

WESTERN BAY OF PLENTY SMARTGROWTH STUDY

**Economic and Demographic Projections and
Analysis for Phase 2: Research**

**Part 3
Possible Future Economic Activity:
An Economic Scan**

McKinlay Douglas Limited

June 2002

Contents

	<i>PAGE</i>
Overview	<i>iii-xiii</i>
Part 1 Introduction.....	1
1.1 The Role of this Report in the SmartGrowth Study	1
1.2 Economic and Demographic Projections.....	2
1.3 The Purpose of this Report	2
Part 2 Future Scenarios	4
2.1 The Base Case	4
2.1 2.1.1 WHAT THE ECONOMIC AND DEMOGRAPHIC PROJECTIONS SHOW	4
2.1.2 A CLOSER LOOK AT THE PROJECTIONS	6
2.1.3 CONCLUSIONS ON THE 'BASE CASE'	12
2.2 A Preferred Future	13
2.2.1 THE OBJECTIVE	13
2.2.2 WHAT WOULD A "10% ABOVE" ECONOMY LOOK LIKE	14
2.2.3 CONCLUSION	20
2.3 A Final Thought – So What?	21
Part 3 What Research, Literature and Experience Tells Us	23
3.1 Introduction	23
3.2 A Context for the Literature	24
3.3 Overview of the Literature	26
3.3.1 HUMAN CAPITAL	26
3.3.2 SOCIAL CAPITAL	27
3.3.3 CLUSTERS	28
3.3.4 REGIONAL LEARNING	28
3.3.5 UNIVERSITIES	29
3.3.6 PLANNING	31
3.3.7 REGENERATION.....	32
3.3.8 REGIONS.....	33
3.3.9 INDIGENOUS PEOPLES.....	33

	<i>PAGE</i>
3.4 Some Practical Applications.....	34
3.5 Conclusion	38
Part 4 An Approach to Intervention in the Western Bay	39
4.1 Introduction	39
4.2 The Context for Intervention.....	40
4.2.1 TWO KEY CONSIDERATIONS FOR ECONOMIC DEVELOPMENT WORK.....	40
4.2.2 POINTS HIGHLIGHTED IN THE LITERATURE.....	41
4.2.3 SCALE: A CHALLENGE FOR THE WESTERN BAY.....	42
4.3 Enabling a High Income Economy: Some Possible Interventions	43
4.3.1 BUSINESS SECTOR BASED INTERVENTIONS	45
4.3.2 ENHANCING THE QUALITY OF HUMAN CAPITAL AND THE SUB- REGION'S ATTRACTIVENESS.....	52
4.3.3 INFRASTRUCTURE	61
4.3.4 TANGATA WHENUA	66
4.4 Implementation: Who Should Be Responsible?	67
Part 5 Land Use Implications	71
5.1 Leveraging Existing Potential in Agriculture, Horticulture and Agriculture.....	71
5.2 Light Manufacturing.....	71
5.3 Information Technology.....	71
5.4 Enhancing the Western Bay's Attraction as a Retirement Destination	72
5.5 The Super-Region.....	72
5.6 A Western Bay Tertiary Strategy.....	72
5.7 Optimising Local Skills ("Tauranga Online").....	73
5.8 Efficient Infrastructure	73
5.9 An Integrated Transport Strategy	73
5.10 Cultural and Artistic Infrastructure	73
5.11 Tangata Whenua.....	74
Part 6 Concluding Comments	75

OVERVIEW

This report is one of three prepared as part of the Phase 2 research for the SmartGrowth project to provide an overview of economic trends within the Western Bay of Plenty over the next 20 and 50 years, and identify options for influencing those. The New Zealand Institute of Economic Research (NZIER) has been responsible for analysing industry and occupational data to provide projections of employment by industry and the Migration Studies Group at Waikato University has undertaken considerable demographic analysis focusing on the impact of migration and seeking to identify underlying causes affecting both inward and outward migration. The focus of this report is on an economic scan that considers the nature of the future economy on the basis of current trends, reviews overseas research and experience with economic development (that is with consciously targeted measures with the purpose of changing economic outcomes) and identifies a number of potential initiatives for lifting the level and quality of economic activity.

What this report is not is an economic development strategy (although it does draw on a number of international and New Zealand examples of economic development strategies). The initiatives identified in this report could themselves form the core of an economic development strategy for the Western Bay, but readers should note that a strategy is more than simply identifying potential initiatives. A strategy requires as well specific means for implementing initiatives including identifying matters such as:

- ▶ Who should be responsible for what initiatives.
- ▶ What structural/organisational arrangements are needed (the best strategies are integrated).
- ▶ How initiatives will be resourced and by whom.

The paper covers four main sections:

- ▶ Future scenarios – what the NZIER and Waikato studies show; as an alternative a “preferred future”.
- ▶ What research, literature and experience tells us.
- ▶ An approach to intervention in the Western Bay – including implementation issues.
- ▶ Land use implications.

Future Scenarios

THE BASE CASE

The NZIER report provides a set of projections of future economic growth and the mix of labour force, industry and occupations that can be expected in the longer term. Those projections are based on past and current information at a national

and a regional level. They assume, essentially, that future growth will reflect past growth. Accordingly, they capture the impact of the trends that have given the Western Bay the growth it has had so far. The prime example is the extent to which the very strong growth of the Port of Tauranga has influenced growth within the sub-region. Implicit in the NZIER projections is that this growth is expected to continue.

Based on present economic projections, the Western Bay in 2021 and 2051 will continue to grow in population but still be essentially a low income, low skill economy as compared with national averages. The Western Bay economy would remain over-represented in low-income industry sectors and occupations, and under-represented in high-income sectors and occupations.

The purpose of the demographic work undertaken by the University of Waikato was to gain a better understanding of population drivers – what is happening in terms of population mix and, in particular, what is the impact of migration.

It is generally realised that the Western Bay's high rate of growth has been substantially driven by migration. What is less well understood is that this is the impact of net migration – the difference between the number of people moving in and the number moving out. The Western Bay has high inward migration but also high outward migration – for every two people who move here, at least one leaves.

Waikato University's work included a postal survey of people who had moved into or out of the Western Bay over a recent 12 month period. That research showed that people moved here primarily because of lifestyle attractions and left primarily because of poor job opportunities and low incomes.

Looking longer term, the demographic work for SmartGrowth suggests that the Western Bay sub-region will be facing significant competition for the population needed to support future economic growth, primarily through migration.

If migration patterns in the future do not continue to produce the sorts of net migration gains the Western Bay has experienced over recent years, growth will diverge downwards from the projections, resulting in the Western Bay losing more ground in terms of its relative economic position nationally.

In summary, the base case suggests that, although the Western Bay economy will continue to grow, it will still have more than its fair share of low income, low skill occupations and less than its fair share of high income, high skill ones. The migration work raises the question of whether the apparently quite widespread perception that the Western Bay disappoints in terms of job opportunities and incomes could, over time, reduce the area's attractiveness leading to a reduction in net migration and growth.

A PREFERRED FUTURE

Changing the path of future economic activity and the associated migration and employment prospects for the Western Bay will require interventions targeted towards achieving a different industry, occupational and skill mix in the longer term. With the right sorts of interventions, the Western Bay in 2021 and 2051 could become an economy with relatively higher incomes compared with national averages. This would mean greater representation in an 'above average income' mix, and less reliance on the 'below average income' mix.

One way of measuring such an outcome would be achieving average incomes in the Western Bay that are of the magnitude of 10% above the national average, compared with the present '10% below'.

The positive interaction between higher average incomes and migration would sustain higher and more diverse economic activity over the longer term.

The different industry, occupational and skill mix would be reflected in a different pattern of land use need.

In essence, we suggest that a 'preferred future' would be one with:

- ▶ Higher rather than lower incomes.
- ▶ More rather than less employment.
- ▶ More rather than less satisfying jobs.
- ▶ A wider rather than a narrower choice of recreational, cultural and artistic opportunities.

It would reflect people's interest in continuing the diversity of choice available within the Western Bay (urban/rural, for example) and for maintaining and enhancing the sub-region's attractiveness as a retirement destination.

A high skill high income Western Bay is likely to:

- ▶ Have a much higher proportion of professional and technical workers
- ▶ Be more reliant on trade in knowledge and information than on physical goods (although much of that knowledge and information may be embodied in physical goods)
- ▶ Have a heavy reliance on technology.

This implies a quite different industry structure and occupational mix either from that which is current in the Western Bay or is likely to be present in the future, at least without either:

- ▶ A significant departure from present industry employment and population projections – in other words, the emergence of major trends not currently evident within the Western Bay economy, or
- ▶ Significant and effective intervention to drive change.

Intervention is going to mean a multi-dimensional focus on:

- ▶ Making the Western Bay an attractive location for skilled people to live and work.
- ▶ Building work opportunities within the region for people who:
 - As migrants, bring skills acquired outside the region, or
 - As residents, acquire skills from within the region;
and who
 - As a skilled labour force, provide the incentive for 'growth' businesses to locate in the Western Bay, or
 - As entrepreneurs, themselves generate the new 'growth' businesses.

SO WHAT?

A possible response to the base case scenario of a continuing relatively low income, low skill economy may be "so what?". By and large we are relatively happy as we are and although wages are lower than in (say) Auckland or Wellington, the quality of life is better – why should we go to the trouble of trying to lift economic growth, skill levels, etc?

The sub-region's economic growth is not just about its position relative to the rest of New Zealand. It is also about the contribution it makes to New Zealand's economic growth – which in practice is no more than the combined impact of growth in New Zealand's different regions.

There is very good reason to believe that, unless New Zealand's economic growth lifts substantially, all our futures are at risk. As an example, we will gradually lose the ability to afford the standard of social services (health, education, housing, welfare) that we expect. The main body of the report includes some rather gloomy predictions delivered at the recent Knowledge Wave Conference by an expatriate New Zealander who is recognised as an international expert on economic growth (see pages 21-22).

What Research, Literature and Experience Tells Us

This part of the report looks at what we can learn from international research, literature and experience with economic development. It starts from the point that, for much of the 1980s and all of the 1990s, New Zealand was virtually unique amongst developed western nations through having a very minimal focus on regional economic development. As a consequence, if we want to look at what economic development can involve and experience with successful (or unsuccessful) initiatives, largely we need to look overseas.

When New Zealand was last seriously focused on economic development – in the late 1970s and early 1980s – the then fashionable approach concentrated on incentives (tax breaks, grants, soft loans etc) to encourage firms to establish or relocate. The emphasis has now shifted quite markedly. Instead of tax and other

financial incentives, the emphasis is now on getting the environment right. This includes:

- ▶ Sorting out the regulatory and legislative framework.
- ▶ Developing “user friendly” systems and practices in public agencies such as local government.

Most importantly, the emphasis has shifted from looking at, largely, manufacturing inputs such as land, raw materials and capital equipment to the importance of skilled people. Generally, regions that grow and develop high quality jobs are regions that attract and retain highly skilled people. The shift is summed up in a comment made by the Chief Executive of Hewlett Packard to the US National Governors Association in 2000:

“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.”

What creates that kind of environment and drives that sort of economic development? The answer both from literature and from experience is to invest in the kind of things that are needed to attract and retain highly skilled people. This is a mix of measures including:

- ▶ Ensuring that you have in place appropriate means for people to increase their skills whether through full time study, on the job learning, distance learning, professional networking, etc.
- ▶ Creating within the region a culture of continuous learning – recognising that the regional economy itself should be seen as a means of generating and sharing knowledge. Strategies here include such things as industry clusters, underpinning the development of what is known as social capital (the norms and understandings that give people the confidence to work in the collective interest as well as their own personal interest), and strengthening the region’s capabilities in tertiary education. This point is particularly important. International (and New Zealand) experience shows that economically successful regions are regions that have direct access to quality tertiary and research services.
- ▶ Creating the environment in which highly skilled people want to live, work and play. The Western Bay already has an attractive physical environment and climate. Experience shows that to attract and retain people with high human capital, the region will also need to invest significantly in its artistic and cultural infrastructure including museums, art galleries, the performing arts, and the region’s strong heritage of Maori culture and traditions.

As well as research findings, international comparisons also show encouraging examples of what can be achieved through well-focused economic development strategies. Pages 34-38 of this report give examples from Toronto, Brisbane (probably Tauranga’s most significant competitor as a lifestyle-based economy) and

Thuringowa (North Queensland), as well as examples of indigenous peoples' initiatives that will be of interest to tangata whenua.

Each in its different way emphasises the central importance of knowledge as the driver of economic development as is seen in the following statement from Toronto's economic development strategy:

"This more recent phase of economic restructuring has been characterized by a transformation to a knowledge economy. As the more routine manufacturing and mature industry functions relocate to low-cost locations or fall victim to automation and new technologies, it is clear that the future quality of life in advanced economies depends upon upgrading and moving the economy towards a concentration in high value added activities. These activities can occur in any industry – such as clothing design or speciality manufacturing to high order services such as corporate banking. The key is to focus on the high order, innovation based, high productivity activities in each industry. Increasingly, our economic vitality, and in turn our quality of life, depend upon making a successful transition to a knowledge economy." [page 9]

An Approach to Intervention

We have identified four broad categories that appear to have potential for selective intervention. We consider that, taken together, these could serve as the basis for an effective economic development strategy for the sub-region. The four categories are:

- ▶ Building on existing strengths in **business sectors** where the Western Bay has a natural resource endowment or appears to have a comparative advantage. See section 4.3.1.
- ▶ Enhancing the **quality of human capital** within the sub-region and the attractiveness of the sub-region for people with high human capital. See section 4.3.2.
- ▶ Developing the sub-region's hard and soft **infrastructure**. See section 4.3.3.
- ▶ Building on the potential inherent in the region's strong base in **Maori history, tradition and culture**. See section 4.3.4.

Each of the possible interventions canvassed in this report is consistent with either a focus on the Western Bay as a single region for development purposes (including positioning domestically and internationally) or as part of a larger "super-region" based around Auckland.

Each of the suggested interventions has been presented as more or less stand-alone. In practice there will be a high degree of synergy between different interventions. There is a very real sense in which they should be seen as the components of an integrated economic development strategy rather than as isolated initiatives. Individual initiatives may certainly be driven solely or

principally by one sector, or one group within a sector, but success depends very much on being part of a greater whole. This raises the separate question of who should be responsible for implementation. In section 4.4 we touch on the possibility of SmartGrowth itself evolving into the type of forum that could bring together the concerted actions of alliances that actively involve not just the public sector, but the private and voluntary/community sectors. We also refer to the increasing recognition of public-private partnerships as vitally important to local economic development activities, an approach that has much practical appeal in a region like the Western Bay.

Each of the proposed interventions has been tested against the literature and research surveyed by us, and against current "best practice" in economic development, as disclosed in the economic development strategies we have reviewed. Briefly, the suggested interventions cover:

LEVERAGING EXISTING POTENTIAL IN AGRICULTURE, HORTICULTURE AND AQUACULTURE

These will continue to be growth areas for the sub-region. The opportunity is further investment in education, training and research, lifting the skill base and productivity, and seeking to position one or more of these sectors as international centres of excellence. (Some initiatives are already underway, particularly in association with the Bay of Plenty Polytechnic.)

LIGHT MANUFACTURING

The Western Bay of Plenty is home to a number of small to medium sized innovative light manufacturing firms. A key comparative advantage they enjoy is the lifestyle attraction of the Western Bay of Plenty for the skilled staff they require.

Building this sector requires further investment in ensuring that local training opportunities meet their needs, that access to land and other key infrastructure is available and cost effective, and that their ongoing capital requirements can be met without losing effective control from the sub-region.

INFORMATION TECHNOLOGY

The Western Bay of Plenty is the location of a number of small to medium sized IT firms with a strong record of innovation and business success. There is evidence that, with appropriate support, this sector could become markedly more significant. Issues that need to be resolved include:

- ▶ Good access to tertiary/research facilities.
- ▶ Raising the region's profile as a source of high quality IT services.
- ▶ Creating the attractive urban lifestyle environment commonly desired by highly skilled individuals.

An immediate initiative could be the establishment of an IT cluster.

ENHANCING THE WESTERN BAY'S ATTRACTION AS A RETIREMENT DESTINATION

The Western Bay of Plenty is New Zealand's premier retirement destination. 16.4% of the sub-region's population are aged 65 and over as compared with 12.1% nationally. Increased traffic volumes, rising living costs, and the pressure of urban living may be detracting from the sub-region's attractiveness.

Preserving/enhancing its attractiveness – and its ability to contribute to economic growth – suggests measures including:

- ▶ Working with one or more tertiary institutions and the District Health Board to turn the Western Bay into an internationally recognised centre of excellence in research, teaching and practice of care for older persons (including support for independent living).
- ▶ Initiatives to improve affordability (where recent developments in local government legislation may be of very real assistance).

THE "SUPER-REGION" CONCEPT

The focus of SmartGrowth is the Western Bay of Plenty sub-region. There is good evidence that, for some purposes, we should be focusing on an Auckland "super-region" option encompassing Whangarei to Hamilton to Whakatane.

This would allow for initiatives such as:

- ▶ Establishing the Western Bay as a centre of excellence in horticulture for the entire super-region.
- ▶ Developing a coordinated "lifestyle" approach to marketing the super-region as a destination (for tourism; for high net worth individuals seeking a residential base with high lifestyle value).

A WESTERN BAY TERTIARY STRATEGY

The research reviewed for this report highlights the pivotal role of the tertiary sector (broadly defined) in economic development. Reasons include ready access to training opportunities, the importance for many firms of locating in an area close to high quality tertiary services, ready access to research, enhanced productivity, and the contribution tertiary institutions make to the cultural and recreational qualities of the centres where they are based.

Currently the delivery of publicly funded tertiary services through publicly owned institutions in the Western Bay of Plenty is about one third of what would be expected for its population size. Delivery at the expected level would see an additional 5,000 equivalent full time students and 1,000 additional jobs in the sub-region.

Under Government policy, the Western Bay will not get its own university. What it has is the potential to achieve a community-based strategy under which various providers would deliver services to meet local needs and opportunities.

OPTIMISING LOCAL SKILLS

Migration research shows that many people who come to the Western Bay leave again because of poor job prospects. There is a particular gap in the labour market because of the relative absence of the large corporates, public sector entities and professional service firms that drive much of the demand for professional, managerial and support staff in larger centres.

The result is many people unable to find employment at skill/income levels that meet their expectations. Theoretically, many of these people could market their skills outside the Western Bay using the internet. In practice, this option is not readily available to individuals – who may lack the skills needed to market their own services and who, individually, would find it very difficult to provide the face to face support that distant clients still require. There is an opportunity, which would require public sector support, to create the infrastructure for marketing local skills nationally (and perhaps internationally) – linking with the IT sector, especially if an IT cluster is established.

