

BAY OF PLENTY : CREATING A GREAT FUTURE

This paper was presented by [Peter McKinlay](#), executive director of MDL, to the Bay of Plenty Funders Meeting, Rotorua, 22 April 2002.

INTRODUCTION

When Bruce Cronin invited me to address your meeting, I was delighted to accept but with a caveat. The caveat was that I wanted to be sure that what I said would be received as constructive and help you think long-term and strategically about the nature of your respective roles.

My caveat was the product of recent experience in taking part in public debate on how New Zealand's public wealth is best managed. Some of you may know that, in association with the Institute of Policy Studies at Victoria University of Wellington, I had been engaged in a project on public wealth and trusts, with the stated objective of *"exploring with government policy advisers, the trustees of energy and community trusts, and other key stakeholders, issues relevant to individual trusts playing a role in the economic and social development of communities within their area of benefit"*.

That experience was a very timely reminder that debating the use of New Zealand's public wealth, and how trustees and others guard that, is not free from controversy. A number welcomed that particular project and were very willing to contribute to it. Others reacted as though I was a child pornographer and they were the Society for the Protection of Community Standards.

With that experience in mind, Bruce and I spent some time exploring a possible topic, seeking to select one that you would find both thought provoking and positive from your perspective. What we settled on was one that is very much at the heart of a lot of the work that my colleagues and I are currently involved with. The way Bruce expressed it was as:

"Looking from a Bay of Plenty regional perspective, you might like to project yourself forward, say, 10 years, describe the overall Bay environment, and discuss how the various funders have helped (or hindered) the achievement of this."

We also thought that a little bit on the issue of funder coordination might be a useful starting point.

CONTEXT

There are two aspects of context I want to outline. First, some of the work that I am currently involved with and, secondly, the changing legislative context for regional activity.

First, let me tell you why I found this topic so appealing. At the moment our work includes a substantial component dealing with regional economic development. We are part of the team working on the Western Bay of Plenty's Sub-Regional Growth Management Study (SmartGrowth), we are doing work on economic development issues for individual councils, and are advising the team developing the Auckland Regional Economic Development Strategy.

As part of our work on Bay of Plenty issues, we have been involved with looking at matters such as:

- ▶ The expected future growth in population and economic activity in the Western Bay of Plenty.
- ▶ The factors driving economic and social development internationally, especially the growth of city-regions.
- ▶ The role of key actors – whose involvement is essential to get effective economic and social development.

On the legislative side, we have been playing an active role in assessing aspects of the government's legislative programme for individual local authorities and for Local Government New Zealand. We have had a particular focus on the Local Government Bill and the changes that that will bring.

There are going to be significant shifts that will impact on all of you here whether as representatives of major trusts, local authorities, or of government agencies. Specifically, the purpose of local government is shifting. The new purpose of local authorities will be:

“... to enable local decision making by, and on behalf of, individuals and their communities, to democratically promote and action their social, economic, environmental and cultural well being in the present and for the future”.

The Minister of Local Government has made it clear that she sees this as part of the business of empowering communities to have greater control over their councils – not empowering councils to have more control over their communities. In her first reading speech she had this to say:

“Mr Speaker this Bill is, above all, about “empowerment”.

Not as some might imagine, the empowerment of councils to exert greater influence and authority over their electors, but rather, empowering New Zealanders within their local communities to exercise ever greater control over their lives and over the environments in which they live.”

The Bill has an outcomes focus. Obviously, there will continue to be an interest in the specific activities that local authorities undertake but the focus is shifting to the impact those activities have on the communities that local authorities serve.

Consistent with this, the Bill also, for the first time in New Zealand, proposes a mechanism for coordinating the activities of local authorities and other key stakeholders/influencers in community outcomes. Section 73 of the Bill provides:

“73 Process for identifying community outcomes and priorities

- (1) *A local authority must, not less than once every 6 years, carry out a process to identify community outcomes and priorities for its district or region.*
- (2) *The purposes of the identification of community outcomes and priorities are-*
 - (a) *to enhance decision-making by aligning the activities of the local authority with community objectives; and*
 - (b) *to provide scope to measure the contribution of the local authority to the achievement of community objectives; and*
 - (c) *to provide a mechanism for setting priorities for the activities of the local authority; and*
 - (d) *to promote the better co-ordination and application of community resources.*
- (3) *A local authority may decide for itself the process that it is to use to identify community outcomes and priorities under **subsection (1)**, but the local authority-*
 - (a) *must, before finally deciding on that process, take steps-*
 - (i) *to identify, so far as practicable, the other bodies capable of influencing either the identification or the promotion of community outcomes and priorities; and*
 - (ii) *to secure, if practicable, the agreement of those bodies to the process and to the relationship of the process to any existing and related plans; and*
 - (b) *must include in the process an opportunity for public submissions”*

