grown strongly at 3.2 percent per annum over the five years. The region does not have demonstrated advantages over other regions in any of these sectors.¹⁸

Visitor economy related sectors in the region have achieved moderate to strong results over the last five years, with supermarkets and specialist food retailing achieving a strong 4.1 percent real GDP growth per annum, other store and non-store retailing growing by 2.8 percent per year, and accommodation and food services growing more moderately (2.0 percent per annum). Again, the region does not have revealed comparative advantages in these sectors.¹⁹

Several primary sectors have performed well. Forestry and logging grew by 7.3 percent per year over 2011-2016, horticulture & fruit growing grew by 6.5 percent year, and sheep & beef cattle farming grew by 3.3 percent per year. Agricultural support services achieved a very strong 11.8 percent average growth rate over the period.

Some manufacturing industries have not performed as strongly. Wood product manufacturing achieved 1.2 percent per year growth over 2011-2016, chemical & chemical product manufacturing did not grow at all, non-metallic mineral product manufacturing declined slightly, machinery & equipment manufacturing contracted by 1.4 percent per year and transport equipment manufacturing declined by 3.8 percent per annum. The region does have revealed comparative advantages in several of these sectors.

Overall, growth in the Northland economy over the last five years has been driven by primary sectors and the visitor economy.

The Districts have some differences in industry composition:

- The largest industries in the Far North are property & real estate services (9.7 percent of the economy), health care and social assistance (7.3 percent), education and training (4.4 percent), dairy cattle farming (4.4 percent), professional, scientific and technical services (3.7 percent) and sheep and beef cattle farming (3.7 percent).
- Petroleum and coal product manufacturing dominates Whangārei (14.5 percent of the economy) followed by several service sectors: health care & social assistance (8.4 percent), property & real estate services (5.5 percent), education & training (4.0 percent) and professional, scientific and technical services (3.7 percent).
- Kaipara has a mix of primary and service industries at its core, with dairy cattle farming representing a large part of the economy (15.1 percent), followed by property & real estate services (8.2 percent), sheep & beef cattle farming (5.4 percent), wholesale trade (4.2 percent), professional, scientific & technical services (3.3 percent) and forestry & logging (3.3 percent).

¹⁸ Ibid

¹⁹ Ibid



APPENDIX 2: GENERAL MARKET FAILURE ARGUMENTS FOR ECONOMIC DEVELOPMENT

There are several possible areas of market failure that can be considered in determining whether economic development policies, actions and investments by local government are justified:

- **Public goods:** goods which are non-rival (where one person's consumption of the good does not prevent anyway else from consuming it) and non-excludable (where it is not possible to prevent people from using or benefiting from a good and hence to make them pay for it). Public goods will tend to be under-provided by the market because of the free-rider problem (it is not possible to restrict consumption of the good to those who pay for its provision).
- **Information problems and transaction costs.** In a knowledge-based economy, organisations and individuals inevitably have incomplete information on present and future products, processes, markets, etc. For some goods or services, the availability of information may actually prevent people from making rational decisions. Limited knowledge may result in individuals and organisations undertaking less investment or innovation than is in their own interests, and less than they would have undertaken if they had had more complete information. However, in practice, the majority of markets are able to function without perfect information. Difficulties in processing information tend only to arise when there are quality issues, long time horizons involved, considerable uncertainty, and complexity in decision-making.
- **Coordination problems:** Coordination failures occur when investments do not occur because complementary investments are not made. This is likely to occur when there are large and varied groups of beneficiaries and the effort of cooperation is high, the benefits of cooperation are not valued equally, and there are limited incentives to overcome free-riding behaviour.
- **Spillovers (externalities):** Spillovers occur when the production or consumption of a good or service by one individual or firm impacts on others, and these effects are not taken into account. If the wider impact is positive there will tend to be an under-provision of the good or service compared to what would be socially desirable. If the impact is negative, there will tend to be an over-provision of the good or service. The strongest case for support on the basis of 'spillovers' will occur when the benefits of the project can more readily spill over to others and when there are many potential local beneficiaries or users.

Local government intervention in economic development activity may also be justified to overcome problems with its own policies or existing interventions, i.e., when **government failures** occur. In practice, local governments already make decisions that impact on economic development - but sometimes various decisions are fragmented across different agencies or offices and taken in an uncoordinated manner, which creates bottlenecks, or they may impose unnecessary compliance costs on businesses.