EFFICIENT INFRASTRUCTURE

The Western Bay of Plenty's roading needs have been well publicised. Less obvious is the importance in a modern economy of high quality information infrastructure. Ensuring ready access to broad band services should be seen as just as important, in its own way, as better roading and other physical infrastructure.

AN INTEGRATED TRANSPORT STRATEGY

There is a clear need for a coordinated approach to the planning and provision of the four different physical transport modes – air, sea, road and rail – within the Western Bay sub-region. Specifically, issues of:

- ▶ A regional airport; and
- ▶ Freeing up the existing Tauranga airport land to enable port expansion

should be priorities for the sub-region's development.

CULTURAL AND ARTISTIC INFRASTRUCTURE

Recent work on economic development suggests that building a strong cultural and artistic infrastructure is an integral part of creating a high-income economy. A recent Canadian report, prepared as part of the "*Western Cities Project*" makes the point:

"Various researchers have identified the development of strong arts and culture communities as a key strategy in attracting people to a city. More and more, international analysts are arguing that arts and culture may aid in attracting and retaining skilled workers, and ultimately in establishing a strong, viable and globally competitive economy."

Western Bay has a unique opportunity to determine how best to achieve this in a way that will attract and retain high skill workers. In this respect the current absence of a museum, an art gallery, a Maori cultural centre, and any professional performing arts groups is a strength – as an opportunity – rather than a weakness, provided that it is seen as such.

TANGATA WHENUA

This report proceeds on the basis that it is primarily for tangata whenua themselves to determine how they can best identify what is needed for their own future development within a wider sub-regional framework seeking a high wage/high skill economy. At the same time it is recognised that their significance, both in terms of the history and traditions of the sub-region, as the holders of significant land and other resources and as tangata whenua, will make their role pivotal in the development of the sub-region's future.

Integration

Each of these initiatives has been presented more or less as standalone. In practice, all will be interdependent with one or more of the others. For example, getting the region's tertiary strategy "right" will affect every other recommended intervention. Creating an effective means for people in the Western Bay to remain living here whilst working externally will play a critical part in deepening and widening the sub-region's skill base, thus supporting the development of other economic activity.

Implementation – Who Should Be Responsible?

What is clear from international and national experience (Toronto, Brisbane, Christchurch, Taranaki) is that effective economic development requires broad-based support throughout the community. It also requires recognition of the different roles and strengths of different elements – local government, central government, the business community and the community/voluntary sector.

To be effective, economic development needs to be strategy-based rather than a series of ad hoc measures.

It is the growing realisation of how important this type of approach is over and above the roles of individual players in successful intervention that public-private partnerships are increasingly recognised as vitally important to local economic development activities. It is an approach that has much practical appeal in a region like the Western Bay where problems of scale, capability and resources inhibit action on even the obviously desirable ideas for economic development. Public-private partnerships allow better leveraging of what each sector can offer, utilising the complementarities and synergies released by the interaction of the partners.

They have the further benefit of directly contributing to building the networks necessary for a well functioning economy.

The Toronto Economic Development Strategy¹ notes that:

"In virtually every other competitor city, problems have been addressed based on concerted actions of alliances that actively involve not just the public sector, but the private and volunteer sectors. In many US cities, in fact, the private sector has actively participated in implementing actions to support urban economic development initiatives." (Page 20)

For the Western Bay this points to developing new ways of working together. One possibility is for SmartGrowth itself to evolve into the type of forum signalled in the Toronto strategy. In favour of this would be:

- ▶ SmartGrowth already combines the four key players in local governance in the Western Bay – the Regional Council, the two territorial local authorities and tangata whenua.
- ▶ SmartGrowth is already recognised by Industry New Zealand as a regional partnership for funding purposes, an important practical consideration when it comes to attracting funding.
- ▶ It is building up a practice of consultation across the community, and a knowledge base of opportunities and constraints that could be invaluable in creating an economic development strategy.

Land Use Implications

These are summarised at pages 71-74. They will be further developed by the SmartGrowth team as part of its land use work.

¹ Toronto City Council (2000).

PART 1 • INTRODUCTION

1.1 The Role of this Report in the SmartGrowth Study

The SmartGrowth study grew out of recognition that the Western Bay of Plenty is one of the fastest growing regions in New Zealand and needs to have a robust framework to cater for such growth. The core of the SmartGrowth work is generating meaningful long-term land demand and environment management scenarios. It signals a more proactive approach to land use planning and decisions.

This report is a component of Phase 2 (the research phase) of the SmartGrowth study. One aim of Phase 2 is to gain a clear understanding of the nature and drivers of future development activity in the Western Bay, allowing a more fully informed assessment of future land use needs.

Our report is one of three pieces of demographic and economic work that look out to 2050:

- ▶ A statistical analysis of economic drivers and determinants (carried out by NZIER)
- ▶ A statistical and qualitative analysis of the demographic drivers and implications (carried out by the University of Waikato)
- ▶ Prospects for changing the economic drivers and outcomes (this report by McKinlay Douglas Ltd).

The task set for the McKinlay Douglas report is an economic scan of the form the Western Bay economy might take in the future, under a range of possible interventions designed to lift the way the sub-regional economy performs. These interventions would alter the course of future economic activity from its present path, and potentially generate better economic outcomes than are likely under presently projected trends. There would be commensurate land use implications.

The report contributes in a number of ways to the overall objectives of the SmartGrowth study, in particular:

- ▶ It highlights the fact the form of future economic growth is a matter of choice. Key players can use interventions to achieve the type of growth that is desired in the Western Bay – rather than accepting projected trends.
- ▶ It identifies the opportunity to influence the path of future growth in ways that could strengthen the alignment of the development strategies of both Tauranga and Western Bay Districts.

1.2 Economic and Demographic Projections

NZIER's research has produced data analysing the structure of the sub-regional economy, and then projections of future economic growth and the mix of labour force, industry and occupations that can be expected in the longer term. NZIER's projections have given us scenarios for the sub-region's economy in 2051 compared with the national economy, and a 'best estimate' for the likely shape of the area's economy over the next fifty years – given assumptions about probable long-term trends and **if these trends were left to take their course**.

Waikato University's demographic work, still in progress, is identifying population drivers with a focus on migration patterns. It will identify any significant adjustments that need to be made to NZIER's projections as a result of demographic (migration) trends, to produce **an adjusted view of what the sub-regional economy would look like in 2051 on present trends**. The University's migration survey for SmartGrowth goes behind straight migration trends to find out why people migrate into and out of the Western Bay and the extent to which their expectations are satisfied. It raises important implications for continuing migration and retention of migrants in the Western Bay – particularly the implications for economic growth in the sub-region.

These two substantial pieces of research establish the 'base case' for the future Western Bay economy looking 20 and 50 years out. They show:

- ▶ From NZIER's economic projections – continuing labour force and employment growth in the sub-region, driven, as in the past, by population growth. Along with this, the continuation of an industry and occupational mix that is inherently low income and low skill.
- ▶ From Waikato University's demographic analysis – population trends in the Western Bay over the next 50 years being even more profoundly affected than in the past by population movements (ie migration). If migration falls off as a contributor to population growth, as seems likely, there will be a consequential reduction in labour force and employment growth, hence in economic activity.

1.3 The Purpose of this Report

Our economic scan focuses on these critical factors revealed in the NZIER and Waikato University studies: first, the Western Bay's dependency on population growth for economic growth; second, the ongoing low income/low skill pattern of economic activity; and third, the risks posed by the all-important migration trends.

The starting point for this report is that:

- ▶ The projected outcomes appear likely to be at odds with the aspirations of the local community, and indeed the national community.

- ▶ The projected outcomes, in any case, might not eventuate. Actual outcomes, in the absence of interventions to improve them, may turn out to be less favourable.

The report provides a contrast to the projections. It opens up the question of what kind of sub-regional economy people might **prefer**, and considers the scope for interventions that could be made to change the projected path of economic activity from the 'base case' to one more likely to be preferred. It goes on to identify a range of interventions that might be considered feasible in order to move towards this preferred state.

The report is based on:

- ▶ The view that people would prefer an economic future that involved the Western Bay sub-region shifting from the low income, low skill economy projected in the NZIER analysis to a higher income, higher skill economy and the associated benefits of greater economic and social opportunity.
- ▶ The certainty that such a shift will require interventions targeted to changing the industry, occupational and skill mix in the longer term.

It is the purpose of this report to identify the types of intervention that might be available to achieve the preferred future state over the projected long term economic outcomes. These interventions will have particular land use implications.

The work has involved a large amount of judgement and crystal ball-gazing, starting with the findings from the economic and demographic analysis and drawing on the best insights and ideas to be found in the literature on economic development, rural development, urban growth and location factors, and in experience with interventions that are driving successful economies.

The paper concludes with a discussion of how the preferred future' and the associated interventions might influence labour force growth, population growth and land use.

PART 2 • FUTURE SCENARIOS

2.1 The Base Case

2.1.1 WHAT THE ECONOMIC AND DEMOGRAPHIC PROJECTIONS SHOW

Projections of future population, employment and industry structure carried out for SmartGrowth have been based on extrapolating existing trends. Accordingly they incorporate all of the influences that have brought the Western Bay to where it is today, including the significant net gains from migration. Based on this analysis, the dominant factor driving future growth in the sub-region would, as in the past, be population growth.²

Not surprisingly, this set of projections, on its own, presents a picture of a Western Bay economy in 20 and 50 years' time whose main characteristics are not significantly different from those of today:

- ▶ Employment is projected to grow steadily up to 2051, driven largely by projections of population growth.

In the period 1996-2001 population in the Western Bay grew an average of 2.8% a year compared with 0.6% for New Zealand. Commensurately, employment growth has been averaging 3.5% a year compared with 1.3% nationally. The sub-region's population is projected to almost double by 2051. Because much of the growth in inward migration is projected to come from the younger cohorts, the labour force is also projected to grow, and at a faster rate than for New Zealand as a whole. This accounts for the projected growth in employment, given that the NZIER projections assume constant rates of unemployment.

- ▶ Employment remains concentrated in relatively low paid, low skill industries and occupations.

Currently – because of the concentration in relatively low paid industries and occupations – average hourly earnings for people employed in Tauranga District, both male and female, are approximately 10% lower than average hourly earnings for New Zealand employees overall. In the Western Bay District the margin below the national average is significantly greater for men but rather less for women (see page 17 below).

Paradoxically, the fact of low average incomes in the Western Bay is not a picture of a stagnant economy. In recent years, the Western Bay of Plenty has been one of the fastest growing regions in New Zealand in terms of aggregate output and

² The projections have been adjusted to allow for resource constraints in areas such as agriculture (eg the area of land available for farming will not increase). They will be further adjusted to reflect the findings of Waikato University research on the expectations of inward migrants, their experience, and their reaction to that experience. Assumptions were also made about growth in GDP, productivity and the labour force. There is an implicit assumption that rates of change in industry structure and technology will not differ from past trends.

level of economic activity. Consistent with this, the Western Bay has seen significant entrepreneurial activity, key features of which include:

- ▶ Continuing and substantial growth in the retail sector.
- ▶ A heavy emphasis on land development and construction (although subject to quite significant cyclical swings).
- ▶ Continued growth in the retirement industry, with substantial and continuing investment in retirement villages and other properties targeted towards older persons.
- ▶ A significant revival in the fortunes of the kiwifruit industry and horticulture more generally (with, for example, significant growth in plantings of avocado).
- ▶ Quite dramatic growth in throughput at the Port of Tauranga and in industries associated with that such as transport.

NZIER's projections show a continuing strong growth up to 2051 in the numbers of people working in construction (more than doubling), retail (nearly doubling) and the 'accommodation, cafes and restaurants' industry (a three-fold increase). The number employed in agriculture declines (a 20 percent drop) although it remains a major source of employment.

All of these industries share one common characteristic. Typically they are low wage industries, and also low skill industries even though the skill levels required for entry have been rising. This suggests a cautionary note in terms of longer term economic growth projections, reinforced by an occupational mix in the Western Bay with lower proportions of people in the higher paid professional, managerial and technical occupations than national averages, and higher proportions in the lower paid occupations.

(We note that some of the industries being promoted as the future potential growth industries for the Western Bay, notably tourism and retirement services, are also at the lower income end – at least in the present form these industries take. Our discussion of interventions in Part 4 addresses this.)

The combination of lower-income industries and lower-income occupations within those industries indicates a persistent and underlying constraint on growth in the Western Bay economy.

A second cautionary note is that past economic growth has relied on growth in population size – that is, it has been volume driven rather than quality driven. This shows up strongly in present land use particularly with the demand for residential, retail and business land. The importance of population growth in economic activity also shows up in the constraint on retail and service sector growth and activity with slower population growth in the Western Bay over the past few years compared with the earlier 1990s, noted in a 2001 Western Bay of Plenty/Tauranga District Council analysis.³

³ "Development Trends 2001", Western Bay of Plenty District Council and Tauranga District Council, September 2001, www.wbopdc.govt.nz.

NZIER's long term projections showing a continuation of this pattern – of a low income, low skill mix and volume-driven growth – are not so far greatly altered by Waikato University's demographic analysis. If anything, the demographic analysis suggests:

- ▶ A smaller future population, labour force and economy than would occur if the NZIER projections were borne out.
- ▶ Possibly a somewhat lower wage, less skilled mix than in the NZIER projections.

In the next section (section 2.1.2), we hypothesise that this could be a consequence of unmet expectations on the part of people moving to the Western Bay, particularly for individuals and households who find that the Western Bay economy does not offer sufficient opportunity to work in their preferred areas of employment and/or to earn an acceptable income.

2.1.2 A CLOSER LOOK AT THE PROJECTIONS

A critical question for the SmartGrowth study is whether its recommendations on land use and other measures intended to assist in the management of growth should assume a continuation of present trends – or whether it should anticipate a different mix of industry and employment.

This question is important for two reasons:

- ▶ First, projections are in no way guarantees of the outcomes they describe. They are a function of extrapolating from existing data. In NZIER's projections a critical assumption is continuing high migration – an expectation commonly held by people in the Western Bay community.
- ▶ Second, projections do not say anything about the kind of economy that might be preferred – is it the economy as projected, or is it a different mix of industry, occupation and skill?

If SmartGrowth assumes for land use purposes a long term continuation of present trends, it will be working with growth prospects based on agriculture especially horticulture, retail, construction, transport and retirement; and 'volume' rather than 'quality' growth.

We now turn to look more closely at the two of the most significant influences on possible outcomes for the Western Bay in 50 years' time: migration; and industry and occupational mix.

There is some very important context for this discussion, provided by Waikato University's migration survey for SmartGrowth and by anecdotal evidence gathered in the course of preparing this report.

First, an extract from the migration survey report⁴:

⁴ Pages 21-22 of the report as tabled at the SmartGrowth Joint Committee meeting on 15 May 2002.

- The survey highlights the fact that across all age groups that had moved **into** the Western Bay Sub-region the major positive attribute of the region was the coastal environment and the quality of life the region offered.
- Lower wage rates and poor job prospects were seen as the downside of the move. As a woman in her early thirties wrote:
Both my husband and I took a wage drop when we moved. I have talked with a few different people who have just moved within the last year and the general feeling is that wages are a lot lower here than in other parts of New Zealand. Tauranga is being called '\$10 Tauranga'.
- Amongst the group who had **moved away** low wages and poor job prospects in the sub-region were a major concern.

Second, the experiences of new migrants as recounted in informal conversations with a range of people in the Western Bay who have first hand knowledge of the local labour market:

- A significant group of professionally qualified migrants who are not able to find employment commensurate with their skills and experience and are working in jobs that under-utilise their capabilities – a form of under-employment.
- People who are not able to find full time positions and who take on part time, contract projects – another form of under-employment.
- Often a lengthy lapse of time before a new migrant finds a job that matches their aspirations (the advice they get is to “be patient”).
- New migrants in normally high-demand occupations who find that to get a position in an organisation as an employee means a substantial drop in salary compared with the similar position they held in the place they came from.
- Young professionals recently arrived in the Western Bay who want to live here for lifestyle and family reasons, but who turn around and leave within two or three years, or less, because of poor career prospects.

These two sources of evidence suggest an underlying weakness in the Western Bay economy that challenges the assumption of ongoing high migration. They appear to account for the evidence in the migration survey of a very high turnover of inward and outward migrants. Around 40 % of the out-migrants in the survey were not living in the Western Bay five years ago, ie they had moved into the Western Bay but left again within a few years. Putting the survey’s finding on the importance of lifestyle as a reason for people migrating here alongside the importance of work prospects as a reason for leaving, the picture is one of people wanting to live in the Western Bay for lifestyle benefits but finding it economically non-viable.

We return again to this issue in Part 4 below in our discussion of intervention to optimise local skills [see page 39 below].

The Migration Assumption

Past economic growth in the Western Bay has relied strongly on population growth. In NZIER’s projections:

- ▶ Overall regional employment continues to grow over the longer term, above the national average. NZIER notes that this reflects continuing inward migration to the sub-region.
- ▶ Future employment growth in the sectors that will continue to be the mainstay of the Western Bay economy is substantially driven by the size of the labour force, hence is population size-dependent (with the exception of primary production that is dependent on natural resources).

Waikato University's work for SmartGrowth emphasises the same point in terms of recent population trends: total net migration gain accounted for 77% of the overall population increase in the Western Bay sub-region between 1996 and 2001. As the University's briefing paper (page 3) says, "*Estimating how migration flows might change in the future is therefore critical for the estimates of population size and composition.*"

Migration is thus fundamental to the levels of economic activity within the Western Bay, and to the nature and mix of land use demand, which can be anticipated in the longer term. As such, it is important to understand the possible risks to future migration patterns. We look at the risks from three perspectives: first, the Waikato University survey of inward migrants to the Western Bay (their expectations in choosing to move here) and outward migrants (their reasons for leaving); second, anecdotal evidence of the main categories of people moving to the Western Bay and whether these categories will remain a key source of inward migrants; and third, the importance of migration in regional labour market adjustment.

The 'Expectation' Risk

The survey carried out by the University of Waikato's Population Studies Centre for SmartGrowth on the reasons people migrate in and out of the Western Bay region paints an interesting picture of the importance of work-related factors relative to other factors.⁵ The survey shows a contrast between reasons people gave for moving to the Western Bay region and reasons for leaving:

- ▶ For those moving to the region, lifestyle and family factors far outweighed work-related factors. One reason work prospects feature less than might be expected could well be that many inward migrants have a job or business opportunity to come to and feel comfortable about placing other factors above the work factor, or they do not have work lined up but expect to get it, ie they are "work confident".
- ▶ For those leaving the region, work-related factors featured relatively high, with factors that reflected overwhelmingly negative experiences and disappointment with the realities of the Western Bay economy and job market.