For you, the bit to note is subsection 3, which requires a local authority to identify other bodies capable of influencing the identification or promotion of community outcomes and priorities, and to secure, if practical, their agreement to the process that the local authority is instituting.

The section is written in general terms, without specifying any particular type of body that must be involved in that process. However, given the outcomes focus, it seems to me inevitable that at least the following will be included:

- ▶ Government agencies with a service delivery function impacting on community outcomes – WINZ, CYFS, Te Puni Kokiri, Industry New Zealand, and the Department of Conservation are obvious candidates. So are Ministries such as Health and Education, or at least their service delivery arms – district health boards, schools, etc.
- ▶ Energy and community trusts that typically have greater discretionary spending power than local authorities (largely because most of local authority expenditure is on what communities regard as essential services).

A further element in the legislative equation is that, once the Bill become law, regional councils will have the same range of powers as local authorities subject only to a requirement for obtaining agreement of territorial local authorities within their regions for undertaking any type of activity already carried out by one or more of the territorial local authorities in the region. In the Bay of Plenty, an obvious area is economic development and the question of whether Environment Bay of Plenty should use part of its very substantial financial resources to support economic development within the region.¹

LOOKING AHEAD 10 YEARS - OR 20 OR 30

There is a story about the tourist in Ireland who stopped to ask a local how to get to a nearby town. The extraordinarily helpful reply was to the effect of, well first, I wouldn't start from here.

In the real world, of course, like the tourist, here is exactly where we do need to start from when thinking where we might be in 10, 20 or 30 years' time. However, also like the bemused tourist, we do not necessarily know where "here" actually is.

There is a common perception of the Bay of Plenty – certainly the western part and Rotorua – as growing and prosperous economies. Generally, the figures look good. Indicators such as economic growth generally run well ahead of national averages (the Eastern Bay of Plenty is an exception). However, when you look behind the figures a different set of realities emerges. They include:

- ▶ Earned incomes are markedly less than the national average. In Tauranga, for example, the average wage is at least 10% below the national average wage. The gap in the Eastern Bay of Plenty is somewhat greater.
- ▶ Typically, the Bay of Plenty economies are low skill economies with a significant under-representation of the so-called "knowledge industries".

Concern for the Bay of Plenty's should be heightened by the projection in a just released report² looking at New Zealand's long-term growth prospects, nationally and regionally. For the 5 March years 2001/2002 to 2005/2006 its conclusion is that growth in the Bay of Plenty will be **below** the national average.

So much for the Bay of Plenty relative to the rest of New Zealand. How well is New Zealand itself doing?

Robert Wade, one of the speakers at last year's Knowledge Wave Conference, is a former New Zealander who is now Professor of Political Economy and Development at the London School of Economics. His presentation was entitled "*Economic Growth and*

¹ In a sense, of course, EBOP is already engaged in this type of activity, partly through its majority ownership of Port of Tauranga Limited and partly through some of its funding initiatives such as its contribution to Smart Growth.

² *New Zealand Industries and Regions: outlook and issues to 2006*, New Zealand Institute of Economic Research, Wellington.

the Role of Government: Or How to Stop New Zealand from Falling Out of the OECD". He spoke as someone who was clearly still extremely attached to his home country and concerned about its future wellbeing. Nonetheless, he had some very sobering things to say.

First considering New Zealand's economic performance in the last half of last century, he commented:

"Indeed, New Zealand, always the pioneer, looks set to be the first country since the second world war to drop below the threshold of 50% of the average income of the organic core (of OECD member countries), the Argentina of the second half of the 20th century."