APPENDIX 3: ECONOMIC DEVELOPMENT SERVICES IN OTHER REGIONS

Table 26. Selection of economic development services offered in other regions

Marlborough	Nelson-Tasman	Hawke's Bay	Taranaki	Western Bay of Plenty
Main organisations				
Destination Marlborough Marlborough District Council Marlborough Business Trust Marlborough Research Centre	Nelson Regional Economic Development Agency Uniquely Nelson Nelson City Council, Tasman District Council (supports town promotion group)	Business Hawke's Bay Hawkes Bay Tourism Hawkes Bay Regional Council (Callaghan Innovation Partner, economic monitoring), Hastings District Council (i-SITE), Napier City Council (economic intelligence, strategy development, i-SITE)	Venture Taranaki New Plymouth District Council (economic development strategy, i-Site, events), South Taranaki District Council (i-SITE). Stratford District Council (i-SITE)	Priority One Tourism Bay of Plenty Western Bay of Plenty District Council (supports city promotion groups), Tauranga City Council (supports city promotion and marketing) The sub-region also works with Bay of Plenty Connections on regional projects
Services				
Visitor promotion and events attraction				
Visitor promotion and destination marketing, events promotion (including a commercial events fund), Only Marlborough brand and i-SITEs in Blenheim and Picton	Marketing and promotion of the region as a visitor destination domestically and internationally. Includes media and trade hosting and promotion, event promotion, conference marketing, tradeshow, development of collateral etc. and implementation of the Nelson events strategy. Nelson i-Site provides a shop-front for tourism activities and providers.	Promotion and marketing of the region, including events attraction, cruise ship attraction, visitor information	Promotion and marketing of the region, including promotional campaigns, collaborative initiatives with Tourism NZ, visitor information, i-SITEs in Puke Ariki, Stratford and Hawera	Promotion and marketing of the region, including events attraction, promotional campaigns, cruise ship attraction, trade show participation



Marlborough	Nelson-Tasman	Hawke's Bay	Taranaki	Western Bay of Plenty
Business development				
Business development support in term of mentoring and start up advice through the Marlborough Business Trust. Access to Callaghan Innovation funding facilitated by NREDA. Access to NZTE capability funding is facilitated by NREDA who sub-contract delivery to the Marlborough Chamber of Commerce.	Facilitated business access to capability and R&D grants from NZTE and Callaghan Innovation. General business information. Mentoring and small business advice.	Mentoring, incubation, and facilitation of NZTE and Callaghan Innovation support. Supports high performance workplace productivity initiatives.	Business assessments, mentoring and facilitation of NZTE and Callaghan Innovation support	Business development support through Ignition co-working space and support for Enterprise Angels
Industry development and facilitation				
Support for a wood sector group, wood sector development strategy, the food and beverage innovation cluster and strategy, and visitor economy group	Economic assessments and facilitation of major industry projects. Cluster facilitation for aviation, engineering and design/build industries.	Facilitation of food and beverage sector and Food Hawke's Bay Strategy. Has been doing research on the potential of nutritional powders for the goat and sheep industry.	A visitor industry advisory group, oil and gas industry cluster, engineering consortium, and industry impact assessments	Facilitation of an ICT cluster and Kiwifruit post-harvest working group
Investment attraction				
	Investment attraction by providing information to businesses interested in locating in Nelson and promotes the region to businesses - not a major focus	Investment attraction, including tailored support for business relocation, a current study to identify investment opportunities and an investment profile	Investment attraction, including facilitating introductions, investment profiling (e.g., oil and gas industry)	Investment attraction through the Tauranga Business Case profile
Skills support				
	Skills support including support for the Young Enterprise Scheme and workforce development initiatives.		Skills support including targeting of skilled migrants, employer missions offshore and a jobs website	Skills support through the Bay of Plenty Tertiary intentions strategy, tertiary education advocacy and the 'wish you were working here' website
Internationalisation support				
International connections with a focus on developing sister city relationships in China	Sister city relationship building with a current focus on China	Sister city relationship building with a focus on Japan and China	Exporter forums, sister city relationship building with cities in Japan China	Sister city relationship building with cities in Japan, China and South Korea