⁵ Briefing paper to SmartGrowth Workshop, 15 May 2002, "*Recent Developments in Population Movement and Growth in the Western Bay of Plenty*", pp 15-22. Survey covers year October 2000 to September 2001. Size of survey: 192 inward migrants; 99 outward migrants.

**Work-Related Reasons for People Migrating
Into and Away From the Western Bay Region
(Number Who Cited These Factors as Important/Extremely Important)**

INWARD MIGRANTS			OUTWARD MIGRANTS		
Reason	No.	%	Reason	No.	%
More job opportunities	36	19	Poor job prospects	27	27
Higher wages	28	15	Wages too low	20	20
Company transfer	15	8	Company transfer	9	9
Begin new business	20	10	Poor business opportunities	17	17
			Poor economy in region	9	9
			Job loss	10	10
Relocate business	9	5	Relocation of business	7	7
Total No. Surveyed*	192		Total No. Surveyed	99	

* Of the total number surveyed, other reasons given for migrating were lifestyle and family related.

These figures show an unmistakable gap between the economic expectations people bring with them to the Western Bay and the experiences of those who decide to leave.

The 'Labour Market Adjustment' Risk

This factor concerns the importance to the regional economy of migration as a way the regional labour market adjusts following employment 'shock' (as in a decline in employment). It is the subject of a paper by the Treasury, which includes the Bay of Plenty in its analysis.⁶ The main finding in the paper is that inter-regional migration is the predominant factor in labour market adjustment. The relevance to migration in the SmartGrowth context is that it concerns what working-age people do when employment prospects are limited: they leave the region in search of better opportunities; family members may go with them; and people with jobs may leave if they fear the region is in decline.

The 'Migrant Category' Risk

The available evidence suggests that migrants coming to the Western Bay fall into one of two main categories, both of which have been strong sources of local population growth:

- ▶ Retirement. This encompasses people already retired and people moving to the Western Bay in contemplation of retirement.

⁶ Choy, W, Mare, D and Mawson, P (2002) "Modelling Regional Labour Market Adjustment in New Zealand", NZ Treasury Working Paper 02/01, March 2002, www.treasury.govt.nz.

- ▶ Families of working-age parents with young children. They appear to be relocating to the Western Bay for lifestyle reasons, choosing the sub-region as an ideal location for bringing up children and achieving a work-family balance.

In each case, migrants will have based their choice of the Western Bay on a set of expectations and will bring those expectations with them. Will these necessarily be borne out in practice?

- ▶ Retirees - the Western Bay's reputation as a retirement destination has in the past been based, besides climate and recreational opportunities, on factors such as a relatively low cost of living (including housing), ease of movement including low traffic densities and a safe community. If these advantages diminish as a result of future growth – or indeed are already diminishing, as for example with house prices, traffic congestion and street crime – the region could lose some of its attractiveness for tomorrow's retirees.
- ▶ Working age families - increasingly the modern two-parent family is a two working-parent family. Anecdotal evidence is that families with children relocating to Tauranga expect some drop in household income which they are trading off against lifestyle benefits and an expectation of a lower cost of living, including lower housing costs. In metropolitan New Zealand – Wellington and Auckland as examples – labour markets offer a wide range of employment choice for people with managerial, administrative and support level skills. This is not the case in the Western Bay where this type of employment is relatively scarce (a function of the fact that, generally, the Western Bay does not have the large corporates, public sector entities, or professional services firms that typify the Auckland and Wellington markets).

The likelihood is that a family migrating to the Western Bay will move when one partner has secured a job, and assume that the second partner will find a job after arrival. Another group, typically with professional skills of some kind, will locate here in the expectation of finding work only to discover that the local market is over supplied. The anecdotal evidence is that significant numbers of well qualified people become 'under employed' – that is, they find themselves working in positions that are less than full time, are below their skill levels and may be 'stop-start'. As one resource planning consultant expressed to us, a large number of people in Tauranga are working as 'consultants' and pushing down the hourly rates for entire industries.

If there is a significant mismatch between people's expectations and the opportunities (and incomes, including incomes relative to the cost of living) available locally – as strongly suggested in Waikato University's migrant survey – we can expect at least the following impacts over time:

- A perception of the Western Bay as a less attractive destination for those looking for both lifestyle and the opportunity to progress their economic goals.
- Potentially, over time, a tendency for inward migrants to move away out of the Western Bay and/or far fewer migrants to come if awareness of local conditions spreads.

It seems likely that in the case both of the retirement cohort and the cohort of two working-parent families shifting to the Western Bay, the balance of risk as far as continuing present trends is concerned is for a reduction – rather than an increase – in inward migration, as compared with projections.

From a land use planning perspective, this scenario may not seem a problem. A reduction in inward migration and population growth below projections implies a lower level of economic activity and a lesser demand for land for residential, commercial, industrial and other uses, together with less pressure on the environment. That, however, would not be the whole story.

A reduction in inward migration caused by the Western Bay becoming a less attractive destination implies, amongst other things:

- ▶ A less attractive future environment for the sub-region's retired population (implicit in any scenario which sees the Western Bay as a less attractive retirement destination).
- ▶ Not simply a reduced level of economic activity, but a continuation – perhaps a reinforcement – of the sub-region's status as a relatively low income economy, as higher skilled people judge the Western Bay as not offering sufficient job and income opportunities.

The 'Industry and Occupational Mix' Assumption

The NZIER projections are based on a series of methodological assumptions (see Sections 3.2.1 & 3.2.2 of the NZIER report). The migration assumption is the only one that has been identified as requiring independent assessment. The remainder are either standard methodological tools, based on historical data (such as productivity) or involve a judgement that appears to be a "best case" assumption. The assumption that health sector employment will move in tandem with government funding is one such.

Accordingly this report proceeds on the basis that shifts away from the industry and occupational mix projected by the NZIER report (other than as a result of changing migration patterns) will result only from external shocks – such as technological change in one or more industry sectors – or as the consequence of interventions designed to bring about change.

The possibility of such interventions is the subject of part four of this report. At this stage we simply make the general point that a shift towards a higher skill/higher income economy implies a greater reliance on knowledge and on industries that depend on ever higher levels of knowledge for their success. In the Western Bay this may mean new industries. Equally it may mean an increasing dependence on knowledge within existing industries (such as the primary sector).

We also want to make the point that a knowledge based economy is not an economy of the elite. Instead it is an economy in which levels of skill and

knowledge are generally higher. This point is well made in the Toronto Economic Development Strategy⁷:

"Just as the term 'high technology industry' has lost meaning as advanced technology penetrates every industry, so the term 'knowledge worker' will become increasingly obsolete as more and more of the labour force becomes involved in the generation, dissemination, and reception of knowledge. The knowledge-economy will become general."

2.1.3 CONCLUSIONS ON 'BASE CASE'

The fundamental conclusions to be drawn about the base case are that:

- ▶ On economic projections, the Western Bay sub-region will continue to grow but remain a relatively low income, low skill economy; and
- ▶ On demographic analysis, the sub-region may face a fall-off of migration, and reinforcement of the low income, low skill pattern of economic activity.

On a pure extrapolation of current trends, these two factors will be the drivers of the sub-regional economy over the coming 50 years – that is, these are the factors that will largely shape the outcomes.

This, and the consistent story that comes through from survey and anecdotal evidence, suggests that for those who remain in the Western Bay, employment choices and income levels could be less favourable than in other parts of New Zealand and, potentially, quite restrictive of the choices individuals might wish to make and of the social environment they would choose. This would be especially so if future lower migration and 'dragged-down' income levels are combined with rising costs in areas such as housing, transport and other infrastructure.

This is further reinforced by the fact of the Western Bay's higher-than-national rate of unemployment⁸, and hence weaker wage rate increases than elsewhere in the country. Generally, low-wage regions in New Zealand have lower growth rates in wages, while high-wage regions have high wage growth rates, ie the wage differential between lower and higher income regional economies has a built in tendency to keep growing.⁹ This partly accounts for the high persistence of lower-than-national-average wages in the Western Bay sub-region.

To change the outcomes, it is necessary to change the drivers. That is the focus of the remainder of this report.

⁷ "Toronto Economic Development Strategy", Toronto City Council, July 2000, pg. 10, www.city.toronto.on.ca/busiess-publications/ewnder_strategy.htm.

⁸ The reality is that Tauranga District has persistently higher unemployment than the national average (at the 2001 Census an unemployment rate of 9% as compared with 7.5% for New Zealand as a whole) but that unemployment in the Western Bay District has been lower (at the 2001 Census, 6.7%).

⁹ Choy, W, Mare, D and Mawson, P (2002) "Modelling Regional Labour Market Adjustment in New Zealand", NZ Treasury Working Paper 02/01, March 2002, pp 13-14, www.treasury.govt.nz.

2.2 Preferred Future

2.2.1 THE OBJECTIVE

The observation is made above that future employment choices and income levels would not change much under the long term projections that have been made, and may turn out to be less favourable than projected, lagging behind other parts of New Zealand – that is, if no interventions are made to alter this course.

A different scenario can be contemplated – one that represents a ‘preferred future’ and results from well-targeted interventions. In this part of the report we present a picture of a preferred future that focuses on the income levels and occupational opportunities people in the Western Bay would choose in 20 to 50 years’ time.

This would in reality be a complex mix of variables. It can be assumed that, given choices, people in the Western Bay would prefer:

- ▶ Higher rather than lower incomes
- ▶ More rather than less employment
- ▶ More rather than less satisfying jobs
- ▶ A wider rather than a narrower choice of recreational, cultural and artistic opportunities.

Achieving this would clearly involve a shift in relative incomes as between the Western Bay and the rest of New Zealand.

As noted above, the average wage in the Western Bay of Plenty is currently approximately 10% beneath the New Zealand average, skewed downwards by factors such as the industry and occupational mix and relatively high unemployment. For the purposes of analysis, we have assumed that the preferred outcome would be a sub-regional economy in which the average wage was in the order of 10% higher than the New Zealand average.

In discussion with key informants involved with this phase of the SmartGrowth work, we have found support for the broad objective of shifting from being a low wage economy to a higher wage economy, with the shift defined in terms of moving from 10% beneath to 10% above the New Zealand average wage.

The “10% above” is not a scientific measure. It is seen as an objective that would underpin the sub-region’s strengths in areas such as lifestyle and provide a strong base for future growth. It is also a measure that captures a spreading of the benefits of growth across the wider community. We have therefore used it as

a proxy for the preferred Western Bay economy of the future, and as a benchmark for a successful long-term outcome.¹⁰

Such an objective is clearly attractive. The real issues are:

- ▶ What would such an economy look like in practice?
- ▶ Is it achievable?

2.2.2 WHAT WOULD A “10% ABOVE” ECONOMY LOOK LIKE?

To get a sense of what a higher income, higher skill economy would look like, we set out to identify the characteristics of such economies that could be contrasted with the characteristics of the Western Bay economy now, and as projected for the future.

There is no hard and fast way to make this comparison as every region, district and city has its own unique make-up which will not neatly correlate with being high or low income.

We have used a combination of methods to make the comparison, from which it is possible to draw a reasonable picture of how the Western Bay would change in a shift to a higher income, higher skill configuration of economic activity.

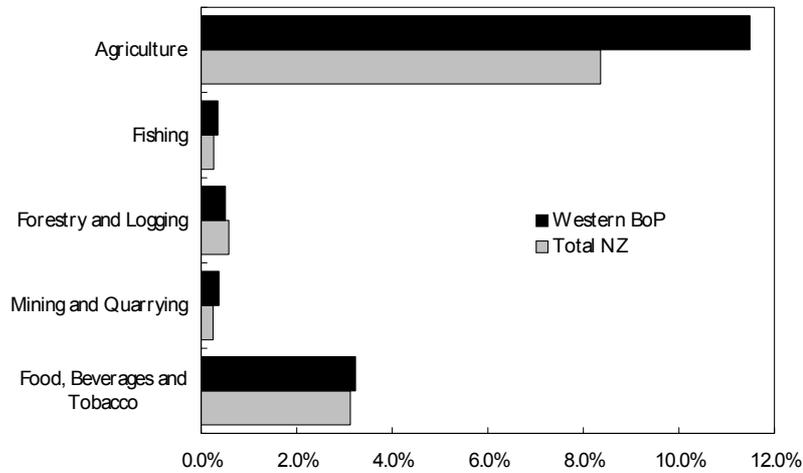
Industry Mix

The first comparison is industry mix. Here we repeat the three tables from the NZIER report that show the current employment distribution within the Western Bay as compared with New Zealand as a whole.

¹⁰ This is of course a ‘moving target’, as average incomes nationally can be expected to rise. It puts the focus on the Western Bay’s **relative** economic position, which is important to the Western Bay achieving the underlying relative attractiveness it will need to have if it is to offer benefits listed in the bullet points above.

Figure 1 Employment by industry: primary production and food manufacturing

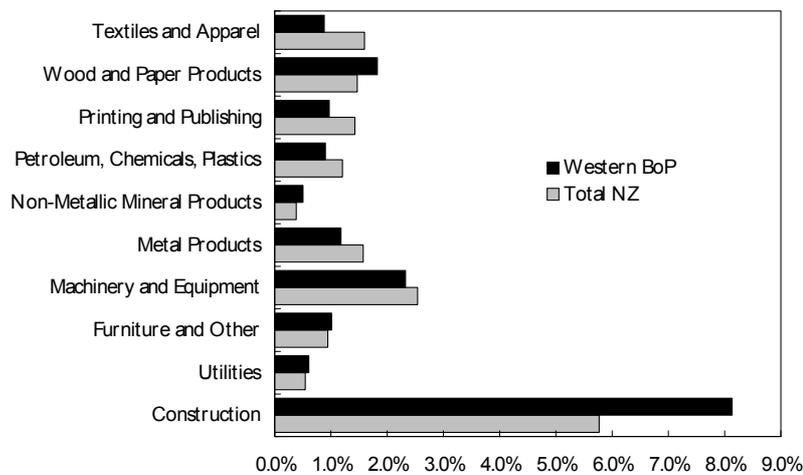
Per cent of total employment



Source: Statistics New Zealand, NZIER

Figure 2 Employment by industry: manufacturing and construction

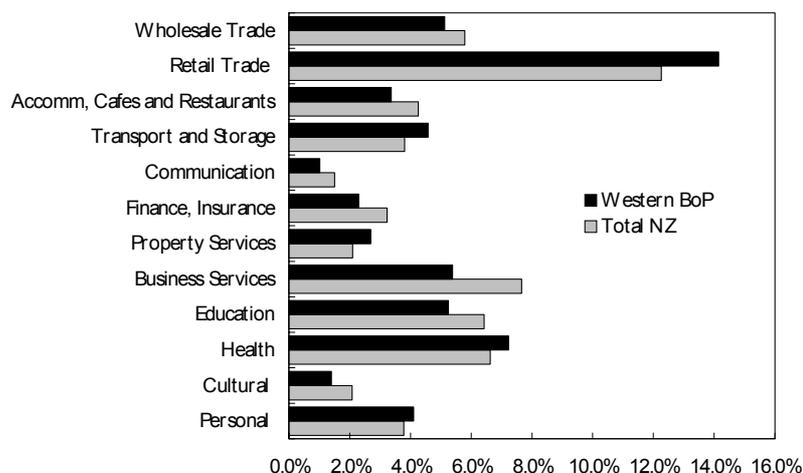
Per cent of total employment



Source: Statistics New Zealand, NZIER

Figure 3 Employment by industry: services

Per cent of total employment



Source: Statistics New Zealand, NZIER

Generally the picture is one of over-representation in low income sectors such as retail, transport and construction and under-representation in higher income industries such as finance and insurance, business services and education.

Unfortunately we do not have the direct income data by industry needed to provide a clearer understanding of the income implications of the industry employment data. Nor do we have occupational data by industry.

Incomes

What we do know, though, is that Western Bay incomes are, on average, significantly lower than for New Zealand as a whole.

This appears from the following information from the 2001 Census confirming the relatively low income status of the sub-region:

Tauranga District

- The median income of people in the Tauranga District is \$16,800, compared with \$18,500 for all of New Zealand.
- 56.9% of people aged 15 years and over in the Tauranga District have an annual income of \$20,000 or less, compared with 52.8% for New Zealand as a whole.
- 8.5% of people aged 15 years and over in the Tauranga District have an annual income of more than \$50,000, compared with 11.5% for New Zealand as a whole.

Western Bay of Plenty District

- The median income of people in the Western Bay of Plenty District is \$17,300, compared with \$18,500 for all of New Zealand.
- 56.2% of people aged 15 years and over in the Western Bay of Plenty District have an annual income of \$20,000 or less, compared with 52.8% for New Zealand as a whole.
- 9.8% of people aged 15 years and over in the Western Bay of Plenty District have an annual income of more than \$50,000, compared with 11.5% for New Zealand as a whole.

Information from the Census is supplemented by figures from Statistics New Zealand's quarterly household survey which, for February 2002, show the following average hourly earnings:

	Males	Females
Tauranga	\$18.06	\$14.96
Western Bay	\$15.83	\$15.14
All New Zealand	\$20.30	\$17.20

Occupational Mix

In order to gain some 'hard data' on occupational mix and incomes in higher income parts of New Zealand we looked for studies that would provide a comparative overview of a number of different geographic areas. From our research it appears that there is only one recent such study available, the *Big Cities* study undertaken by the City Councils of Auckland, Wellington, North Shore, Christchurch, Waitakere and Manukau. This study of urban economies looks at the industry and employment structure for each of the cities, alongside average hourly earnings.¹¹

¹¹ "Quality of Life in Big Cities of New Zealand" (2001), report prepared by Councils of Auckland, Christchurch, Manukau, North Shore, Waitakere and Wellington, www.bigcities.govt.nz.

The proportion of full time employees classified as technical and professional workers (highest average hourly earnings group) in each of the six cities is as follows:

City	% of Technical & Professional Workers	Average Incomes ¹²
Wellington	58.1%	\$21.26
Auckland	50.5%	\$19.54
North Shore	48.7%	\$17.14
Christchurch	40.5%	\$16.83
Waitakere City	36.2%	\$15.81
Manukau	34.2%	\$17.69
All New Zealand	32.7%	\$16.34

The table shows a quite strong association between the percentage of the labour force in the professional and technical categories and average hourly earnings, even although the data is at a relatively crude level. Further explanation for the differences in income levels is given in the following quotation from the Big Cities report:

"In the rest of New Zealand, 42.5% of the full time employed labour force is in elementary occupations, primary sector or trades. Only about one-fifth of the labour forces of Auckland and North Shore in 1996 were in these areas, and just 13.1% of Wellington. In Manukau, Waitakere and Christchurch these areas account for around a third of the labour force. Manukau had the highest proportion of those in elementary occupations at 19.8%, reflecting Manukau's manufacturing base and lower qualification levels in its population. Waitakere and Christchurch also have relatively higher levels of people with no qualifications. Those in part-time employment across the six cities and the rest of New Zealand are more likely to be working in the clerical and service sectors." [page 69]

That provides some support for the proposition that if Western Bay incomes are to rise relative to those in the rest of New Zealand then there will need to be a shift in occupations towards the technical and professional categories – in other words away from lower income and lower skilled occupations.