A particular concern that he had was the risk of losing, or failing to attract, the skilled people needed for a late 20th century, early 21st century economy. He saw this as a particular threat and had this to say:

"The trends in New Zealand's economic performance should engender if not a sense of national emergency then at least a sense of a critical national challenge, the response to which has to be led by the government. As I suggested earlier, the option of sinking gently in the world income hierarchy while the population gets on with living full and non-materialistic lives is not an option, especially because of network effects. Once a threshold density of skilled people is lost the rate of out migration is likely to accelerate, companies and public organizations will have increasing trouble meeting staffing needs, the quality of public services will decline, the tax base will erode, and so on. My hypothesis is that it becomes very difficult for a country to rejoin the organic core once it has fallen out. Think of Argentina."

So far, a fairly gloomy look at the "here" from which to start our 10, 20 or 30 year journey. There is another side of the story. We all know that in quality of life terms, the Bay of Plenty has a very great deal to offer – a great climate, superb scenery, a relatively laid-back lifestyle, an amazing range of recreational opportunities, a very rich cultural inheritance and so on.³ However, in the context of some of the economic trends we face, what this suggests is the option of genteel poverty rather than dire poverty.

Moving on, I make two assumptions. These are:

- ▶ First, none of us regard it as ideal that local economies in the Bay of Plenty are generally low wage and low skill – much better if they were high wage, high skill.
- ▶ Second, none of us want to see Robert Wade's gloomy prognosis become the New Zealand reality.

This raises at least two questions:

- ▶ What to do.
- ▶ Who should do it.

³ Obviously, some of these opportunities are subject to the caveat "if you can afford them".

FROM THE MARKET TO INTELLIGENT INTERVENTION

We have come out of a period, in New Zealand, of some 15 or more years in which the general approach to questions such as economic and social development has been “leave it to the market”. The theme has been get the regulatory framework and incentives right, and the market will produce optimal outcomes reflecting the combined preferences of firms and individuals. Unfortunately, we have found all too often that those combined preferences have limited opportunities for the less well off or well qualified, have led to widely divergent income levels, and have apparently limited commercial opportunities as firms have left New Zealand for more commercially attractive environments offshore.

We are now moving back to a view that the market by itself is not sufficient. I want to say here that this is not a rejection of the market, but rather a recognition that it is a very useful tool as long as we understand its limitations. To give an analogy, a yard broom is a great thing for sweeping the driveway, but not much use for cleaning your teeth.

As a consequence New Zealand, at both a national and a regional/local level, has now rejoined the rest of the world in looking at when and how the government, local government, or other public interest institutions (including the institutions of civil society) can effectively intervene to improve outcomes. Here the news is good. There is a lot that can usefully be done, provided that we have:

- ▶ A clear understanding of what is possible and how to go about it.
- ▶ The political will to do so.

It is this that we have been focusing on in our own work on regional economic development in areas such as the Western Bay and Auckland. This has included quite wide ranging review and analysis of what others have been doing, and what empirical research can tell us about what works and what does not.

There are several themes that have come out of this. They include:

- ▶ In today’s world, it is city-regions rather than national governments that are the key drivers of economic development.
- ▶ Tertiary services, widely defined⁴, are the single most important component (amongst a number) in economic development.
- ▶ The pivotal role of institutions of regional governance in facilitating the necessary relationships between the tertiary sector, business, community, and the public sector.

Before I discuss each of these in detail, I want to make one preliminary observation. This is that modern thinking on economic development is very much that it goes hand in hand with social development (or vice versa). There is a very real sense in which conscious intervention to achieve economic development is now seen as a major tool of social

⁴ Too often people think about tertiary services as full-time university education. In this paper the term covers all post-compulsory education – universities, polytechnics, PTEs, second chance education, life-long learning – it also covers related research activity, including but not confined to research delivered through universities and Crown Research Institutes

development. The reason is actually quite a straightforward one. Social development is concerned about the needs of people – as individuals and as members of family, whanau, and communities. Highly skilled individuals have no need for public intervention to help them achieve their economic goals, and they generally have the freedom to achieve the social outcomes to which they aspire. The situation is otherwise for people who have relatively limited skills or occupational choices (in the sense of choices that will return them an income that will give them a reasonable degree of choice over the social outcomes they wish to achieve for themselves, their families and whanau).

I now turn to the three points just listed.