Marlborough	Nelson-Tasman	Hawke's Bay	Taranaki	Western Bay of Plenty
Innovation support				
Innovation support through the Marlborough Research Centre	Facilitated access to Callaghan Innovation support. Feasibility support for the local aquaculture research centre	Facilitated access to Callaghan Innovation support	Facilitated access to Callaghan Innovation support; relationship with Massey University to provide R&D expertise	Innovation support through the Innovation Forum, Bay of Plenty Tertiary Partnership, Bay of Plenty Clinical School and Coastal Marine Field Station and WNT Ventures
City and town improvement initiatives				
Town development through the Picton and Havelock community development groups (set up as part of the Smart and Connected strategy)	Town and city improvement and promotion through Uniquely Nelson and a range of town business associations (supported by Council) such as the Richmond Business Association	CBD promotion and marketing through Inner City Napier, Hastings Business Association	Not a major focus, although several business associations exist	City and town promotion and marketing through separate organisations, e.g., Katch Katikati, Te Puke EDG, Waihi Beach Events and Promotion Association, Downtown Tauranga
Strategy and economic intelligence				
Strategy development and economic monitoring. Strategies include Smart and Connected, the Visitor Economy Strategy, the Major Events Strategy and the Wood Sector Development Strategy	Regional Prosperity is the regional economic development strategy. Visitor strategy being completed. Economic monitoring includes the six-monthly Tracking the Economy report.	Provides economic monitoring information. A new economic development strategy is being developed	Has a New Plymouth economic development strategy, district economic plans, and a visitor strategy and regional economic strategy under development. VTT Provides a range of economic and industry information	Provides economic monitoring information. Smart Economy strategy is the economic development strategy.
Comment				
<p>NREDA delivers Callaghan Innovation support in the Marlborough region.</p> <p>The Marlborough District Council has recently considered new economic arrangements.</p> <p>Uses a differential rate to help fund destination marketing activity.</p>	<p>Regional economic strategy influences prioritisation of most activities (but does not influence visitor promotion activities)</p> <p>Not a focus on investment attraction.</p>	<p>Not a major focus on sector facilitation other than for food and beverage.</p> <p>Has started a process of identifying investment attraction priorities.</p> <p>No current regional economic development strategy, although is one being developed.</p> <p>i-SITEs delivered through Council</p>	<p>Not a major focus on city/town promotion, but otherwise provides a balance of activities.</p> <p>Regional and district economic strategies and plans influence prioritisation.</p>	<p>Has been a significant emphasis on increasing education offerings and improving skills provision.</p> <p>Regional strategy influences prioritisation of activities.</p>



APPENDIX 4: SUMMARY OF NATIONAL EVALUATION EVIDENCE

Key findings from evaluations of economic development activities nationally are:

- The success rates of business development support initiatives are variable. Business information services have been found to reduce transaction costs and benefit businesses, although it is not clear that such services generate wider economic benefits. Support for mentoring is a relatively efficient way of reaching a large number of small businesses. Incubation services help to increase firm survival rates and lead to incubated firms achieving higher rates of growth than non-incubated firms. However, generally it is not apparent that funding for business development support reflects the mix of regional and national benefits or public and private benefits. Grants (such as those facilitated in the region) confer significant private benefits to firms (e.g., higher sales, valued added and productivity) and do encourage additional activity beyond what the firms would do anyway. However, there is no evidence that spillovers are generated from the grants.
- Innovation support initiatives that have stimulated significant commercial investment occur more frequently with traditional sectors, rather than in new or emerging industries (which may simply reflect greater scale and resources available in those industries). The spillover benefits being sought from innovation support are often poorly defined when the initiatives are established, and there is limited evidence that spillovers have been generated from these initiatives. There is also evidence that R&D subsidies improve firms' ability to introduce new to the world innovations.
- Sector development activities in New Zealand (e.g., cluster facilitation, major industry projects) have often been hindered by a lack of clear rationales or objectives. Successful interventions have occurred where an industry was at the formative stages of industry development or where there has been a clear strategy for phasing out support over time. In some cases there has been overlap between local and central government support for industries and the activities of industry bodies. The level of economic benefits that can be attributed to industry good activities has been difficult to assess, often due to a lack of clarity about the intended benefits from the outset. The selection of sectors for engagement has not always been based on a robust analysis of opportunities or barriers to sector growth and sometimes support has been spread thinly across too many sectors of interest.
- There is little evidence that broad investment promotion influences investor perceptions of New Zealand or regional capability, compared to highly targeted (investment opportunity specific) promotion. Investment attraction and facilitation activity has not brought significant *new* foreign investment partners to New Zealand, but has helped develop additional investment from existing investors or retain existing investment that may have gone offshore. Feasibility and opportunity advice does help inform investment decisions. In several instances, overseas investment has resulted in domestic businesses being able to access distribution channels and networks that otherwise would not have been possible, improved technology and management know-how and generated a positive branding association between domestic and foreign businesses. However, overall, investment activities have often not been as well targeted as they could be and have often not been based on a detailed understanding of the value proposition for investors. If investment attraction activities are to be delivered, resource needs to be put into high quality diagnosis of investment potential and lead identification and generation.



- Major event support tends to result in net economic benefits to the economy, although not as high as commonly thought because local visitor expenditure on events represents a transfer of expenditure from other activities rather than new expenditure. Events with the greatest international visitor contribution provide the greatest overall net benefit. On average, smaller regional or district events do not generate the level of benefit that major events do and recurring events do not generate the same benefits as one-off events. Greater net economic benefits tend to result from off-peak and shoulder season events compared to peak season events.
- Destination marketing and promotion is only one factor that influences visitor numbers and spend, with factors such as incomes in source markets, the real exchange rate and cost of travel being major determinants. However, there appears to be a positive rate of return on destination marketing resulting from improved awareness and reinforcing other influences on decisions to visit a particular destination. One risk is that expansion of tourism activity in a region can crowd out development in other sectors of the economy (e.g., by pulling employment into the industry from other areas) unless there is existing capacity in tourism related industries.



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