Qualitative Features of Higher Income Cities - and Regions

To add to our understanding of what a higher income economy might look like we searched offshore for material on successful cities and on the aspirations that other cities were setting for themselves.

¹² Hourly rates for 1999.

From the US we found a 2001 report *Geography of the New Economy* published by the Progressive Policy Institute, a Washington based think tank. The following excerpt provides a good insight in to what has been happening occupationally under the pressure of economic transformation:

"Places like Phoenix and Los Angeles are sprawling outward, but because they are gaining population, overall densities are going up. In contrast to this 'dense sprawl', places like Rochester, N.Y., and other slow-growth metropolitan areas can be characterized as 'thinning metropolises', where low-density exurbs continue to develop even as the population remains constant (or, as in the case of places like Buffalo, N.Y., even declines). In the New Economy, dispersed development is the dominant spatial form in virtually all areas.

But it's not just the spatial order of economic activity that the New Economy has transformed; it's also the industrial and occupational order. Because of superior productivity, in the last two decades manufacturing employment has declined as a share of total jobs and now accounts for only 14 percent of total employment. But in the 50 largest metro areas, its share is even less -- only 11 percent of jobs.

With the relative decline in manufacturing employment, the economy has specialized in high-tech and business services (e.g., banking, consulting, insurance). Office jobs now account for over 40 percent of all jobs, while managerial, professional, and technical jobs account for almost 30 percent of employment. But these activities are even more concentrated in metro areas. While the 114 largest metro areas account for 67 percent of all jobs, they account for 81 percent of high-tech employment, and 91 percent of Internet domain names (e.g., dot coms). Between 1988 and 1997, urban counties of large metropolitan areas (over 1 million in population) have seen advanced business services jobs increase by 21 percent, and high-tech by 24 percent, while their suburban areas have seen increases of 39 percent and 43 percent, respectively."¹³

From Liverpool in England came this assessment of what is driving the modern city (from a report on the Liverpool Ropeworks Regeneration: The Creative Quarter and the Integrated Action Plan):

"Creativity is not restricted to cultural activities. However, successful cities are now concerned with the trade in knowledge and information, and the ability to deal with the production and distribution of symbolic goods. This ability has to be learnt. In this, formal education and training has its place and is integral to the delivery of the IAP and the strength of the creative industries in the area. So do the dense networks that configure city cultures. Liverpool was built on trade. The trade in manufactured goods has largely disappeared and has given way to trade in knowledge, information, culture - Liverpool is in the middle of its long process of re-inventing itself in this new world. Part of this process of re-invention is the emergence of new cultural industries - defined as widely as possible - and it is

¹³ Atkinson, D and Gottlieb, P (2001) *"The Metropolitan New Economy Index"* Progressive Policy Institute, Introduction, www.ppi.online.org.

*cultural industries more than any other that thrive in the zones of innovation represented by the city fringe.*¹⁴

We then looked across the Tasman to Brisbane – in many ways one of the Western Bay’s closest competitors in the lifestyle based competition to be a preferred location. From its economic development strategy we found the following vision:

*"By 2011, economic activity in Brisbane will be characterised by expanding, globally competitive enterprises, with high demands for skilled labour and technology. The private sector will operate in a supportive environment with excellent links with government, finance, education and training, and research institutions. Brisbane residents will share in this prosperity and continue to enjoy a high quality urban environment and a superior lifestyle."*¹⁵

In our work we have been conscious that most of the recent research and literature on economic development is concerned with cities or city-regions. The Western Bay sub-region is best thought of as an urban/rural mix so that it is important to avoid assuming that research based on cities or city-regions automatically applies to a mixed urban rural economy of the Western Bay type. Accordingly, we also reviewed research on rural and community development to determine whether the same types of aspirations were common in less urban settings.

The North East Regional Centre for Rural Development at the Pennsylvania State University operates a major research programme with the mission of *"Contributing to the well being of small towns and rural communities"*. Its Rural Development Paper No. 6 *"Community Vitality: Some Conceptual Considerations"* overviews quite a wide range of research on rural and community development. In a discussion of change it speaks in a manner very similar to the city-region based studies just cited, commenting that:

"Authors have addressed the sorts of resources and capacities hypothesised to enhance a community’s ability to respond to changing conditions. These include development of human capital (workforce skill development, leadership, decision making capacity, entrepreneurship), physical capital (health care, education and information technology infrastructure, affordable housing), social capital (capacity to ‘network’, establish partnerships both within and outside of the community), and natural capital (sustainable, diverse and economically viable use and development of agricultural and natural resources). Emphasis on change also suggests that community vitality as a concept implies both structure and process."

2.2.3 CONCLUSION

None of the material we have canvassed provides us with some kind of magic formula we can use to provide a clear description of exactly what a high skill high

¹⁴ Lovah, A (1998), *"Liverpool Ropeworks Regeneration. The Creative Quarter and the Integrated Action Plan"*, Manchester Institute for Popular Culture, www.mmu.ac.uk/h-ss/mipc/BDP.htm.

¹⁵ *"Economic Development Strategy for Brisbane"* (1999), Brisbane City Council, www.brisbane.qld.gov.au.

income society will look like in the Western Bay, especially as the Western Bay is a mixed urban/rural area rather than being predominantly urban as are the various cities the subject of research above.

Nonetheless some common themes emerge. A high skill high income Western Bay is likely to:

- ▶ Have a much higher proportion of professional and technical workers
- ▶ Be more reliant on trade in knowledge and information than on physical goods (although much of that knowledge and information may be embodied in physical goods)
- ▶ Have a heavy reliance on technology.

This implies a quite different industry structure and occupational mix either from that which is current in the Western Bay or is likely to be present in the future, at least without either:

- ▶ A significant departure from present industry employment and population projections – in other words, the emergence of major trends not currently evident within the Western Bay economy, or
- ▶ Significant and effective intervention to drive change.

2.3 A Final Thought – So What?

This section has made much of the fact that average incomes in the Western Bay of Plenty are significantly below New Zealand averages. The report has suggested that closing this gap – indeed shifting the Western Bay of Plenty economy to an above average level – may be seen by the community as a desirable objective.

There is an alternative view. Many might respond to this analysis by saying “so what?”. Average incomes may be 10% beneath the New Zealand average but the quality of life is a lot better and the costs – both financial and otherwise – of living in the Western Bay of Plenty are significantly less than those in (say) Auckland or Wellington. Maybe the somewhat lower income level is a perfectly acceptable trade-off (although people might still have lingering doubts about the persistence of an unemployment rate that tracks at about 1.5% higher than the New Zealand rate).

For those who might take that attitude, there is one very real note of caution. When thinking about the future of the Western Bay of Plenty economy, we need to think not just about relativity with the rest of New Zealand, but about the place of the New Zealand economy internationally and what that means – not just for New Zealand but for the Western Bay of Plenty itself.

Consider the recent comments of Robert Wade, one of the speakers at last year’s Knowledge Wave Conference, 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 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."

Let's be practical about what he is saying. If the New Zealand economy does follow the track he outlines, the implications are very real. As examples, our ability to afford the type of health care and education we want will go. New Zealand will simply be unable to pay the salaries needed to attract and retain the kind of professionals we need – and it is not just a matter of salaries. Good people in fields like health care and education want to be able to work at the cutting edge of their profession. This means not just being able to pay competitive salaries. It means being able to provide the kind of facilities and invest in the sort of technology that their colleagues are using elsewhere.

What this means is that our ability to protect our essential social services is critically dependent on lifting our game in economic performance. This is not something that can be left to Wellington-based bureaucrats or politicians to achieve. Stopping the rot – reversing New Zealand's relative decline in economic performance – will only happen to the extent that each region and locality in New Zealand is able to lift its own game. After all, the relative decline of New Zealand in economic performance is no more than the sum total of the relative decline of each region.

PART 3 • WHAT RESEARCH, LITERATURE AND EXPERIENCE TELLS US

3.1 Introduction

The purpose of this part of the paper is to provide an overview of the international research and experience as a basis for considering what kinds of interventions, within the Western Bay economy, offer promise of improving economic growth and thus choice and opportunity.

New Zealand is virtually unique amongst developed Western nations in that for much of the 1980s and all of the 1990s it had a very minimal focus on regional economic development. There was very little local research into, or development of strategies for, either regional or national economic development. The practical consequence is that, in order to assess what kinds of interventions – and by whom – might be effective to improve economic growth, we need to look overseas and draw on international experience and understandings to inform local strategy development.

New Zealand is set to follow trends already in evidence overseas. The literature is therefore a good guide to what we might expect to see, and want to see happen, here.

The real shift going on in New Zealand is away from the predominant approach of the late 1970s and early 1980s of assuming that the appropriate strategy for regional economic development was a mix of industry and firm specific incentives – grants, tax incentives, subsidised loans, etc. That was an emphasis that relied on attracting **firms** by artificially **reducing their costs**, rather than on understanding the basic drivers of economic development, particularly as developed economies, generally, were moving from a production base to a knowledge base as the dominant influence in growth.

There is now a very rich source of material internationally looking at what drives economic development in a world in which knowledge is increasingly recognised as the critical resource. For this report, we have been able to draw on a very extensive mix of research publications from academics, think tanks and international organisations, particularly in North America and in Europe. We have also been able to draw on some very well developed and thought-through economic development strategies from mega-cities such as Toronto in Canada to small regional cities such as Thuringowa in North Queensland.

A common theme emerges from the great majority of that material. In today's environment, the regions that are succeeding economically are those that are most able to attract and retain highly skilled individuals – people with high levels of human capital developed through a combination of (usually) advanced tertiary study and work experience. This is a dramatic shift from the firm-based economic development strategies of the 1970s and 1980s. How dramatic can be

seen in the following statement by Carly Fiorina, the CEO of Hewlett Packard, to the US National Governors Association in 2000:

"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."

The immediate issue for SmartGrowth is whether this extensive volume of international research and experience can be directly applied to the Western Bay of Plenty. Most of the international material is based on the experiences of large urban concentrations. The emphasis is on the importance of the city-region as a player in a globalising world in its own right.

The typical subject of the research and experience dealt with in the material we have considered, is a city that has a population well in excess of a million and is usually the centre of a region of two or three million. It is well endowed with tertiary facilities (one or more significant universities and research institutions), cultural, artistic and recreational resources, and has a per capita income above the average for the state or national political unit of which it is a part.

A closer consideration of the international material suggests that it is indeed highly relevant to the Western Bay of Plenty despite the obvious structural differences between its economy and those of the major city-regions that are the subject of most of the international research. Effectively, what the international material is saying is that:

- ▶ Increasingly, incomes and economic activity are following people with high human capital.
- ▶ Those regions that are succeeding are those that are best able to attract (develop) and retain people with high human capital.
- ▶ Conversely, people and regions with relatively low skill levels, or dependent on production-based rather than knowledge-based economies will see their incomes and their economic opportunities continue to decline, certainly in relative terms.
- ▶ This will be the inevitable consequence of the continual downward pressure on costs in production-based economies and occupations.

As will also be seen, research on rural and community development raises similar concerns – emphasising the importance of highly skilled people, infrastructure and quality of life as the key drivers of economic growth.

3.2 A Context for the Literature

The literature is of particular value for its coverage of the ways other places are dealing with the intensifying competition among regions for people – specifically, people with 'high human capital'. These are people with the training, skills and

know-how needed for the emergence and growth of innovative, high productivity industries and who are a key focus of our paper.

We start by putting the review of literature in context by looking at the response of the City of Toronto. It is the largest city in Canada and one of the five largest in North America, and the centre of much of Canada's financial and manufacturing activity. Selected excerpts from its economic development strategy provide both a sense of how dramatically the world environment for regional economies has changed, and the importance now placed on people with high human capital and the resources needed to attract/retain them. The Toronto Economic Development Strategy¹⁶ is the best example we have found of a local authority adopting the best of contemporary research into its approach and plan.

From the introduction to the strategy:

"The City of Toronto is at a critical juncture. It is faced by massive change, both local – such as government restructuring and changing financial responsibilities, and global – such as globalization and rapid technological advancement. The structure of the economy, the nature of competitiveness, the role of cities, technology, business organizations – all of these things have been through nothing short of a revolution in the last few years. We need a parallel revolution in our thinking, models and approaches to economic growth – to position Toronto as a North American leader in this new context. The status quo is not an option if the City is to maintain and improve the quality of life for its residents."

From the strategic directions/action section:

"PEOPLE POWER THE KNOWLEDGE ECONOMY

Strategic Directions

A. Developing Knowledge and Skills

Develop, retain and attract the best and the brightest labour force for all job levels by establishing Toronto as a model for continuous learning, technical and professional development. Ensure City residents and labour force have the opportunity to acquire the knowledge and skills necessary for personal and corporate success in a knowledge based economy.

Action Areas [Selected]

1. Basic, Technical and Professional Development

Ensure access to best quality, relevant education and training programs by improving linkages between business and universities, colleges, and private training institutes and service providers.

5. Embrace Arts & Culture

Celebrate and support arts and culture as a key industry within the City and as the epicentre of creativity that inspire ideas and innovation in many fields and an important factor in retaining and attracting knowledge workers.

6. Architecture, Urban Design And Built Form

Increase attractiveness of Toronto as a place to live, visit and invest by improving overall quality of built form throughout the City."

¹⁶ Toronto City Council, 2000.

We now overview the research and literature itself, drawing out the findings and analysis that underpins the current approach to regional economic development exemplified by the Toronto strategy, with a particular eye to pointers for the Western Bay. We also look at some examples, of relevance for tangata whenua, of the experience of indigenous peoples.

3.3 Overview of the Literature

We have organised our overview around the following key areas:

- Section 3.3.1 Human Capital
- Section 3.3.2 Social Capital
- Section 3.3.3 Clusters
- Section 3.3.4 Regional Learning
- Section 3.3.5 University Engagement
- Section 3.3.6 Planning
- Section 3.3.7 Regeneration
- Section 3.3.8 Regions
- Section 3.3.9 Indigenous Peoples.

These factors are interlinked and the complex set of relationships that form around and between them can either help or hinder economic growth. One lesson that emerges from the literature is that the key to success in the Western Bay, will be understanding the specifics of the regional economy. This will enable us to look out through this understanding at the concepts and factors being applied elsewhere (rather than applying international success stories, slightly adapted for size, to the Western Bay!).

We present our findings mainly in bullet form but with extensive references to original sources. We follow them with some practical illustrations of how different localities are using these new insights in their own planning.

3.3.1 HUMAN CAPITAL

- ▶ Human capital can be defined as "*the knowledge, skills and competencies and other attributes embodied in individuals that are relevant to economic activity*".¹⁷ It is measured empirically as the store of formal knowledge that an individual has acquired at the tertiary level. It is strongly correlated to average income and is becoming increasingly important over time as the economy shifts gears into a 'knowledge society'. This is demonstrated in the results of New Zealand research conducted by Sholeh Maani¹⁸ measuring the social and private returns to secondary and higher education. It revealed two important things:

¹⁷ Schuller, T (2000) "*The Complementary Roles of Human and Social Capital*", international Workshop on the Contribution of Human and Social Capital to Sustained Economic Growth and Wellbeing, OECD, Quebec.

¹⁸ Maani, S (1999) "*Private and Public Returns to Investments in Secondary and Higher Education in New Zealand over Time: 1981-1996*", NZ Treasury Working Paper 99/2, www.treasury.govt.nz.

- Returns to all educational qualifications were significantly higher in 1996 than they were in 1981 and
 - The average income of both males and females over their lifetime is significantly greater when they have a tertiary qualification.
- ▶ A wide range of private and non-market benefits have also been associated in the literature with higher education. Examples include:
- A greater ability to take initiative and develop and adapt to technological change in the workforce.
 - Improved health status of the individual and their family.
 - Improved educational attainment of children.
 - Greater efficiency of consumer choices (impacts on wellbeing in a similar way to income).
 - Informed fertility choices.
 - Democratisation, human rights and political stability.
 - Reduction of inequality in income distribution.
 - Positive environmental impacts.
 - Reduction of crime.
- ▶ Learning as a component in current thinking on regional growth is not just limited to the concept of 'human capital'. It will be discussed further under 'Regional Learning' and 'University Engagement'.
- ▶ The effective functioning of the new 'Knowledge Economy' requires more than just people with tertiary qualifications. It requires a framework in which to operate in an economically effective manner. *"The latest equipment and most innovative ideas in the hands or mind of the brightest, fittest person, however, will amount to little unless that person also has access to others to inform, correct, assist with, and disseminate their work."*¹⁹

3.3.2 SOCIAL CAPITAL

- ▶ Social capital seems to be as widely applied as it is variously defined. It is referred to as 'stocks of social trust, norms and networks that people draw upon to solve common problems.'²⁰ It is also sometimes seen as a measure of social cohesion. James Coleman gives this definition, *"Social capital is defined by its function. It is not a single entity but a variety of different entities, with two elements in common: they all consist of some aspect of social structures, and they facilitate certain actions of actors - whether persons or corporate actors - within the structure."*²¹ The best current New Zealand source on social capital is a recent Institute of Policy Studies publication, Robinson, David (ed.) (2002) *"Building Social Capital"*.

¹⁹ Woolcock, M (2000) *"The Place of Social Capital in Understanding Social and Economic Outcomes"*, Development Research Group, The World Bank, pg 7, www.hrdc-drhc.gc.ca/stratpol/arb/conferences/oecd/place.pdf

²⁰ Sirianni, C and Friedland, L *"Social Capital"*, Civic Practices Network, www.cpn.org/sections/tools/models/social_capital.html

²¹ Schuller, T (1996) *"Social and Human Capital: Twins, Siblings or Rivals?"*, paper submitted as part of ESRC/EU conference on Lifelong Learning, Newcastle, <http://www.leeds.ac.uk/educol/documents/00000423.htm>

- ▶ Social capital requires attention to be paid to the relationships that shape the realisation of human capital's potential for the individual and collectively.²² It is the essential partner of human capital as it facilitates the translation of raw information or even highly developed knowledge into the complex set of networks that is required to gain economic benefit.
- ▶ Knowledge in itself does not create economic growth; knowledge and skills have to be used. Work must be organised in a way that utilises competencies. The effectiveness of human capital depends on the labour market and organisation of enterprise.²³

3.3.3 CLUSTERS

- ▶ The geographical proximity of firms impacts on their ability to exchange information and knowledge. *"Cluster is a universal concept, which materialises always as an economic sub-system with unique properties. Clusters are inherently different between countries (or regions), between technological areas, and ultimately between individual clusters themselves."*²⁴
- ▶ The success of cluster formations is dependent on comprehensive formal and informal networks or social capital. *"Without the formation of social capital linkages of this kind systematic innovation cannot evolve, institutional assets remain un-leveraged and learning is impeded."*²⁵
- ▶ *"The particularities of clusters are highly attuned to market transactions, clusters are difficult if not impossible to design by policy, especially from a zero base and have certain demands for collective action ..."*. They require capabilities in linkage, leverage and learning.²⁶

3.3.4 REGIONAL LEARNING

- ▶ *"Learning regions are virtuous systems of innovation. Elements of knowledge produced and disseminated through interaction are tacit and embedded in particular local milieus."*²⁷ Access to such knowledge depends upon participation in the local system.
- ▶ The capacity of individuals and organisations to engage successfully in the learning process is a crucial determinant of economic performance. *"The main argument to be advanced is that differences in national or regional capabilities to contribute to the competitiveness of firms should be seen*

²² Schuller, T (2000).