CITY-REGIONS

Here, research has been looking at the way the world economy now functions, with the increasing shift to globalisation. What research has uncovered is that the key relationships are not so much national government to national government, but city-region to city-region. One reason is that people with high human capital – the desirable workers in a knowledge society – are highly mobile and make their decisions on where to live based on the attractions of specific localities (city-regions) rather than the countries in which those localities are. In turn, economic activity follows those individuals as firms seek locations where they can employ people with the skills they need. A couple of examples will make the point:

- ▶ Specialists in the financial sector will relocate to London (or Edinburgh or Leeds) rather than to England or Scotland. Likewise, in the US they will tend to think of New York, Chicago, or San Francisco.
- ▶ What do we think of when we think about centres of activity in the IT industry? The obvious answer is areas such as Silicon Valley, Boston's Route 128, or Bangalore and Hyderabad in India.

What we have in city-regions are concentrations of particular skill sets and very deep resources underpinning those. Typically, those skill sets and resources will be markedly different from what is present within the rest of the country in which that city-region or regions are located.

Why should this be? It used to be that cities had as their major advantage efficiencies in production – manufacturing firms, for example, could draw on a significant pool of labour and other support services (premises, energy, suppliers of intermediate inputs, etc). Recent research on what makes for successful cities is suggesting a very different driver. Location decisions are now driven not by firms looking at the physical attributes of an area but by individuals with high human capital. In the knowledge age into which we are moving, it is knowledge and its application that is the critical factor in production. Uniquely, that is something that is in people's heads and moves with them. As a consequence of this, firms are now increasingly making their decisions by following the type of people they want to employ. The Chief Executive of one large American IT firm recently expressed this as follows:

"We don't want your tax incentives. We don't want your highway interchanges. We don't want more of this physical infrastructure. We will go where the highly skilled

people are. Governors, give us more of them.”

This should not be confused with the now discredited trickle down theory that said, in effect, make some people rich and their expenditure will trickle down through the rest of society so that everyone benefits. Instead, arguments about high human capital are focused on what is necessary if we are to be part of the knowledge economy. It is certainly the case that the focus is on how to attract/retain people who will earn high incomes and have the skills needed to do so. However, it does not follow that we should ignore high human capital because policies focused on those people are necessarily catering for people who are already well-off. That way leads to poverty for everyone.

Instead what high human capital focused policies call for are complementary policies to ensure that everyone has the opportunity to benefit. This is one of the crucial differences from trickle-down theory. It simply relied on the market to provide. Today we know we need intelligent intervention so that high human capital focused policies do generate the across the board expansion of meaningful opportunity this region and this country needs.

TERTIARY SERVICES

First, what do I mean by tertiary services? I mean the research, teaching and learning activities undertaken by institutions operating in the post-secondary environment. It includes universities, polytechnics, PTEs (private training establishments) and research bodies such as Crown Research Institutes.

What is very clear from international research (and really from New Zealand experience as well) is that tertiary services are a crucial component of economic development for at least the following reasons:

- ▶ First, and obviously, high wage, high skill economies need a high skilled workforce – which requires ready access to tertiary training.
- ▶ Individuals with high human capital, and the firms who wish to employ them, are reluctant to locate to centres that do not have quality tertiary services. In part it is about ensuring that they themselves are in a location that will offer the services they expect to have available for themselves and their families.
- ▶ Tertiary services add huge leverage to local activity – and this will be increasingly so under our government’s new tertiary strategy.
- ▶ Tertiary institutions themselves – especially universities – bring to the artistic and cultural life of cities a dimension without which it is really impossible to establish the quality of living environment sought by people with high human capital.
- ▶ Tertiary services contribute directly to growth by making workers more productive.
- ▶ Higher levels of human capital are associated with bigger physical investments and higher rates of technology transfer.

To sum up those points, without quality tertiary services in your relatively immediate locality, your chances of building a high wage, high skill economy are relatively limited.

THE ROLE OF INSTITUTIONS OF LOCAL GOVERNANCE

Recent OECD research has been looking at how regions actually capitalise on the presence of tertiary services. What has become clear is the pivotal role of what I term institutions of local governance – which in New Zealand include regional and local councils and, I would suggest, community and energy trusts because of the potential they have to influence significant discretionary public expenditure (their own).

The role is about leadership, about networking, about bringing the tertiary sector together with the business sector, with the community sector, and so on.

WHAT DOES IT ALL MEAN, ESPECIALLY FROM A FUNDER'S PERSPECTIVE?

First, that shifting from a low wage, low skill economy to a high wage, high skill economy is not straightforward but that there are some clear indicators.

