

BUILDING CAPACITY FOR ECONOMIC DEVELOPMENT: AN OVERVIEW OF THE PRISM³ WORK PROGRAMME FOR AUCKLAND EDAS

The purpose of this work programme was to raise the capacities and performance of Economic Development Agencies in Auckland within the context of the Auckland Regional Economic Development Strategy.

The work programme specifically recognised the distinction between regional level development issues and locality based issues, seeing separate but complementary roles for existing EDAs within the Auckland region, and the newly emerging AREDS.

The work programme comprised four separate phases and one final “wrap up”. These were:

- Context setting.
- Current assessment.
- Auckland region relationships.
- Performance measurement.
- Application.

Context

This phase comprised two separate pieces of work:

- An overview, by the New Zealand Institute of Economic Research, of the current state and performance of the Auckland economy. The purpose, achieved by the overview, was to raise understanding of areas of opportunity and need within economic development in Auckland.
- An overview, prepared by McKinlay Douglas Limited, of international equivalents of New Zealand’s Economic Development Agencies. This report provided a very useful background of current trends and practices in economic development in Europe, North America and Australia. It included:
 - A very useful discussion of the nature of economic development itself and a substantial number of reference sites.
 - Lessons that could be drawn from international experience on issues such as scale, structure, role of central and local government, emerging understandings of the locus of economic development (eg the role of the city/region in the international economy) and coverage of selected initiatives of interest for New Zealand. As examples, these

included Joint Venture Silicon Valley, the success of Emilia-Romagna's programme of support for the development of clusters and Brisbane City Council's economic development strategy.

The study has provided a valuable reference point for Auckland EDAs as they consider their future roles.

Assessment

The purpose of this phase of the project was to provide an assessment of the capability of Auckland region EDAs including structure, governance, key relationships, strategic and business planning, funding (including the role of the contract with the principal funder) and accountability/reporting.

The assessment showed that practices were highly variable and very dependent on the commitment/practices of the funding council. Relationships ranged from virtual "hands off" with minimal council involvement to extensive involvement in shaping the activities of the EDA.

The terms of trust deeds, and the means of appointment of trustees (including any "fitness for purpose" criteria) were highlighted as an area for review.

Contracts, and related performance/accountability requirements, were generally output focused, occasionally falling well short of what was needed to demonstrate either to funders or to governing bodies how effective the EDA was in key areas such as:

- Strategic and business planning.
- Delivery of outcomes as opposed to outputs.

This phase highlighted the need for EDAs (and funders) to pay closer attention to issues such as:

- Governance.
- Strategic planning.
- The relationship between structure and expected performance, including the potential conflict between the public sector decision making/accountability framework for local authorities, and the need for flexibility and timeliness in decision making for EDAs operating in a commercial environment. In part this was a function of:
 - A focus on outputs rather than outcomes.
 - A wish, by some councils, to exercise a significant degree of operational control over their EDA.

Relationships Within The Auckland Region

The focus of this phase of the project was on establishing a clear understanding of the respective roles of locality based economic development through council supported EDAs, and region-wide economic development through AREDS. Whilst the boundaries were seen to be occasionally quite fuzzy, there was a clear

recognition of the value of understanding the difference between locality and region based activity. As examples:

- Typically, support for SMEs will be a locality based activity drawing strongly on commitment of local business people and networks, and funding streams provided by external (that is non-council) funders.
- International marketing and promotion of the Auckland region is clearly a regional level activity but one that needs to be supported by strong locality based EDAs. Film Auckland is one example. Foreign Direct Investment is another.

This phase of the project not only provided clarification of the distinction between locality based and region based economic activity. It also resulted in the establishment of the Auckland Regional Economic Development Association as a formal structure linking Auckland's locality based EDAs.

Performance Measurement

This was in many respects the crucial phase of the project. Its concern was not just with accountability but with the much more fundamental question of how to determine what activities an EDA should undertake. In this sense, performance measurement was seen as an integral part of a process through which the EDA (and its funders) made judgments about the areas of activity in which the EDA should be involved, and how it should set its priorities.

Part of this phase involved an overview of experience, within New Zealand, of evaluation in the public sector. Part provided an assessment of international experience (again drawing primarily on European and North American practice) with the performance measurement of economic development agencies and activity.

This highlighted the problems with applying conventional evaluation techniques; problems that have their origin in the multi-causal nature of the outcomes that EDAs pursue, and the high financial (and sometimes political) cost associated with conventional pre-test/post-test control group approaches.

Prism³ developed, for AREDA, a logic based approach that begins with a strong focus on contract design and, associated with that, the EDA's statement of intent and its strategic and business plan. Prism³ saw the statement of intent process as a particularly valuable one and recommended that it should be used even in those cases where the EDA is not a council controlled organisation.

The strength of the logic model, for EDAs, is that it provides a planning/contracting tool which not only allows much greater clarity in what it is that the EDA is proposing to do and why, but also sets the basis for a relatively low cost approach to assessing performance.

Application

This final phase involves the Auckland EDAs in one or more "hands on" sessions, taking selected programs and running through the logic model to gain practical experience in the contract design, strategic/business planning, and performance

measurement phases. It is expected to provide EDAs with the experience they need to use this new and very effective tool.

A further theme emerging both from the work for AREDA and from that for individual EDAs is the potential conflict between the “value for money” purchasing strategies applied by councils in dealing with arms length organisations, the role that EDAs are expected to perform in the local economy, and their value as a community asset.

The typical EDA draws its funds from a combination of a lead contract with its sponsoring council, and a range of other public sector (usually government) funders such as Tech NZ and WINZ.

EDAs are normally constituted as trusts or not-for-profit companies. They have little or no “own” capital other than any surpluses they are able to generate from their operating activities.

A “value for money” approach to the purchase of outputs will often be designed to prevent the provider from generating a surplus, thus cutting off the one source of building up the capital that any prudently run organisation requires for effective operation. This can be compounded when, as is often the case, government funders contract on the basis that they expect to meet only part of the cost of delivering a programme with the balance being funded locally (and by inference, by the local authority). The Grants for Private Sector Research and Development programme provides a good example. It is also one that plays an important role in the local economy and thus one that a funding local authority should be concerned to see is available.

A final observation on this issue, by Prism³, is that local authority funding for an EDA is not just the purchase of current services; it should also be seen as an investment in building up a critical capability for the community.

Associated Activity

In parallel with the work programme for the Auckland EDAs themselves, partners in Prism³ Limited have undertaken two other significant projects in relation to Auckland EDAs.

- McKinlay Douglas Limited undertook two separate assessments, one of governance and one of operations, of Enterprise North Shore for North Shore City Council. These assessments highlighted a number of factors that Enterprise North Shore and its funding council should address in order to improve targeting of council funding, performance by Enterprise North Shore, and accountability to the council and through it to its ratepayers.
- The Institute of Public Policy and McKinlay Douglas Limited jointly undertook an assessment of the effectiveness of Enterprise Manukau as an economic development agency within Manukau City for the Council. That report has been received both by the EDA and by the council’s chief executive as effectively identifying a number of matters relating to governance, funding and the EDA/council relationship that would benefit from changes to address the concerns identified by the consultants.