²³ *"Cities and Regions in the New Learning Economy"* (2001), OECD, www.teac.govt.nz/documents/citiesreg.pdf

²⁴ Guinet, J (2001) *"Boosting Innovation: The Cluster Approach"*, Kiel Institute of World Economics International Workshop: Innovation Clusters and Interregional Competition. OECD, Paris.

²⁵ Cooke, P (2001) *"Regional Innovation and Learning Systems, Clusters, and Local and Global Value"*, Kiel Institute of World Economics International Workshop: Innovation Clusters and Interregional Competition, OECD, Paris.

²⁶ Cooke P (2001).

²⁷ *"Cities and Regions in the New Learning Economy"* (2001).

*primarily as the result of territorial specific differences in the ability to create and use knowledge”.*²⁸

- ▶ It requires the ability of both individuals and organisations to learn continuously. *“Learning (like innovation) is interactive and institutional learning involves interaction between knowledge brought to the situation and understanding of what is new about the situation it has to be a continuous, cumulative process”.*²⁹
- ▶ Of central importance is the idea that ‘learning regions’ and ‘learning cities’, which are essentially well attuned to the requirements of the new economy, may be fostered through appropriate strategies of public and government intervention. The following policies are suggested as ways of achieving this:

 - Ensuring a well-resourced educational provision that passes on effective skills for life-long learning.
 - Coordinating the supply of skilled and knowledgeable workers with demand in the regional economy.
 - Establishing appropriate framework conditions and incentives necessary for firms to engage in organisational learning (e.g. business support services).
 - Stimulating within firm learning (providing grants for innovation).
 - Facilitating universities and other tertiary institutions in the production of knowledge appropriate to the regional economic circumstances and promoting them so that firms are aware of them and recognise their significant value.
 - Changing institutions that prevent the above from occurring (regulations, attitudes and norms) .³⁰

3.3.5 UNIVERSITIES

- ▶ Universities can make a far more substantial contribution to the economic development needs and viability of regional communities beyond that of being a simple employer and local purchaser.³¹ The full value of the University’s contribution to the social capital of the region will occur when there is full engagement between the knowledge production and distribution objectives of the institution and the societal objectives of the regional community.³²
- ▶ In Australia, significant research has been undertaken by the Commonwealth Department of Education, Science and Training into how Universities can contribute to regional development. Engagement was first considered in the context of the teaching, research, leadership, infrastructure, information and

²⁸ Maskell, P and Malmberg, A (1995) *“Localised Learning and Industrial Competitiveness”*, BRIE Working Paper 80.

²⁹ Cooke P (2001).

³⁰ *“Cities and Regions in the New Learning Economy”* (2001).

³¹ Garlick, S (1998) *“Creative Associations in Special Places”*, DEST Australia 1998. www.dest.gov.au/archive/highered/eippubs/eip98-4/execsum.htm.

³² Garlick, S (2000) *“Engaging Universities and Regions”*, Commonwealth Department of Education, Science and Training, www.dest.gov.au/highered/eippubs2000.htm.

marketing and promotion of activities of universities from a general institutional point of view. The conclusion of the first report was that knowledge-based engagement was occurring at some levels, but there was a long way to go in the design and delivery of initiatives to encourage universities to focus on regional outcomes rather than on their own student intake and research dollars input. The second report was commissioned to identify knowledge-based regional economic development outcomes that can be generated through engagement before resources were allocated to that area. Findings of this second report are:

- A greater focus needs to be placed on graduate regional labour market outcomes by both universities and regions.
 - Specific initiatives that regions and campuses undertook in partnership to formulate, pursue and achieve economic development priorities were the most effective.
 - Social capital engagement outcomes were seen in terms of leadership, and strategic direction, teaching and research contributions, infrastructure and information and promotion.
 - University staff need recognition, rewards and incentives to pursue regional engagement objectives.
 - Government funding needs to be directed to assist campuses to engage with regions.
 - Regional communities need to be clearer about the terms on which they wish to pursue regional development objectives so that the university can provide leadership and strategic direction.³³
- ▶ Similar research and moves are currently being undertaken in the United States, Britain and Canada to engage universities directly in economic development. For example, a group of Philadelphia-area universities and economic-development organisations have begun programmes to "*vault the area into the top tier of 'knowledge regions' in the country*".³⁴ A comprehensive benchmarking study of the knowledge industries was undertaken to gain a better understanding of the area's colleges and universities and how they could contribute to the region's economic competitiveness. Three strategies were put forward as a result:
- Grow the talent base through marketing, strategic expansion of existing institutions, a new research institution, and youth-oriented amenities to attract knowledge workers.
 - Grow the idea base (research alliances with institutions & private sector leaders, strategic industry-academic consortium, establish endowed chairs).
 - Build the identity and image of Philadelphia's knowledge industry (maximise R&D, market region as knowledge hub).³⁵

³³ Garlick, S (2000)

³⁴ Key, P (2000) "*Coalition Kicks Off 'Knowledge Region Initiative'*", Philadelphia Business Journal, October 2000, <http://philadelphia.bcentral.com/philadelphia/stories/2000/10/30/daily7.html>.

³⁵ "*Greater Philadelphia's Knowledge Industry: Leveraging the Region's Colleges and Universities in the New Economy*", (2000), Pennsylvania Economy League, Eastern Division, www.peleat.org/pubs2.htm

- ▶ In Western Canada regional growth planning also recognises that the 'new economy' is knowledge based. Consultation turned up "*repeated stress on the growing importance of universities to both economic prosperity and the global profile of cities. Universities are the magnets of the new economy that can attract and retain highly mobile firms and individuals. Their importance goes beyond their educational role; universities are seen as indispensable assets in economic development and retention strategies.*"³⁶

3.3.6 PLANNING

In this section we draw on the literature on urban planning. We note that this term does not refer just to the planning of major metropolitan centres. It applies to centres large and small and has been used very effectively for quite small population centres. Many of the insights from urban planning are applicable not just to Tauranga as the largest centre in the Western Bay, but to population centres such as Te Puke, Katikati and Waihi Beach.

- ▶ "*Urban Planning refers to the institutionalised process of making decisions about the future use and character of land and buildings in city regions.*"³⁷ "*Urban Planners influence the social, physical and economic environments and how cities function. They therefore have a key role to play in addressing these problems and securing conditions in cities conducive to health and well-being and a high quality of life.*"³⁸
- ▶ Cities are viewed as part of an interlinked system. Cities are seen to have a large positive impact on the region, especially when they:

 - Represent centres of learning and education.
 - Form a focus for knowledge transfer and innovation.
 - Provide significant employment prospects over a wide area.
- ▶ In Britain, this view of cities underpins the following 'Vision of Urban Living':

 - People shaping the future, strong truly representative leaders.
 - Attractive, well kept towns.
 - Good design and planning, environmentally sustainable growth.
 - Towns able to create and share prosperity.
 - Good quality services.³⁹
- ▶ The keys to developing this vision are seen as:

 - Recognising close links between housing, health and education.
 - Developing mixed, sustainable communities (e.g. the community has access to amenities within walking distance).

³⁶ Gibbons R (2001) *Building the New West – A Framework for Regional Economic Prosperity*. Canada West Foundation, www.cwf.ca.

³⁷ Barton H and Tsourou, C (2000) "*Healthy Urban Planning*", Spon Press, London.

³⁸ Barton H and Tsourou, C (2000)

³⁹ "*Our Towns and Cities: The Future. Delivering an Urban Renaissance*" (2000), Department of Transport, Local Government and the Regions, <http://www.regeneration.dtlr.gov.uk/policies/ourtowns/cm4911/index.htm>.

- Provision of additional resources for education, health, transport, housing, criminal justice, leisure, culture and sport.
 - Brownfield and empty building development.
 - Package of national taxation measures to increase investment in urban areas (e.g. tax credits for cleaning up contaminated land).
 - New planning policy guidance and review of planning obligations.
- ▶ The aim is to have policies and programmes put in place that will help each area identify its future role in the regional and national economy and develop and implement a strategy to tackle weaknesses and build on strengths. Three ways that this aim can be achieved in English towns and cities are suggested:
- Better planning;
 - Bringing previously-developed land and empty property back into beneficial economic or social use; and
 - Encouraging local authorities and others to look after the existing urban environment better and work to improve it further.
- ▶ The approach to implementation of the above strategies is to use local partnerships (private sector, voluntary sector and local government). Businesses are provided with a range of fiscal and other incentives to participate.

3.3.7 REGENERATION

- ▶ The concept of joined up policies/people and a strong partnership approach is evident across England, United States, Australia and Canada.
- ▶ In England, implementation of programmes is based on the philosophy that the people who live and work in the neighbourhood should be involved in deciding how it develops. For example, Local Strategic Partnerships with local authorities, businesses, voluntary organisations and community groups play a central role in developing Community Strategies. There is also a Community Development Fund available to build the capacity of people who are often excluded, so that they can participate.
- ▶ Work is currently being done on how to improve the planning process. Key themes include speeding up decisions on planning applications; cutting some layers out of the development plan system so that it is quicker and more responsive to change; making local people feel involved in the system; and better performance from local planning authorities. Good practice in urban design and sustainable building is being encouraged through seminars held throughout the country.
- ▶ Research is being conducted into how voluntary partnerships with business for local improvement could be arranged in a successful and sustainable manner. Six local authorities that have been recognised as centres of excellence on town centre regeneration have been awarded Beacon Status and so will help other councils by sharing their good practice experience.
- ▶ In some places where physical changes are needed, Urban Regeneration Companies has been formed. By bringing together the local authority, Regional Development Agency, the private sector and other key

organisations, the companies make sure their considerable effort is properly pooled and directed.

- ▶ A number of programmes have been developed to combat social exclusion. These range from Learning Zones, which provide homeless people with the opportunity to improve their skills, to transportation strategies, childcare provision and health action plans.⁴⁰

3.3.8 REGIONS

The work of urban economists such as Ed Glaeser⁴¹ and Richard Florida⁴² has gained widespread recognition for the idea that it is increasingly the quality of life a city or region can offer that determines its success in economic development.

The Canada West Foundation in its work⁴³ on the Western Cities Project has drawn extensively on research literature making the point that in today's globalising world it is city regions rather than nation states that are the key players in international trade – through the networks of which they and their citizens are part and through the unique locational advantages that successful city regions offer.

The concept of city-region encompasses both the urban centre or centres itself and the surrounding hinterland. It sees the two as interdependent with the city being a far more significant support base for its rural hinterland, both domestically and in international trading and other relationships, than the nation state. It recognises that the important networks and other informal relationships that underpin trade and other economic relationships increasingly are more often city to city or city-region to city-region than they are country to country.

3.3.9 INDIGENOUS PEOPLES

This report has been written on the assumption that tangata whenua will wish to play a pivotal role in economic development in the Western Bay of Plenty. The report also assumes that the tangata whenua interest will be expressed in a number of ways, from partnership in the development of overarching economic development strategies for the sub-region as a whole, to initiatives that are specific to tangata whenua themselves.

In this latter respect, there may be useful precedents from experience elsewhere with economic development for indigenous peoples. Canada provides some particularly interesting examples. This report looks at two.

⁴⁰ "Our Towns and Cities: The Future. Delivering an Urban Renaissance. Implementation Bulletin 2001"
Department for Transport, Local Government and the Regions,
<http://www.regeneration.dtlr.gov.uk/policies/ourtowns/action/bulletin/implong.htm>.

⁴¹ Glaeser, E & Others (2000) "Consumer City", Harvard Institute of Economic Research Discussion Paper Number 1901.

⁴² Florida, R (2000), "Competing in the Age of Talent: Environment, Amenities, and the New Economy", report for the R.K. Mellon Foundation, Heinz Endowments, and Sustainable Pittsburgh.

⁴³ See, as examples, "GLOCALISM: The Growing Importance of Local Space in the Global Environment and Building Better Cities: Regional Cooperation in Western Canada", available at www.cwf.ca

The first is the use of what are known as Community Futures Development Corporations (CFDC). These are established under the wing of a Federal Government department, Western Economic Diversification Canada, but are community based. Critical elements defining a CFDC are:

- ▶ CFDCs are independent, locally based, non-profit corporations.
- ▶ Their operations are driven by community needs.
- ▶ They involve multi-stakeholder collaboration.
- ▶ Emphasis is placed on local strategic planning.
- ▶ Initiatives are tied to these strategic plans.
- ▶ CFDCs are governed by volunteer boards.
- ▶ Responsibility for the operation of the CFDC is centred at the community level.

Services provided by CFDCs include business development loans, technical support, training and information. As well as business development, CFDCs involve themselves in a wide array of community initiatives, including strategic planning processes, research and feasibility studies, and the implementation of a diverse range of community economic development projects. A number of CFDCs have been based on one or more communities of First Nations people.

From descriptions provided of their activity, CFDCs in some respects have the appearance of a community owned development bank. In the seven years from April 1995 to April 2002, CFDCs made 13,450 loans worth almost \$C330 million which created or maintained about 40,000 jobs and leveraged a further \$C502 million from other sources.

A second example is the Pan-Inuit initiative, triggered by the offer from the Canadian Federal Government to Inuit Nations of the possibility of joint venture partnership in a major infrastructure project. Not only did the offer trigger the establishment of the Pan Arctic Inuit Logistics Corporation to serve as a joint venture vehicle; it has also resulted in a range of other activities beneficial to Inuit collectively.

3.4 Some Practical Applications

We draw on three urban examples, Toronto, Brisbane and Thuringowa, then consider a similar perspective from work on rural and community development, and finally look at two examples of indigenous peoples initiatives from Canada.

Toronto

The following extract from Toronto's Economic Development Strategy is a clear statement of how one city sees the impact of the shift to a knowledge economy:

"This more recent phase of economic restructuring has been characterized by a transformation to a knowledge economy. As the more routine manufacturing and mature industry functions relocate to low-cost locations or fall victim to automation and new technologies, it is clear that the future quality of life in advanced economies depends upon upgrading and moving the economy towards a concentration in high value added activities. These activities can occur in any industry – such as clothing design or speciality manufacturing to high order services such as corporate banking. The key is to focus on the high order, innovation based, high productivity activities in each industry. Increasingly, our economic vitality, and in turn our quality of life, depend upon making a successful transition to a knowledge economy." [page 9]

Brisbane

Brisbane is potentially a major competitor to the Western Bay and for that matter to the whole of the Auckland super-region in the race to attract individuals with high human and financial capital based on the quality of the lifestyle it is able to offer.

As expressed in its economic development strategy, Brisbane is supremely confident about its lifestyle attraction:

"A key Brisbane strength has been seen as attractive lifestyle and high quality environment. This strength is unlikely to be challenged by other major Australian and Asian cities, and can be strongly promoted as a competitive advantage."⁴⁴

As well, it has a clear idea of how the knowledge economy is likely to evolve – very much in a direction favouring regions that have strong lifestyle attractions for people able to work remotely. Its understanding of this may be a model for the Western Bay:

"In addition to investment in particular industry sectors offering high leverage for the Brisbane economy, a goal of the strategy will be to encourage strong investment across all sectors in information technology. The next wave of global industrialisation is likely to be based on the electronic delivery of services in sectors such as Education, Health, Financial Services, Retail, Entertainment, and Government Services. Brisbane needs to position itself to capitalise on this by emphasising and building upon its existing Services Sector strengths and competitive advantages." [page 7].

Thuringowa

Thuringowa is a city of some 50,000 population on the Queensland just north of Townsville. Its economic development is a very useful example for the Western Bay as it shows the vision that can be developed in a small urban setting – thinking smart and thinking global is not restricted to cities of a million plus.

Its plan is based on a green city objective – a strong 'quality of life objective' – coupled with four strategic options:

"The Council has identified several strategic options that will need to be addressed to achieve the long-term economic development goals of the city. The green city option is an overarching option aimed at maintaining what this Council believes will be a highly valued asset in the future: its environment. The four core

⁴⁴ Brisbane City Council (1999), pg ii.

or priority options are smart, investment, progressive (business) and destination (marketing).⁴⁵

This next set of extracts provides detail of the Smart City approach. Its focus is clearly on being in step with (perhaps leading) adaptation to the knowledge economy's potential.

"This objective seeks to encourage participation by the community and local businesses in the emerging information and on-line economy. The Smart City Strategy will position Thuringowa so that the City is attractive to knowledge-based industries and 'lifestyle' seekers who work in these industries." [page 13].

The key factors driving this strategy include:

- ▶ *"The need to differentiate Thuringowa's economic structure from Townsville's, which is heavily geared towards government services, mining and manufacturing;*
- ▶ *Increased use of communication and information technologies in the business and resident community, such as increased telecommuting;*
- ▶ *Rapid advances in the development of communication and information technologies that make the application of the technologies more accessible and less costly to use;*
- ▶ *A shift in employment from traditional 'heavy' industry to knowledge intensive industries;*
- ▶ *Increasing numbers working from home;*
- ▶ *Government and business shift towards e-commerce for the delivery of services and transactions; and*
- ▶ *Increasing energy costs and increasing importance of low energy applications."* [page 15].

Rural and Community Development

In 1996, Cornell University's Community and Rural Development Institute published *"What Are Our Alternatives?: Economic Development Initiatives for Long Term Growth in New York State"*⁴⁶.

The article was an overview of current issues and experience, and changing views within New York State to the development issues facing its rural and regional economies. Two excerpts show an emphasis on improving skills and developing infrastructure and networks in a way that is markedly similar to the Toronto and Brisbane themes although the economies with which it is concerned have a much greater similarity to the Western Bay's mix of urban and rural:

"Local and state officials concerned with economic development face a serious dilemma. Many of them recognize and accept the evidence that tax abatement subsidies to individual firms do not significantly impact firm decisions to re-locate or expand. Much more important are factors such as a skilled labor force; an infrastructure that connects firms to markets, information, and suppliers; the quality of life in a potential location, and the quality of local schools."