Next, that making the shift is not something that can be left to others. Unless we all pull together – national government, local government, the business community, civil society, major statutory and philanthropic trusts – then our chances of making real progress will be very limited.

We are not talking just about some change at the margin. We are talking about quite major shifts in occupational mix and industry structure. Much of this might actually be disguised by the way in which we categorise activity, but the change will be real nonetheless.

One of my favourite examples is what is likely to happen in agriculture and horticulture. There, change is already well underway but still has a long way to go. We are looking at industries that, increasingly, will become highly knowledge dependent – and for which the entry level may soon be a diploma and, beyond that, a university degree simply because of the range of skills and knowledge required to really extract value from our primary industries. The same comments apply to areas such as aquaculture and much of forestry.

The “how” of getting there is going to require intelligent action from a number of players. Let me outline just a few.

CENTRAL GOVERNMENT

Central government is going to need to have policies that encourage the growth of the knowledge economy. By and large, that is already well recognised. Where the debate now runs is over the nature of the policies. Professor Wade would argue that it includes immigration. To quote from his knowledge wave paper:

“Quite recently we have been seeing a change as the realisation spreads that highly skilled labour is at least as important in high value-added production as capital, and that highly skilled labour has become much more geographically mobile than it used to be. Companies and states must become centrally concerned about attracting and retaining highly skilled labour. Immigration policy – the ability to attract skilled labour (whether foreign nationals or expatriates) – is the new frontier of industrial policy, and should be integrated with the more conventional aspects of industrial policy.”

New Zealand already has an immigration policy with an emphasis on skills. What we actually need is a policy designed to make New Zealand a preferred location. Quite possibly this should include favourable tax treatment for a period, and measures designed to ensure that immigrants are not just left looking for something to do – and end up driving taxis. As an example of the kind of approach that we should probably be taking, I am aware of one local authority that, with support from central government, is actively marketing itself as a lifestyle destination and seeking to attract IT professionals from the Indian cities of Hyderabad and Bangalore – people whose whole professional lives have been based on working across the Internet and so can easily relocate.

That is just one example of the kind of central government policy we need. Other policy areas such as tertiary education and research and development also need to be tuned to the needs of a knowledge economy – and much of that is now starting to take place.

LOCAL GOVERNMENT

Some of the biggest challenges in moving to the kind of economy and society we want to have will face local government. Within the Bay of Plenty region, too many local authorities are still acting as though their business is about “roads, rats and rubbish” rather than realising that they are a community instrument for achieving collective community goals. This is not about wasting ratepayers’ money – this is about recognising that if we want to make progress as communities, then we need to work together as communities and the obvious instrument for doing this in most communities is the local authority. It may not be perfect, but typically it has far better resources, skills, networks and leadership capability than any alternative.

At the local authority level, it is essential that policies focus on creating the conditions for a high skill, high wage economy. These include:

- ▶ Consciously adopting a “user friendly” approach to facilitating development (but not at the cost of undermining the community’s social, cultural and environmental goals). A good example is the city of Brisbane which, as part of its approach to economic development, is putting all of its key staff through a training course to give them an understanding of what it is like to be on the other side – the business or other entity dealing with the council – and to attune them to the preconditions for effective economic development.
- ▶ Understanding the pivotal role that the local authority can (must) play in creating the artistic, cultural and recreational climate that will attract individuals with high human capital. As an example in New Zealand, consider what Dunedin City has done in

recent years by way of investment in an art gallery, museums, a symphonia, a professional theatre, and so on. All of this has been done in the conscious awareness that Dunedin is virtually a “company town” dependent on the University of Otago. If the city cannot provide the range of leisure pursuits that academics want, then the city will die.

This message is not yet well understood. I despair when I read that consultants have told the Mayor of Auckland to cut back on investment in arts and culture - one of the key areas cities must invest in if they are to attract and retain people with high human capital. As a Tauranga resident, I see the same lack of understanding – we want a high income economy but we do not understand the kind of public investment in “soft infrastructure” needed to achieve that.

- ▶ Providing leadership. In some respects this is the most critical issue. Most New Zealand communities are relatively uninformed about the steps they need to take if they want the kind of future to which they aspire. They are not going to change their attitudes if the Prime Minister or the Minister of something or the other makes a speech in Parliament or puts out a media statement. They may start changing their attitudes, and understanding what their options are, if their local community leaders – the mayor, the regional chair, individual councillors, trustees of major trusts, business leaders and others – understand what needs to be done and communicate that effectively.

FUNDERS

Here I am referring to entities such as community trusts, energy trusts, and the occasional local authority that holds substantial public wealth.

Your potential in achieving the kind of future I have outlined lies in using your resources as a catalyst. None of you have wealth which is sufficient to go out and “buy the bank” to create what we want. All of you have sufficient wealth and income to fund strategically significant components.

This brings me directly back to the theme of this address: Bay of Plenty – Creating a Great Future and the role of funders in this.

CREATING A GREAT FUTURE

There is an old saying that if you do not know where you are going, any road will do. All too often that has been how New Zealanders, both centrally and locally, have approached issues such as economic and social development. One of the more encouraging things to happen over the past two or three years is a shift from this ad hoc – almost cargo cult – approach to a much more focused one. No particular sector has been taking the lead. Some of it has been happening in the tertiary sector, some in local government where some very effective strategic plans have been developed - as well as some which look as though they could have been written by PR firms – and your own sector has also developed some very good examples of strategic thinking.

A POSSIBLE OBSTACLE

Before I develop the idea of strategic thinking as a way of creating a great future, I want to spend a little time on one obstacle that many people in the statutory and philanthropic trust area have often quoted. This is the question of whether they have the legal power to get actively involved in strategic economic or social development as compared with simply distributing money for community purposes, paying rebates to customers, or whatever.

Community Trusts

I want to start by saying that there is some apparent substance in this objection. Take the question of economic development. Most community trusts seem now to have accepted that holding their assets and income on trust, to be applied for “*charitable, cultural, philanthropic, recreational and other purposes beneficial to the community principally in the area or region of the trust*” does allow them to make grants for economic or social development. Where the real problem has arisen is around the question of investment of trust funds. I do have some sympathy for this. Trustee law is a minefield⁵. In practice, a community trust wishing to get into this area can do so quite easily, if need be by resettling all or part of their capital on a trust constituted with specific powers for that type of investment. I do note, however, that at least one community trust, after taking competent legal and financial advice, has found that it can quite legitimately commit part of its capital to investment in what looks remarkably like venture or mezzanine capital without the need to establish a separate entity. Instead, they have relied on showing that their overall portfolio management is consistent with an appropriate risk profile and that their venture/mezzanine capital function is professionally run.

Energy Trusts

A different set of concerns usually comes out of the energy trust sector. For those trusts whose sole or principal asset is shares in their associated energy company, the argument is usually that, in terms of the trust deed, they are just a pass through with no power to do anything and with limited ability to influence the energy company. For those who hold significant financial assets, the arguments tend to turn more on limited powers in their trust deeds, including a commitment to make consumer distributions.

Local Authorities

In the local authority sector – at least in the Bay of Plenty – the issue has been a somewhat different one: regional councils were quite specifically kicked out of economic and social development by a Warren Cooper initiated legislative change in 1992. That is about to be reversed.

My personal view is that each trust or local authority asset holder can be just as strategic as it wants to be. The barriers that people put forward as explanations for why they are unable to be more strategic are more often than not issues of understanding, or political will rather than genuinely immovable obstacles.

⁵ By way of an aside, it is one which I believe a number of energy trusts have blundered into unintentionally and only avoided being blown up because it is not worth the while of an individual beneficiary to take them to court.

Community Trusts

First, let me be categorical about community trusts. Under current legislation and trust deeds, there is no obstacle to community trusts playing a strategic role in economic and social development, including acting as a significant catalytic investor. There are some practical issues, especially as the area of benefit of most community trusts covers a number of different and geographically dispersed communities – think for example of the East and the Central, or Canterbury trusts. Those are not impossible problems to overcome (central government, in determining how to focus its economic and social development initiatives at a community level, covers a wider area of benefit than any community trust).

A second issue may be that trustees are appointed to community trusts for reasons, and with skills and experience, which may not relate directly to long-term strategic economic and social development. Personally, I would not attach too much weight to that issue. Trustees whom I have met appear generally to be people with a great deal of practical experience, good understandings of the needs within their own communities, and a wish to do a good job for them.