⁴⁵ *"Economic Development Plan 2001"*, (2001), Thuringowa City Council, pg 9, www.thuringowa.qld.gov.au.

⁴⁶ Community Development Reports, Vol 4, No. 4, Fall 1996.

"Clusters of interdependent smaller firms are more likely to circulate money and have a multiplier effect in the local economy and less likely to leave the area for lower-wage regions. The challenge for New York State is to find ways for its small and medium-sized firms to benefit from the state's geographic location, the energy of its highly-skilled workforce, and its strong educational infrastructure. In traditional sectors such as manufacturing and agriculture, and in emerging industries such as biotechnology and business services, New York's small businesses require access to capital; technical, and marketing assistance; and stronger regional and sectoral organization."

The themes are broadly the same as those in the work on Community Vitality quoted above, emphasising that much the same forces are operating on rural areas and small towns, albeit in a different geographical context

Indigenous Peoples

The Community Futures Development Corporation of Central Interior First Nations serves First Nations people in an area of South Central British Columbia. The CFDC's mission statement is *"Promotes and provides community economic development support services to First Nations people within the Central Interior area. Through our objectives the Board will facilitate and improve self-performance of First Nations people in this area"*.

It provides a range of business support services including business loans and assistance, small business management training programmes (broadly equivalent to the "Be Your Own Boss" programmes operated in New Zealand through the Community Employment Group), community-based micro lending circles (based on the principles first developed through the Grameen Bank in Bangladesh) and a range of education and training services. The CFDC places a strong emphasis on partnership as its means of working both with federal, provincial and local government authorities, with business, and with the communities it serves. (For more information see www.cfdcofcifn.com.)

The second initiative is the Pan Arctic Inuit Logistics Corporation (PAIL) which in joint venture with a major corporate, operates and maintains the Canadian portion of the North Warning System on behalf of the Department of National Defence.

PAIL is owned and controlled by Inuit in the four Inuit land claims settlement regions of Canada. The joint venture opportunity provided the incentive for PAIL's establishment and has triggered a number of other collective activities of benefit to Inuit. These include:

- ▶ Inuit business development, including identifying "Pan Arctic" opportunities, providing a mechanism for coordination amongst regional Inuit organisations, and generally keeping Inuit organisations informed on national economic development programmes and acting as an advocate for them.
- ▶ Establishing and maintaining an Inuit business directory intended to provide contact and other information for all Inuit-owned businesses as well as

facilitating business contacts and the development of successful business relationships and further commercial ventures (www.inuit.pail.ca).

Reflective of its focus – and in a way that may well be relevant for tangata whenua – PAIL’s mission/objectives statement includes the following:

"In addition to pursuing its corporate objective of a fair return of profit to its shareholders, PAIL can be seen as being committed to the pursuit of the broader goal of the initiation, expansion and development of economic opportunities for Inuit in order to promote the capabilities and financial self-sufficiency of Inuit individuals and communities.

Furthermore, PAIL recognises that, as an Inuit-owned company, it has a special obligation to ensure that the relevant provisions of land claims settlement and departmental cooperation agreements are fully respected by all parties involved in PAIL’s business activities and that, wherever possible, training and employment initiatives are undertaken as an integral part of these business activities which will contribute positively to the ability of Inuit to participate more fully in the Northern and Canadian workforce and economy."

3.5 Conclusion

This brief review of literature and practice sets the scene for the next part of this report, looking at the extent to which there may be available interventions that will help shift the Western Bay economy more towards the high skill high income end of the spectrum.

PART 4 • AN APPROACH TO INTERVENTION IN THE WESTERN BAY

4.1 Introduction

In this part of the report we consider whether there are feasible interventions which, undertaken by the public sector, the private sector or a combination of both, could help shift the Western Bay economy towards a configuration of economic activity that reflects a higher income, higher skill mix.

This is going to mean a multi-dimensional focus on:

- ▶ Making the Western Bay an attractive location for skilled people to live and work.
- ▶ Building work opportunities within the region for people who:
 - As migrants, bring skills acquired outside the region, or
 - As residents, acquire skills from within the region;
and who
 - As a skilled labour force, provide the incentive for 'growth' businesses to locate in the Western Bay, or
 - As entrepreneurs, themselves generate the new 'growth' businesses.

In both regards, the Western Bay will be facing competition from every other region in New Zealand that is seeking to attract skilled people as a fundamental component in their economic development strategies. Virtually every Industry New Zealand-funded regional economic development study has increasing population as an objective – at one level a quite simplistic notion, at another signalling a major 'zero sum game' among the regions.

This is underlined in one of the conclusions drawn from Waikato University's demographic work for SmartGrowth, that if the Western Bay is to maintain its economic reliance on population growth, it will need in the future to compete away from other regions a higher proportion of New Zealand's overall population growth. Attracting and retaining new migrants is going to far outweigh growth in the internal labour force as a determinant of the Western Bay's future economy. Given also that migration is a more immediate channel for achieving changes in the labour force than natural population growth and growing the skill base of the resident labour force, it is not surprising that the most effective interventions are likely to be ones that foster new migrants. That is not to say that interventions should ignore the potential gains from a focus on the 'stayer' population, but rather that proportionately greater gains will come from a focus on new migrants. Interventions that have this latter focus will equally contribute to generating an 'endogenous' base of higher income and higher skill because they have to do with creating the conditions for fostering and retaining the skill and income capacity of all residents.

4.2 The Context for Intervention

In this section we draw together our discussion in earlier sections of the nature of the Western Bay of Plenty economy and its projected growth pattern, and what international research and experience tells us about the nature of economic growth in the current global environment. We do so in order to consider what types of interventions might be feasible within the Western Bay of Plenty to encourage economic growth, hence implications the SmartGrowth Study should draw for future land use patterns.

4.2.1 TWO KEY CONSIDERATIONS IN ECONOMIC DEVELOPMENT WORK

We begin by highlighting two important considerations in any economic development work: the spread of benefits from economic growth; and the point we have touched on above regarding the changing pattern of influences on the location of firms.

Any interventions being looked at for the purpose of encouraging economic development need to be sufficiently diverse to provide opportunities at all levels within the economy – from those who are currently least skilled to those who are currently most skilled. Inherent in any approach to sustainable economic development is not just the aggregate of the outcomes, but how they are distributed. Explicit in the international material reviewed is that people who do have skills have choices, and typically exercise these by migrating out if there are insufficient opportunities locally. In the long-run the capability of an economy is a function of the capability of the whole population of the area. This means:

- ▶ Ensuring that those who currently are least skilled are, as far as possible, provided with opportunities to increase their skills and the opportunity to participate effectively (in their terms) in economic activity.
- ▶ Increasing the opportunities available to those Western Bay of Plenty residents who currently find that they are under employed in the sense that they are unable to find work commensurate with their skill levels (important to reduce the incentive for this group to leave the Sub-region in search of better opportunities elsewhere).
- ▶ Increasing the ability of the Western Bay of Plenty economy to attract and retain people with high human capital who will be the real drivers of future economic growth.

Regarding the second consideration, the changing pattern of influences on the location of firms, traditionally most observers have assumed that the decisions that firms make to relocate are the pivotal influence on economic growth. In New Zealand at the moment an obvious example is the concern over the flight of major firms via Auckland to Australia (and in Australia the same concern is held about the flight of major firms through Melbourne and Sydney to the United States and Europe). It has been common to see the firm's location decision as though the firm itself controlled the major location issues – that the board or chief executive chose the preferred location based on conventional assessments

on matters such as comparative costs, transport infrastructure, availability of land and buildings, access to natural resources etc.

More recent research suggests that this pattern is changing. In an age in which manufacturing was the key economic activity, firms were able to make location decisions based largely on physical resources. In what is increasingly a knowledge or high human capital world, firms may now be followers rather than leaders on location decisions. The critical scarce factor which constrains (or enables) economic development is no longer the firm exercising its discretion on where to locate. Rather, it is individuals with high levels of human capital deciding on their preferred locations.

4.2.2 POINTS HIGHLIGHTED IN THE LITERATURE

The review of recent research and literature on economic development highlights a number of points that are important in assessing potential interventions:

- ▶ Increasingly, the comparative advantage of locations lies in the quality of the lifestyle they offer to individuals with high human capital, rather than in the economies of scale they may offer in production.
- ▶ Increasingly in economic growth, the focus is on city-regions rather than on national economies.
- ▶ The tertiary sector broadly defined (to include research, teaching and learning, and therefore both universities and research institutions) is an essential component of successful city-regions for reasons including:
 - The vital contribution of research in a knowledge rich economy.
 - The importance of ready access to learning at both an individual and a firm level.
 - The contribution that the presence of tertiary institutions, and the people who work within them, make to the quality of the urban environment in terms of a rich cultural and intellectual life.
- ▶ The institutions of regional governance – in New Zealand’s context, regional and territorial local authorities in particular – have a critical role in providing leadership, providing strategic direction, and facilitating the networks between key sectors such as tertiary, business and community.

The implication in much of the research is that regions that cannot provide the richness and variety of facilities and resources typical of successful city-regions are likely to face relative decline. Rather than being leading points in economic development, they are likelier to be:

- ▶ Contributors to more successful economies as their more talented residents move in search of greater opportunity and a wider range of cultural, recreational and other consumption opportunities.
- ▶ Dependent economies providing a mix of complementary services to their more successful competitors. In Western Bay’s case this could play out in the provision of relatively high quality outdoor/marine recreational opportunities for wealthy outsiders, with the impact on the local economy

being primarily an increased demand in relatively low paid occupations such as the retail and restaurant trades.

4.2.3 SCALE: A CHALLENGE FOR THE WESTERN BAY

This presents a quite difficult challenge for Western Bay in terms of selecting a preferred future and the strategy or strategies to realise that. The “local patriotism” typical of many New Zealand communities (and evidenced recently in the response to Tauranga’s success in securing the Australasian stopover for the “Around Alone” yacht race) argues strongly for strategies that are based around the Western Bay as a single unit.⁴⁷ On the other hand, the weight of the research on city-regions suggests that, on its own, the Western Bay may not have the scale required for an effective economic development strategy if that involves establishing significant relationships internationally and developing a standalone profile which can be a serious attractor for individuals with high human capital and the firms that seek to employ them.

In November 2001 the now Chairman of the Transitional Tertiary Education Commission gave a public address on the theme of a tertiary education strategy for the Western Bay of Plenty. As part of that address he had this to say:

“Is it truly possible to consider the development of Tauranga and the Western Bay of Plenty without doing so in the context of the broader development of Auckland and more particularly the nexus of Tauranga, Hamilton, Auckland and Whangarei? I would see this question as absolutely central to your own future and one that your region should probably contemplate in a rigorous, dispassionate manner.”

He went on to make the case for Auckland as a city-region able to compete internationally, using much of the same arguments as have been traversed in the literature reviewed in this paper. (Auckland itself is not a single entity when it comes to considering economic development although significant progress is currently being made.) His principal emphasis was on the importance of lifestyle and the quality of the environment in attracting smart people:

“If that is the case shall we think of Auckland as contained within its present boundaries or do we need to look at a model of coordinated urban development that is made up of a broader conurbation that is globally viable while retaining a high quality lifestyle.

The four regional cities – Tauranga, Hamilton, Whangarei and Auckland – claim a wide variety of economy, infrastructure, society, lifestyle, climate and landscape. Together they bring space – between them – space that can be utilised in intelligent ways to maintain a high quality lifestyle for residents as the region’s population grows.”

⁴⁷ The apparent differences, and history of relationships between Tauranga and Western Bay might lead to the alternative suggestion that these should be treated as two separate entities, if “local patriotism” is a driving factor. The high level of interconnection between the two districts, in practice, makes it unrealistic to speak of them as separate local economies so this report assumes – as does the SmartGrowth exercise – that the two districts should be treated as a single entity when looking at issues such as economic development.

Dealing with the questions raised by Dr West will be an important part in determining a long-term strategy for the future development of the Western Bay. Resolving them will not, however, be an overnight matter.

For the purposes of considering what might be feasible within the Western Bay, this report leaves open the question of whether to focus on the Western Bay as a single region for development purposes (including positioning domestically and internationally) or whether it should be seen as part of a larger Auckland “super-region”. In doing so, however, each of the possibilities canvassed in this section is seen as being consistent with either approach. We also note one further question: this is whether taking a “super-region” approach necessarily requires some kind of formal structural relationship between the local authorities and other key influencers within the super-region or simply a strategic approach that recognises the natural advantages of such an approach but sees it being developed on a case by case basis as individual initiatives are advanced.

4.3 Enabling a High Income Economy – Some Possible Interventions

The research and experience we have reviewed suggests an integrated approach to the development of interventions rather than relying on a single strategy (and is consistent with the leading edge strategies adopted by cities such as Toronto and Brisbane – which could be regarded as the most serious competitor to the Western Bay in terms of lifestyle-based economic development).

Another factor in considering what kind of interventions might be appropriate in the Western Bay of Plenty is that clearly it cannot be a clone of a modern city-region the likes of a Toronto or even an Auckland. It is unlikely in the foreseeable future that the Western Bay will have an urban centre with the mix of tertiary, cultural, artistic and recreational activities, and high-class restaurant and retail facilities typical of leading city-regions. Instead, interventions within Western Bay will need to build on the strengths Western Bay already has – including its unique living environment – looking to build a combination of ‘attractors’ that, taken together, provide an equally attractive, but differentiated, package.

Running through this is a lifestyle-oriented theme that assumes the unique marine and land-based recreational and living opportunities available within the Western Bay of Plenty will, for a significant proportion of people with high human capital, provide an acceptable alternative to the intense urban tertiary/cultural/consumer focused experience of the city-regions the subject of much of the international research on economic development (though achieving a smaller scale alternative of the intense urban experience will remain crucial, as is elaborated on below).

We have identified four broad categories that appear to have potential for selective intervention.

- ▶ The first, in section 4.2.1, is building on existing strengths in **business sectors** where the Western Bay has a natural resource endowment or appears to have a comparative advantage. These include agriculture, horticulture and aquaculture; the retirement industry; and light manufacturing. In this category we also discuss the IT sector.
- ▶ The second, in section 4.2.2, is enhancing the **quality of human capital** within the sub-region and the attractiveness of the sub-region for people with high human capital.
- ▶ The third, in section 4.2.3, is developing the sub-region's hard and soft **infrastructure**.
- ▶ The fourth category for intervention, in section 4.2.4, is building on the potential inherent in the region's strong base in **Maori history, tradition and culture**.

The best interventions will be those that neither emulate uncritically what other regions in New Zealand or overseas are doing, nor treat the Western Bay as completely unique. The selection of interventions we put forward are a match between the issues so far identified in the SmartGrowth work and what can usefully be drawn from experience elsewhere. We believe there is reason to be optimistic about what they can achieve.

The interventions we consider are a selection of opportunities. Others could have been put forward – and indeed we would be very surprised if readers of this report do not identify what they consider to be other promising initiatives. It should also be noted that they are additive to and not in substitution for current initiatives that are already playing a major part in the sub-region's growth and will continue to do so. (In this respect it should be noted that the "base case" projections necessarily assume that current high performing initiatives/activities within the sub-regional economy will continue to perform at an above average level. The obvious example is the Port of Tauranga.)

It should also be noted that this section of the report is not an economic development strategy. We have selected the suggested interventions in the belief that, taken together, they could form the core of a very effective economic development strategy. However, the development of a strategy requires much more than simply identifying possible interventions. It also requires the development of implementation plans, allocation of resources and, perhaps most importantly, assignment of responsibility to people or organisations committed to and capable of carrying out the implementation itself.

The balance of this section considers a series of potential interventions within each of the four categories we have identified. The purpose of doing so is not to make positive recommendations that these interventions should be adopted as strategies for the sub-region to follow, so much as to identify areas of potential intervention which appear, from our analysis, to offer the greatest potential benefit in terms of the presumed objective of moving the Western Bay sub-region from a low income to a high-income status.

For each intervention, we assess feasibility. We conclude this section by considering who might take the responsibility for implementation.

4.3.1 BUSINESS SECTOR BASED INTERVENTIONS

In this section we consider four possible areas for intervention. They are:

- ▶ Primary sector – agriculture, horticulture and aquaculture
- ▶ Light manufacturing
- ▶ Information technology
- ▶ The retirement industry.

Leveraging Existing Potential in Agriculture, Horticulture, and Aquaculture

The Western Bay is already the world leader in kiwifruit, a significant producer of avocado, and with clear potential for other horticultural products. It is an important dairying region. Seafood is also an important sector, with the greatest potential being for the development of aquaculture.

Each of these industries is undergoing quite significant change, driven by a combination of international pressure (with a focus on quality and the development of healthy foods) and domestic innovation. There are quite marked structural changes taking place as these industries – especially horticulture and agriculture – shift from primarily a family-owned, small business structure towards more capital intensive, highly commercial operations (even though family ownership may still be a strong factor).

Central to the change taking place in each of these industries is a transition from being inherently low/medium skill industries to being knowledge-based industries requiring highly trained people with significant scientific and technical knowledge and IT skills.

For each of these industries, this is both an opportunity and a barrier. The opportunity is increasing the value of production (including the returns to labour). The obstacle is the lack of coherent industry-wide labour force planning and training systems. The requirement is for a more integrated approach to ensure that:

- ▶ The opportunities for worthwhile employment in these industries are better known.
- ▶ The entry paths are clear and well established. (This includes ensuring that young people, interested in a career in these industries, understand what is required in sufficient time to plan their secondary schooling so that they study the right mix of subjects to qualify them for further study.)
- ▶ Within the industries concerned, a commitment to supporting their ongoing training needs (something that has typically been difficult to achieve with New Zealand businesses).

- ▶ Close linkages with the tertiary sector on a basis that gives individual institutions the confidence to justify investment in the development of training programmes to meet industry needs.

There are already several initiatives underway in this area. As an example the Bay of Plenty Polytechnic is developing a modern version of the old horticulture cadet scheme and also seeking to introduce a post graduate diploma focusing on science-based management. The main need may be to ensure a greater measure of coordination amongst training providers and industry organisations. Long term strategic planning and goal setting may also play a role. For example, should training providers and research institutions (such as HortResearch's Te Puke campus) be combining to position the Western Bay as a world Centre of Excellence in training in orchard management?

Similar questions arise when considering how to capitalise on the expected major growth in aquaculture in the Bay of Plenty and on the ongoing changes in the nature of the dairying industry.