Energy Trusts⁶

Let me turn now to energy trusts. These are a more difficult area, partly because, unlike community trusts, they do not have any formal statutory framework other than the Trustee Act itself. A very good case can be made (and I have tried to make it elsewhere) that the then government that was responsible for the Energy Companies Act 1992 did not do a particularly good job in providing for the trust option. The reality is that, if you look at the record, government did not expect trusts to survive and clearly thought there was no need to make any proper provision for them as long-term community based institutions.

One result is that, unlike community trusts, energy trusts do not have a common set of purposes or beneficiaries. A number of trust deeds vary in ways that are relatively subtle and capable of different interpretations depending on which legal adviser trustees decide to employ. (Not a criticism of the legal advisers, merely a comment on the ambiguity of a number of trust deeds.)

The more striking issue with energy trusts is the extent to which many of them still believe that somehow they are rooted in the electricity industry and that the money they hold must somehow continue to be committed to that. As I commented to Bruce Cronin when we were discussing this paper, I find it simply bizarre to read public advertisements in the Western Bay of Plenty inviting community organisations who have a customer account with TrustPower to apply to the Tauranga Energy Consumer Trust for a grant for electricity related purposes. I can think of no rationale for the requirement to have a TrustPower account. (I realise that the trust deed makes it clear that this is a precondition – I am simply talking about the common sense of the provision.) I am also

⁶ In this part of the paper I need to make the point that the regions' energy trusts are not typical of energy trusts as a whole. One, the Rotorua Energy Charitable Trust, sold out of the energy sector some time ago and now has no connection with energy. The other two, Tauranga Energy Consumer Trust and Eastern Bay Energy Trust, are part owners only. Accordingly, neither can direct its related energy company to act in ways that might favour consumers over shareholders or otherwise instruct directors on the conduct of the business.

aware that one effect of this is to encourage groups that would not otherwise have a TrustPower account to go out of their way to ensure that they do have a connection within the area of benefit and an account with TrustPower, simply in order to qualify as a potential recipient.

I also watched with some concern the relative lack of interest that a number of energy trusts have had in the potential of working through their associated energy company to encourage economic and social development within their area of benefit. This leads me to ask why is it that we have such a high level of concern about the level of line charges from many energy companies when those companies are publicly owned and presumably therefore should be acting in the interests of consumers.

Again, as with the community trust sector, there are exceptions. I am aware of energy trusts/companies that have been trying to take a much more strategic and pro-consumer/public interest approach to the way they distribute income or capital, or manage the lines business. I think, for example, of one company that has quite consciously and with the support of its trustees started leveraging off its core business in order to generate employment opportunities within a district that has relatively few employment opportunities.

The comfortable and easy argument for energy trustees is to point to the terms of their trust deeds and say that their hands are tied because they have no alternative other than to act as the trust deeds require.

My response is to the effect that, if your trust deed does not allow you to do what is in the public interest, then get it changed. That might require you to go through an amendment process if the trust deeds allows for that, it might require you to go to the high court, or it might require legislation. Whatever, my personal view is that trustees have at least a moral responsibility to ensure that the very significant public wealth they control can be used in a way that optimises public benefit – and consumer rebates seldom do that.

ADDRESSING THE STRATEGIC QUESTIONS

So much for that diversion. Let me now return to the strategic issue. My sense is that, within the Bay of Plenty, most of the locally or regionally based public funders are somewhere along the track of addressing long-term strategic questions. This is extremely encouraging as, unless the Bay of Plenty's funders are prepared to take a lead, then it will be very much harder to achieve the great future that is our potential. In looking at what funders are doing, I think, for example, of the approach that the Rotorua Energy Charitable Trust now takes in allocating distribution funds amongst different sectors. The focus is on what outcomes will this activity promote.

The elements of strategic thinking, surprisingly, are relatively straightforward. They comprise:

- ▶ A vision of where you want to be in (say) 10 or 15 years time. I always recommend at least that length of timeframe in order to avoid being trapped by the minutiae of your present day situation.

- ▶ The next step is to define a set of objectives. What are the things that, if achieved, will represent the realisation of your vision?
- ▶ Following this, the strategies that will achieve these objectives need to be developed/designed.
- ▶ Finally, the last step is implementing those strategies which includes ensuring that the strategies themselves are feasible and any particular obstacles are or can be removed.

In the early part of this paper I spent some time looking at what is now happening in terms of international understanding of economic development including the growing realisation that social development and economic development go hand in hand. What I wanted to convey in that section was that the best research now shows that economic and social development are very much the responsibility of people at a regional and indeed local level. Central governments can do a lot in the way of setting frameworks but making it happen is a local issue. To draw an analogy, I guess you can say that economic development is a bit like roading. Central government can build roads and provide and enforce a road code. The decision about what journeys to take, where and how, though, is very much a local and individual matter - we don't wait for a ministerial direction on where and why we should drive. The same applies in economic and social development. (We do get some exhortations from central government – in economic development that is a bit like the LTSA campaigns on road safety and the like in the roading sector.)

The Bay of Plenty has some huge natural endowments. It is very obvious that it is a favoured lifestyle destination both for New Zealanders and for (returning) migrants. It also has some really critical issues to address. At the strategic level, we can look at patching the wounds after they have been inflicted, or we can think about what needs to be done to stop the wounds being inflicted in the first place.

Patching wounds can be easy, straightforward and provide immediate gratification for those who write the cheques. You have to ask, though, whether it is really the best possible use of your resource.

I am reminded of a story told by Saul Alinsky who carved out a unique career as a social activist in America in the middle of last century. He tells the story of two friends walking alongside the bank of a fast flowing river. They see someone being swept downstream, calling for help. One of the two friends, who is a strong swimmer, strips off, dives in and rescues the person. No sooner have they got him breathing again than a second person is seen in distress. He is hauled out and revived. This happens a couple of times more. After sorting out the fourth person the swimmer starts running upstream ignoring a fifth person in trouble. His friend calls out "Where are you going? There is another person drowning." The answer is "I am out to get the b*** who is throwing them in."

Alinsky's message was clear. Dealing with the symptoms of social distress is important. Dealing with causes is far more so, even if it means that temporarily you have to reduce your emphasis on dealing with the symptoms.

CONCLUDING REMARKS

What is clear from what we now know about economic and social development is not just as I have said that it needs to be led regionally or locally. It is also clear that it requires significant strategic investment – these are the dollars to catch dollars. It might, for example, be a venture capital activity to encourage particular types of industry – and where co-funding by outside parties is part of your strategy. It might be seed capital for additional tertiary activity – the examples go on.

The key message is that, without this ability to make strategic investment locally, and without an overarching strategic framework within which to do it, we are going to muddle on much as before.

I am personally confident that the muddling on is coming to an end. In the work that we are doing, we see a number of examples of people starting to understand the importance of accepting responsibility and using their resources, including public wealth, as strategically as they possibly can.

This is not to deny or try and overturn the good work that is being done by major statutory and philanthropic trusts, and local authority wealth holders in recent years. Rather, it is to build on what has been achieved so far and take the leadership role needed to help realise the great future that we are capable of achieving.

Let me conclude with my vision for 10 years ahead. People responsible for leading what I call our regional and local institutions of governance, including local authorities and statutory and philanthropic trusts, share a common purpose. Each realises that, when they get to the heart of what they do, they are serving broadly the same people for broadly the same purpose. There is a consensus on working together to help achieve the best possible economic, social, cultural and environmental outcomes for our communities.

They have gone beyond arguing about territory, the fact that years ago their resources came from Trustbank depositors, energy consumers, port users or whoever to concentrating instead on how best to use their endowments on behalf of the people they serve.

At the same time, our institutions of governance are conscious that they do have different strengths and capabilities. Local authorities understand their role in providing the regulatory, physical and cultural environment. Trusts understand their complementary role in exercising their discretion – over distribution, over capital investment, over enabling any major businesses they own to contribute to economic development.

We have all learned from and apply intelligently the lessons gleaned from successful economic and social development. We value high human capital and we are well on the way to creating the lifestyle, business, and cultural and recreational environment that makes the Bay of Plenty a preferred location not just nationally but internationally. Finally, we have understood the importance of ensuring that the benefits of the

development we are encouraging pass through to all the members of our communities. We value the unique importance of tertiary education and, because we do, we ensure that in our pre-schools, primary schools, kohanga reo, kura kaupapa Maori, secondary schools and so on, we are making sure that everyone has the opportunity to make the best use of their own natural endowments.

Above all, we take a pride in being recognised as a region that knows where it is going and has built a shared consensus amongst its many different community leaders about how to get there and a pride in our ability to work together to do so.

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