Feasibility

Feasibility will depend on resolving at least two matters:

- ▶ Creating a workable structure to link together key stakeholders – industry, educational institutions, the entity or entities responsible for Western Bay's economic development strategy. This will need to have the capability to avoid unnecessary duplication (if only to ensure support from the Tertiary Education Commission) and to gain industry support for the long term strategic vision required.
- ▶ A funding/research mechanism which will overcome transaction costs and free rider problems – which will require sorting out the public and private good components (here some of the initiatives announced in the recent budget such as the contestable fund to assist polytechnics contribute to regional economic development may be relevant).

Light Manufacturing

The Western Bay of Plenty is home to a number of small to medium-sized innovative light manufacturing firms. They represent a real opportunity for growth based on significant design skills and investment in research and development. For most of them, their future lies in exporting.

If they are to realise their potential, they need to overcome a number of quite significant barriers. These include:

- ▶ Difficulty in recruiting and retaining trained staff. Anecdotal evidence suggests that reasons for this include a lack of effective formal training programmes in the post-compulsory education sector and inadequate vocational guidance. Too many young people may simply be unaware of the opportunities available to them.
- ▶ Access to capital including support for major export contracts

- ▶ A perception that government export assistance programmes are targeted primarily to medium to large firms rather than to the small to medium firms which are the core of the Western Bay's light manufacturing sector.

Collectively the future of these firms has the potential to impact significantly on land use demand within the sub-region. If these firms and others like them are able to overcome the difficulties they face, their growth could be quite substantial.

Achieving this will not be straightforward. In straight economic terms, the Western Bay is not a prime location for firms producing elaborately transformed manufactures. Aspects of its cost structure are high in relation to competitor regions (South Auckland; Hamilton). It is not close to major training providers (university engineering schools or research institutions such as Industrial Research).

On the other hand it is clear that the Western Bay is regarded as a preferred location by the working proprietors in those businesses, presumably at least in part for lifestyle reasons.

The opportunity for the Western Bay is to act now to ensure that:

- ▶ The disadvantages referred to above are addressed – that there is an integrated approach to the provision of a capable workforce and that individual firms are able to access government assistance on at least equal terms.
- ▶ Ongoing capital and ownership succession issues are managed in a way that supports the growth of this sector in the Bay – there is a very real risk that, as owner managers retire, the likeliest option open to them is sale to an industry participant that will not have the same attachment to a Western Bay location and will relocate the business to a place that appears more economically rational – or simply allows better integration with a purchaser's other operations.
- ▶ The future land use requirements of this sector are well understood and provided for. This may include recognising that the need is not simply for land that has a suitable zoning, but for land that is well located in relation to transport infrastructure and workforce, and that benefits from "state of the art" servicing including access to high speed internet services.

These are issues of a type that normally require collective action – by a well-resourced and pro-active industry organisation or, as overseas experience suggests, within the framework of a regional economic development strategy (see for example, the strategies developed by Toronto and by Brisbane). The growing New Zealand experience with and government support for clusters is also relevant.

Feasibility

The business of these businesses is business. Few if any of them are likely to regard committing scarce management time to resolving this range of issues as appropriate, partly because any one firm would only capture part of the benefit although, if it took the lead, might incur all the cost.

This suggests that identifying more precisely and dealing with the needs of this sector should be seen as part of an overarching economic development strategy for the sub-region. The overseas evidence is that this kind of approach is not only feasible but increasingly essential to preserve clusters of excellence.

Information Technology

The Western Bay is the location of a number of small to medium sized IT firms with a strong record of innovation and business success. Anecdotal evidence suggests that a main reason for their location here is a lifestyle choice assisted by the perception that, in this sector of all sectors, it should be possible to work remotely for national or international clients.

At the same time it is also clear that the Sub-region is not fully exploiting its potential as a basis for firms in the sector. Factors supporting this include:

- ▶ Salaries, and charge out rates, are significantly below those in Wellington and Auckland suggesting that most local firms and independent IT workers have not yet been able to position themselves as national players or satisfy out-of-region clients that they are an effective substitute for metropolitan providers. Rather than being used for their expertise and service they are being used for their low cost.
- ▶ The Western Bay does not yet appear to have national recognition as the location of a potentially significant IT resource.

Growth in this sector should be seen as pivotal to the objective of lifting the quality of growth in the Western Bay as a whole. Reasons for this include:

- ▶ The sector is a fast growing one, with the potential to pay above average salaries and attract people who add considerably to the quality of the urban environment
- ▶ Immediate access to an IT sector with considerable depth and expertise is increasingly a pre-condition for innovation in other sectors.

Experience suggests that IT sectors tend to flourish most when based in an area that offers:

- ▶ A high quality of urban and other lifestyle amenity
- ▶ Direct access to/involvement with high end tertiary research teaching and learning for IT
- ▶ A critical mass of industry activity – providing both a wide range of colleagues with whom to interact and also plentiful job opportunities

- ▶ A supportive local economic environment – good support services, a strong local capital market and complementary firms (ie firms who, or whose own clients, are major users of high level IT services and expertise).

Growing the IT sector in the Western Bay will require a strategy to address all or at least some of these issues. It is likely that for the moment at least, the outdoor recreational opportunities offset to a degree the relative lack of urban amenity in the sense that the number of IT professionals keen to relocate here is more than enough to meet local demand. However that may be a factor of the nature of the demand – there may be a very real qualitative difference between the type of IT person demanded by local business and the type of person who could be attracted here if the Western Bay was seen as preferred location from which to service clients nationally or internationally.

For the immediate future there appear to be two matters that should be given priority. One is attracting high end tertiary activity and the other is raising the Western Bay's profile as a source of high quality IT services – in other words, increase the attractiveness of the Western Bay as a base from which to work by enhancing its ability to attract work from outside.

Both would probably be assisted by the establishment of an IT cluster – but doing this would mean making the idea attractive to the sector – the key test most firms apply to the idea of joining a cluster is “what’s in it for me?”. Currently there is some reason to believe that a major tertiary provider would be prepared to consider establishing a facility here on a joint venture basis with the sector if the right proposal were forthcoming. Work on this is ongoing.

The second matter, the Western Bay as a place from which to work, is dealt with under the “Tauranga Online” discussion below.

Feasibility

The critical factor is establishing an industry cluster. This appears to be a very real possibility provided that the tertiary provider/industry Joint Venture appears a credible possibility. That will be partially dependent on the willingness of Industry New Zealand to provide funding for which the initiative could be eligible.

Enhancing the Western Bay's Attraction as a Retirement Destination

Currently the Western Bay, especially Tauranga, is New Zealand's premier retirement destination. This shows through in the Sub-region's demographics with 16.4% of the population being aged 65 and over as compared with 12.1% nationally (17.2% in Tauranga and 14.3% in the Western Bay District). It is also evident in the large number of retirement villages, rest homes, private hospitals and the like.

People have been attracted to retire to the Western Bay for a variety of reasons including:

- ▶ The appearance of a wide range of services geared towards a retired population.
- ▶ The region's equable climate.
- ▶ The relatively "hassle free" lifestyle.

At least two of these three are under increasing threat. The Western Bay still enjoys a relatively high standard of medical services but, at least for those dependent on public funding to meet their health needs, this is becoming more limiting. In the clash between rising demand – and rising real cost as medical technologies improve – and the ability of the taxpayer to fund, the taxpayer is losing. This is reflected in increased waiting lists for public hospital services, something that particularly affects the older population.

The same declining ability to fund health services (perhaps better expressed as the growing gap between the real cost of provision and demand) is affecting the provision of rest home services and of services designed to assist retired persons maintain independent living. These trends are general across the country but have a particular impact on the Western Bay.

Perhaps of greater significance for its attraction as a retirement destination is the impact of the region's growth. Growing traffic volumes and a rising cost of living are factors that must be detracting from the region's attractiveness as a retirement destination.

From the perspective of this report, strategies to shift from a low wage/low skill economy to a high wage/high skill economy, a downturn in attractiveness of the Western Bay as a retirement destination might in some respects be seen as a positive rather than a negative. The reason for this is that the retirement industry, at least as currently operated in the Western Bay and the rest of New Zealand, is very much a low wage/low skill industry. This is particularly the case with the institutional side of the industry – rest homes, retirement villages and private hospitals. They operate in a perpetual squeeze between cost and revenue. Typically, they are low wage employers and this is unlikely to change at least without significant change either in the nature of the industry or in its funding base, or both (the situation is partly a function of the way the Government through District Health Boards sets the prices it is prepared to pay for subsidised services).

Despite the low wage/low skill status of the industry, it is unlikely that a downturn would be greeted with enthusiasm across the community. The industry has, for example, been quite a significant factor in driving demand in the land development and construction industries (not just institutional provision, but townhouses and dwellings). Ensuring that Western Bay generally remains a preferred retirement destination will almost certainly be a centrepiece of any economic development strategy for the sub-region.

This puts an emphasis on devising strategies to improve the region's attractiveness (and, ideally, to introduce a high skill/high wage component as well).

Two possible strategies are suggested. The first is leveraging off the retirement industry in conjunction with the tertiary sector, specifically seeking to establish the Western Bay as a centre of excellence in providing for the needs of older people – something that should not be restricted to such things as their health needs and associated caring requirements, but also to providing opportunities for continuing fulfilment.

In this area possibilities include:

- ▶ Partnering with one or more universities – the health sciences component of Auckland University of Technology is an obvious possibility – and with the District Health Board so that the sub-region becomes a significant provider of training and research for people working with older persons as well as providing continuing high-level care for the Western Bay's retired population. The objective would be for the Western Bay to be recognised internationally as a Centre of Excellence in research, teaching and practice of care for older persons (including support for independent living)
- ▶ Again, working with the tertiary sector, developing/enhancing opportunities for lifelong learning. As an adjunct to this, the Tauranga Online strategy outlined below could include providing opportunities for people who have retired to the Western Bay to continue working.

A second area is improving the options available to older persons to maintain independent living. Achieving this requires:

- ▶ Provision of a range of services specifically designed for that purpose. These could include appropriate security monitoring, mobile hairdressing and other services, assistance with housekeeping, gardening, home maintenance/alteration, and so on.
- ▶ Providing those services in a way that is both affordable and safe.

Key to this is affordability. The majority of the Western Bay's retired population have limited means and, under current arrangements, could not pay for such services.

Recent changes to local government legislation provide an opportunity. It now appears feasible, using that legislation, for local authorities to meet the cost to older people of accessing a portfolio of services on the basis that the cost will be recovered from the equity in the older person's home when it was no longer occupied by them.

Feasibility

Feasibility will require giving a higher priority to a strategic approach across the sub-region for meeting the needs of older persons than is currently the case. Apart from the District Health Board, no one public entity currently has (or takes)

any significant responsibility for addressing the needs of older persons. One possibility, which each of the two territorial local authorities could adopt, is to use their existing pensioner housing activity as a platform for exploring a range of other services. (This would probably require that the pensioner housing concerned be vested in a trust or trusts with a broader purpose than simply providing rental housing.)

A further requirement would be to achieve a working relationship between tertiary institutions, the District Health Board, other service providers, and local government. Here feasibility will depend on political will and the organisations concerned having the research and policy capability required (the new Local Government Bill will provide both the rationale and the tools for such an approach).

Finally, feasibility will depend on developing the funding techniques briefly described above – there are signs that some local authorities, not necessarily within the Western Bay, are considering doing so.

4.3.2 ENHANCING THE QUALITY OF HUMAN CAPITAL AND THE SUB-REGION'S ATTRACTIVENESS

In this section we consider three possible interventions. They are:

- ▶ The super-region
- ▶ A tertiary strategy for the Western Bay
- ▶ Enhancing the opportunity for people within the sub-region to find employment best suited to their skills.

The Super-Region

The super-region concept is one of increasing critical mass, recognising that in today's world the cities/regions that are able to get on the international "radar screen" typically:

- ▶ Are centres of population of one or more millions.
- ▶ Offer a varied and high quality lifestyle experience.
- ▶ Possess distinctive capabilities/resources appropriate to the demands of a knowledge-based economy.

A super-region strategy speaks to at least two different concepts:

- ▶ Differentiation of skill in order to deepen expertise and offer a broader portfolio to potential end users.
- ▶ Developing a more comprehensive and attractive portfolio of lifestyle opportunities to attract high human capital migrants.

From a Western Bay perspective, there appear to be clear knowledge-based opportunities for leveraging the super-region concept. One is the development of the Western Bay as super-region's international centre of excellence in

horticulture – especially kiwifruit but other products as well based on a combination of local industry strength, the ability to develop a concentration of research/teaching and learning, and the potential to extend that support to other horticultural activity throughout the Auckland super-region (viticulture, vegetable production). The Western Bay case would be the importance for New Zealand in a globalising world to focus on developing Centres of Excellence that could have an impact internationally – something that would depend on specialisation and differentiation within New Zealand – rather than each district or region trying to duplicate what others were doing thus undermining any capability to have a significant impact globally.

Lifestyle appears to offer a similar opportunity, with the potential to position the East Coast of the super-region – from Whangarei perhaps as far as Whakatane – as a unique marine recreational/residential location for high human capital individuals, especially those who are highly mobile and/or accustomed to working over the Internet. Here, the issue is one of critical mass – building the resource to promote the area internationally - as well as one of being able to take an in-depth strategic approach to developing the region's attractions, including the provision of facilities specifically targeted internationally to individuals with high human and financial capital . The combination of the new Local Government (Rating) Act and provisions in the Local Government Bill provide a potentially unique opportunity for this purpose.

Currently there are a number of different lifestyle initiatives under way along the coast from Whangaparoa to Whakatane that appear to be based on an assumption of competition between the local authorities of the area – as though seeking potential migrants on a life style basis were some form of zero sum game. This may be the case with internal migration (note the point made orally in presenting the University of Waikato study that if the Western Bay is to maintain its reliance on population growth, it will need in the future to compete away from other regions a higher proportion of New Zealand's overall population growth).

It should not be true for migration from offshore where the logic is to offer a portfolio of opportunities. As an example, Rodney District Council is currently seeking to establish a "knowledge valley" in its district targeted to Indian software professionals who are already accustomed to working remotely (India is a major exporter of software services via the internet). The Council's strategy is to create the opportunity to locate to one part of what is a much larger lifestyle area based on what that part can offer. Logically the offer would be stronger, have more variety, be better funded and marketed, and likely to attract a better response, if it included other prime locations such as the Western Bay and Thames Coromandel.

Feasibility

The principal obstacle to the feasibility of the super-region strategy, as illustrated by the examples just given, is the lack of any institutional infrastructure within which to build and implement such a strategy. Within local government alone

there are very considerable differences of approach, strategy and view. The Auckland region is currently endeavouring to establish a single regional approach to economic development (for those strategies that require a regional focus). Although much progress has been made, it is not yet clear whether this endeavour will be successful. A similar lack of regional infrastructure characterises the tertiary sector (a critical component in the knowledge/research element of a super region-strategy) as well as the business sector.

Seeking to develop a single overarching strategy to deal with all of these issues could prove so complex as to defeat the objective. A more feasible approach is probably one of developing strategies case by case, thus avoiding the need to create the structure for an overarching multi-strategy approach, but doing so within a shared understanding of why this approach should lead to superior outcomes.

A Western Bay Tertiary Strategy

The research reviewed for this report highlights the pivotal role of the tertiary sector (broadly defined) in economic development. Two quotations from amongst a number of recent sources will give a flavour of how the contribution of the tertiary sector is now regarded.

From the OECD report *Cities and Regions in the New Learning Economy*:

"The general context for this study is set by the contemporary transition from an industrial to a knowledge-based or learning economy and society. Whilst there remains considerable debate as to the precise nature of the restructuring which is taking place, there is widespread agreement that the production and distribution of knowledge are increasingly significant processes in the determination of economic development and competitiveness. The latter, in turn, are reflected in economic growth, employment change and levels of welfare. This has enormous implications for organisations – firms, educational organisations, R&D institutes, departments and agencies of the state, intermediate organisations – as well as for individuals within education and the labour market (and, indeed, beyond). In short, the capacity of both organisations and individuals to engage successfully in learning processes of a variety of kinds has come to be regarded as a crucial determinant of economic performance."

From the report, *Urban Nation, Federal State: Rethinking Relationships* prepared by the Canada West Foundation (a Canadian think tank with an enviable reputation for the quality of its work):

"One factor repeatedly noted as important to a competitive city is the presence of a major university or research centre. This presence is important for at least three reasons. First, it attracts students who, should they choose to remain in the city after completing their degrees, increase the number of educated workers. Second, the university generates economic spin-offs and helps spawn other research and development enterprises. Third, universities foster an environment of creativity and innovation."

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 highly 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 the government’s new tertiary strategy.
- ▶ Tertiary institutions themselves – especially universities – bring to artistic and cultural life 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, both through education and through application of the results of their research.
- ▶ Higher levels of human capital are associated with bigger physical investments and higher rates of technology transfer.

Publicly owned tertiary providers are significantly under represented in the Western Bay. One measure of publicly provided tertiary activity (that is of universities and polytechnics) is the number of what are known as EFTS (equivalent full time students). Currently in the Western Bay, publicly owned tertiary institutions deliver approximately 2,500 EFTS. This figure would be 7,500 if the number of EFTS delivered in the Western Bay was the same proportion of EFTS delivered nationally as the Western Bay’s population is of New Zealand’s population.

These figures provide one approach to measuring the significant adverse impact on the Western Bay from a relative lack of tertiary services. The shortfall of some 5,000 in the number of publicly delivered EFTS as compared with what could be expected on a pro rata basis translates into approximately 1,000 jobs (500 academic and support jobs in tertiary institutions themselves and 500 jobs throughout the sub-regional economy in response to the additional spending - institutional, staff, students - that could be expected at that level of activity).

Another measure of the effect of under provision of tertiary services is found in the demographics of the sub-region. Although generally the sub-region’s population is increasing faster than the national average, this is not the case with two key youth demographics – 15-19 year olds and 20-24 year olds. In both of these age ranges, the region is losing population at a marked rate (The NZIER report suggests that the sub-region will have a net migration loss, in each inter-censal period, of 200 in the 15-19 age group and 1,300 in the 20-24 age group).

The University of Waikato's demographic work for SmartGrowth highlights the relatively low level of educational achievement in the Western Bay compared with New Zealand as a whole:

- In terms of 'highest qualification', the population aged 15 years and over in the Western Bay sub-region has higher percentages of people with no qualification, and has higher percentages with a vocational qualification as their highest qualification, than the New Zealand population as a whole, and lower percentages with school qualifications and Bachelors degrees and above.
- The delivery of University courses is small, and the share of the resident population (including students studying at tertiary institutions) with degrees is around half that found in Hamilton.
- In common with the situation found in other parts of the country (including Hamilton), the stayer populations tend to have lower percentages with qualifications at the Bachelors degree level or above, by comparison with the in- and out-migrant populations. In general, this is the case for both the Maori and non-Maori stayer groups in the Western Bay.
- The proportion of non-Maori overseas immigrants, both male and female with degree qualifications is three times that of the non-Maori stayer population. International migration, including return migration of New Zealanders, is contributing disproportionately to the sub-region's population with a tertiary qualification.
- People moving into and out of the Western Bay are comparatively well educated. Over 40 percent had some form of tertiary qualification, and of these nearly 40 percent had completed university qualifications. Only 10 percent of the surveyed group recorded that they had no qualifications (compared with 25% for New Zealand as a whole).

The impact goes much more widely than this brief demographic overview suggests. In a knowledge-dependent society, tertiary services (research, teaching and learning) are a key component of virtually every significant activity. Immediate examples, some of which have already been canvassed in this report, include:

- ▶ Providing the research and teaching support for a knowledge-based approach to agriculture, horticulture and aquaculture.
- ▶ Helping meet the needs of tangata whenua – why should not the Western Bay become an international centre of excellence in indigenous peoples studies based on the sub-region's strong traditions.
- ▶ Helping Western Bay residents meet their employment and career aspirations through working remotely is something that would naturally dovetail with the strengths that the tertiary sector brings to research, teaching and practice in information technology and related studies. Western Bay already has the beginnings of a very creative IT sector with the potential to develop further in conjunction with the IT and media studies activities of universities such as Waikato and the Auckland University of Technology.

- The very real potential that exists for the tertiary sector to add significant leverage to the investment that the community needs to make in its cultural and artistic infrastructure. As one example, the development of an art gallery, a museum and a Maori cultural centre could dovetail effectively with a research, teaching and learning component – with the institutions serving as a base for tertiary activity targeted both towards local people who wished to pursue a fine arts career (or at least to study in this area) and to people from outside the region.

There are a number of other opportunities for leveraging off tertiary activity as a basis for assisting the region’s transformation into a high wage/high skill economy. Possibilities include:

- Building on the very significant strengths of Western Bay based institutions. Some of New Zealand’s most effective and highly regarded private training establishments are based in the area. Their potential to grow significantly by attracting students to the region or using the Western Bay as a base from which to market services nationally and internationally is significant.
- There is clear evidence that a strong tertiary sector with both the educational opportunities that it brings and the cultural and other spin-offs associated with tertiary activity are an essential component in any strategy to attract high human capital individuals and the firms that employ them. A recent study carried out by A T Kearney, the global management consulting firm, interviewed a national sample of 50 senior executives in the US from Fortune 1000 companies to improve their understanding of the factors important to senior executives in evaluating different geographic regions for the location of a technology related business or business unit. The top three factors, and the percentage of executives identifying them as very important were:

Factor	Percent
Talent	86%
Universities	36%
Local government involvement	32%

- Another factor is significant. Tauranga, as the urban centre of the Western Bay, is developing in a fashion atypical for a New Zealand city of its size. Rather than concentrating around an urban core, it is hollowing out through a series of dispersed suburban centres. The potential impact on Tauranga’s viability as a “live, work and play” destination for individuals with high human capital is considerable as these individuals prefer an intense urban environment of a mix of cultural, retail, restaurant and work environments. Universities which typically prefer an urban location, especially for teaching business, professional and technology-related subjects, can make a significant contribution to offsetting the impact of Tauranga’s suburbanisation.

Feasibility

The New Zealand government has made it clear that it does not intend establishing any new universities. Instead, it expects the tertiary education needs of centres the likes of Western Bay to be met by cooperation/collaboration amongst existing institutions looking to deliver required services in a way that meets local needs.

The most important matter to be resolved in developing a tertiary strategy for the Western Bay of Plenty is determining who should have the responsibility. Currently, a diverse range of institutions and others each have interests. They range from universities such as Waikato (physically represented in Tauranga) and the Auckland University of Technology (represented through a working relationship with the Bay of Plenty Polytechnic), to the Polytechnic itself, to private training enterprises, to business groups (especially those for whom the research and training activities of tertiary institutions are important to their industries), to tangata whenua, to the region's local authorities as they consider the economic development needs of their districts.

It is unlikely that this diverse mix of interests will serendipitously establish a coherent tertiary strategy for the Western Bay. What is required is some form of special purpose structure with sufficient resource and ongoing existence to act as the focal point for working with these various interests.

Whether this is achievable will depend on two factors:

- ▶ The willingness of the diverse interests involved to accept the need for some means of identifying, prioritising and coordinating ways of recognising and meeting need (and leveraging opportunity).
- ▶ A means of funding that work.

A further matter that will need to be resolved is the provision of adequate accommodation. At the moment there is a heavy dependency on homestay accommodation, but that may be close to reaching its limits. Availability and price of land for purpose built accommodation would prove to be a major constraint.

Optimising Local Skills (“Tauranga Online”)

The research undertaken on inward migrants, and on people who have left the region, suggests that the Western Bay economy has not been able to satisfy the employment aspirations of a number of people who have migrated here in the expectation that they would either find employment appropriate to their skills, or be able to work from the Western Bay as consultants in their areas of expertise.

The University of Waikato research on why people left the Western Bay shows that the great majority did so because of poor employment prospects and/or low incomes. This is supported by consistent anecdotal evidence from discussions with:

- ▶ Individuals who have migrated here in the recent past
- ▶ Employers
- ▶ Human resource professionals.

All confirmed a pattern of the Western Bay as a region in which it was comparatively difficult to find employment fitting the expectations with which people came. One HR specialist commented that people who were prepared to wait could hope that they would eventually find a job to suit their skills but that it could take six months or more. The same source spoke of IT people coming here, finding that salaries were well below their expectations, setting up on their own but failing as they lacked business skills. This impression is consistent with what we have been told by IT employers.

A number of people spoke of the particular difficulty faced by the second partner in a two-income family moving here when one partner had found a job. The common expectation that the partner would easily find a job – (usually) her experience where she came from – was often disappointed. The common reason was the different structure of the Western Bay economy. It simply lacks the number of large corporates, public sector entities and professional service firms that drive much of the demand for managerial and support staff in larger centres. For these migrants, “\$10 Tauranga” was a reality.

The evidence is that many people with good administrative, support service or middle management skills have found themselves forced to take employment in less skilled occupations and at a lower income than they had expected. This appears to have included a number of situations in which people have sought to “buy” a job by setting up or acquiring a small business, typically with very limited success. Others who have sought to earn a living by acting as independent consultants have found that the local market is saturated. As a result, although they may have gained some employment, it is at rates lower than they had anticipated and with a knock-on impact on other established consultancies, forcing down their rates as well.

The consequences of this type of situation for Western Bay’s economic growth – transformation to a high skill/high wage economy – are potentially serious. The initial impact is on the individuals themselves who find that their incomes are less than they expect and their job satisfaction correspondingly lower. In the longer term the risk is of a negative impact on the region as dissatisfied individuals leave and as the Western Bay’s reputation as a preferred destination suffers from a growing awareness of what has been the reality for many who have come here.

It should be noted that this experience is not universal. Clearly a number of people are at least satisfied with the choice they have made. Where trade-offs have been made between income and lifestyle, clearly many believe that they have come out on the right side.

In an age in which, increasingly, people work on line, whether in the provision of support services or of consultancy, it is perhaps surprising that so many people

have limited their search for employment to the local market rather than seeking to find ways of marketing their skills and services regionally or nationally.

In practice, it is understandable that few may have done so. Despite the relative ease of working on line, there is a qualitative difference between marketing skills locally and on a face to face basis and on marketing them remotely. It requires different technology and a different approach to client servicing and support.

Here, the intervention may be creating the infrastructure for marketing local skills regionally or nationally via the Internet. Prerequisites would seem to include the capacity to provide face to face client support at remote locations, the development of quality control and related systems, building up a broad portfolio of potential services, attracting the capital required to support what would need to be quite a large scale organisation, and so on.

This is relevant not just for individuals who may be capable of working over the Internet if they have access to appropriate support infrastructure. It is just as relevant for many of the Western Bay's small firms, especially in the IT sector.

The opportunity may be to position the Western Bay, initially domestically but ultimately internationally, as a mini-equivalent of centres such as Hyderabad and Bangalore that have built thriving economies based on working remotely for North American and European firms. It may include recognising the changing nature of work in the New Economy and consciously setting out to make this a point of difference for the Western Bay.

The following excerpts from a paper presented to the 1998 Ahwahnee Conference sponsored by the US Local Government Commission, *"Linking the New Economy to the Liveable Community"*, describes work in the new economy in the following way:

"In the New Economy, workers build careers by building a portfolio of skills and undertaking a portfolio of projects. Instead of selling services to one employer for a lifetime, workers sell their services to multiple employers over a lifetime or even all at once. Charles Handy, the British management Guru, has been making this point for years with his idea of the "portfolio" worker who carries his skills within him to different jobs. The knowledge worker in the New Economy takes her skills and intellectual capital to different projects much like the craftspeople of an earlier era took their knowledge and tools to different jobs.

"The New Economy makes possible the reintegration of work and home life. In the mass-production economy, people had to go to a work site to work because they had to access equipment kept in a central place. In the New Economy, the means of production is the personal computer. The networked personal computer has begun to make the need for distinct and separate workplaces obsolete. People can work from home, on the road, or at alternative sites."

Feasibility

Such a strategy has, at first glance, the appearance of being a private market opportunity. In practice, it is likely to be seen as a relatively high risk, low return activity, at least in its early years. It may require concerted backing, with the assistance of some public resource, in much the same way as councils have supported tourism and other economic development activity. It could be an appropriate candidate for major regional initiative funding from Industry New Zealand (up to \$2 million), especially in conjunction with the suggested IT cluster, for which it could be the needed marketing arm.

The rationale for such an approach is at least two-fold:

- ▶ Avoiding the negative impact on future growth from the inability of inward migrants to find the nature and quality of employment they seek.
- ▶ Positively positioning the Western Bay as an area of opportunity for people who are prepared to work remotely if (once) the necessary marketing and support infrastructure had been created and was seen to be effective.

4.3.3 INFRASTRUCTURE

In this section we consider three areas for intervention dealing first with "hard" infrastructure and then with "soft":

- ▶ Efficient infrastructure
- ▶ An integrated transport policy
- ▶ Culture and the arts.

Efficient Infrastructure

The Western Bay has some well-publicised challenges ahead of it in developing the infrastructure needed for a growing population. This includes roading and water and wastewater.

These have a high profile in the public arena as they have traditionally been the responsibility of the local authorities and have become a central focus of debate over local authority funding, affordability of rates, etc. There does seem to be a high degree of awareness of the Sub-region's needs in traditional areas of infrastructure development – and an equivalent focus on finding optimal means of funding and providing what is needed. This is less the case with newer forms of infrastructure.

In one sense it is merely an historical accident that local authorities have responsibility for some types of infrastructure and not others. It is notable that other communities, seeking to position themselves as preferred locations in a knowledge economy, are placing at least as much emphasis on the infrastructure for moving information as they are on the infrastructure for moving people, goods, water and wastewater. Wellington is a good example of a city that has emphasised the importance of ensuring that businesses have ready access to broadband Internet connections. Hutt is another moving in the same direction.

Ensuring ready access to broadband connections for the Western Bay's present and future business sector (including individuals working remotely) seems an essential part of the strategy for achieving a high skill/high wage economy. It should be very much assisted by the Government's decision to invite telecommunications companies to tender to provide fast internet access region by region.

Feasibility

Some of this will happen naturally through the market – Tauranga already has a wireless-based ISP delivering high quality, broadband connectivity to part of the sub-region. As with physical infrastructure, the question that needs to be addressed is how to ensure provision where the market alone will not do so? This may be a matter of the sub-region's local authorities reprioritising their infrastructure programmes so that, rather than simply dealing with those that are their statutory or conventional responsibility, their investment in infrastructure is prioritised on the basis of the sub-region's needs in an age when moving information can be at least as important as moving goods or people. Seeking involvement with the Government's strategy for fast internet access would also seem logical.

An Integrated Transport Strategy

The Western Bay is dependent on four different physical modes: air, sea, road and rail. Currently there is no obligation to integrate or coordinate planning for these different modes. Instead:

- ▶ The regional council has a statutory obligation under Section 175 of the Land Transport Act 1998 to prepare a regional land transport strategy covering freight traffic, public passenger transport, cycling and pedestrian traffic. Development of this is currently underway.
- ▶ Responsibility for the maritime component falls partly to the regional council with its regulatory role in respect of harbours and partly to Port of Tauranga Limited as the principal commercial operator providing facilities for this mode.
- ▶ Planning of air transport, to the extent it takes place, is in the hands of individual operators subject to safety regulation by the Civil Aviation Authority. Some of those operators are airport owners – with the key airports for the sub-region being Tauranga, Rotorua, and Whakatane (strictly speaking outside the sub-region, but an obvious factor in any sub-regional strategy).

Planning the future operation of each of these airports – especially Tauranga and Rotorua – appears to be much more a function of “local parochialism” than of the service needs of the region as a whole. We do note, though, that Environment Bay of Plenty has just commissioned a risk analysis study of the three airports.

Finally, individual air services are offered seemingly to meet the convenience/profit requirements of individual operators rather than the needs of the sub-region for effective passenger or freight transport.

The result is that the sub-region is failing to get the quality of service it requires: there is little or no opportunity to make choices based on the use of different modes; there is no effective means of resolving inter-modal conflicts.

The most significant example of this, and one that is central to the SmartGrowth objective of projecting future land use requirements, is the potential conflict between Port of Tauranga Limited and the Tauranga Airport. The Port of Tauranga continues to grow, and as it grows requires more land to support Port operations. This brings it into direct conflict with the operational requirements of the Airport. The Port has apparently now reached the stage at which its next necessary development will not be able to proceed so long as the Airport remains in its present location (the problem is intrusion into the airport flight path of the container cranes that would be needed).

It is unacceptable in the long-term interests of the sub-region that there should be a myopic approach to managing individual transport modes rather than an integrated transport strategy designed to ensure that the sub-region gets the best mix of service. Issues to consider in achieving this include the development of a regional airport to replace Tauranga, Whakatane and Rotorua airports, something that would require the cooperation of the local authorities involved and a willingness to focus on the interests of the Bay of Plenty region as a whole rather than those of individual component parts. (Although, arguably, establishing a single regional airport with a consequent increased frequency of services would have to be in the interests of individual districts as well as of the region as a whole.)

It is also unacceptable that there is no appropriate forum within which to resolve conflicts of use between the Port of Tauranga Limited and Tauranga Airport.

A final factor is the need to integrate planning for the future of rail services. Currently, this takes place primarily as commercial negotiations between Tranzrail and Port of Tauranga Limited although the future of the rail corridor and its potential to contribute to intra-regional mobility is an obvious issue for the regional land transport study.

Feasibility

Achieving an integrated transport policy will require the cooperation of at least the Tauranga, Western Bay of Plenty, Whakatane and Rotorua district councils as well as Environment Bay of Plenty. It would also require the involvement of Port of Tauranga Limited, Tranzrail and major service providers.

The key to bringing together an integrated transport strategy is almost certainly Environment Bay of Plenty, both in its role as regional council (with the various statutory responsibilities it has) and in its role as the majority shareholder in Port

of Tauranga Limited. In that capacity alone, it has a strong interest in ensuring an integrated approach. This could include using part of its financial resource to facilitate the development of a regional airport – something that would not only benefit the region as a whole and thus be a legitimate application of its resource, as it sees it, but also something that would add to the value of its Port investment.

Cultural and Artistic Infrastructure

The research reviewed in preparing this report (and the SmartGrowth economic work generally) has emphasised the importance of cultural richness and diversity as a factor in economic development. Ed Glaeser's work on the Consumer City, and Richard Florida's on location preference in a knowledge economy both make the very strong point that the cities which succeed are cities that are able to offer a wide range of cultural, artistic, recreational and consumption experiences. Those that do not, cannot expect to attract and retain sufficient people with high human capital to underpin the development of a high wage/high skill economy.

A March 2002 paper prepared by the Canada West Foundation as part of its Western Cities Project, *"Culture and Competitiveness: An Emerging Role for the Arts in Canada"*, provides a very good current example of how regions are now seeing the role of arts and culture. It is based on an extensive review of research into the place of arts and culture in economic development that it describes in the following terms:

"Various researchers have identified the development of strong arts and culture communities as a key strategy in attracting people to a city. More and more, international analysts are arguing that arts and culture may aid in attracting and retaining skilled workers, and ultimately in establishing a strong, viable and globally competitive economy. At the same time, there is a growing body of research indicating that arts and culture have a strong positive impact on the quality of life within cities, creating a vibrant urban culture of creativity and innovation. Arts and culture, an often overlooked aspect of western Canadian life, may in fact be a tool to enhance our competitiveness, build our economy, and make our cities better places in which to live."

The paper goes on to identify what it describes as a number of opportunities for western cities, among them:

"Third, by creating a culture of innovation and creativity, and by attracting human capital, arts and culture may present an opportunity for western Canada to increase its economic competitiveness, particularly in the new economy industries. Considering the importance of economic competitiveness to the region, the creation of an 'innovation culture' represents a considerable potential advantage for western Canadian cities."

In addition to presenting opportunities for western cities, it is important to note that the emerging argument about the relationship among human capital, urban competitiveness and arts and culture provides an opportunity for the arts and

culture sector itself. When thinking about the arts, it is now possible to consider the economic and social output of investment in culture. Seeing arts and culture in a new perspective provides greater fuel for the argument that arts and culture are a public good, and moves cultural policy to the centre of urban policy and planning.

The impact of this paradigm shift is beginning to be felt by cultural agencies themselves.

As Adrian Ellis (2001) describes⁴⁸, 'cultural agencies play—and are expected to play—an increasing number of roles in contemporary society, and their specific cultural roles have been joined by and often overshadowed by, more 'instrumental' responsibilities as agents of economic development, tourism and social cohesion.'

The Western Bay provides a high level of active lifestyle opportunities based around an excellent climate and marine recreational opportunities supplemented by a good range of active and passive recreational facilities. However, it is notably deficient in high quality cultural and artistic resources. It has no art gallery, no museum, limited performing arts (a strong amateur interest but no professional), and lacks the significant tertiary and research facilities normally regarded as necessary to underpin an active arts and cultural sector.

Community interest in further extending recreational opportunities appears focused primarily on extending the opportunities for physical recreation, such as the proposed aquatic centre although:

- ▶ A local art gallery trust has raised substantial pledges of funding.
- ▶ The Tauranga District Council is currently undertaking feasibility work for the establishment of a museum.

A principal reason for the lack of the artistic and cultural resources which an area with a population the size of Western Bay would normally have does appear to be a combination of:

- ▶ A community preference for investment in resources for physical recreation.
- ▶ A marked reluctance in significant and politically influential sectors of the population to invest in that type of infrastructure, at least if it were to result in an increased rates burden. Here one issue is the "asset rich, income poor" retired older person, reflecting the Western Bay's popularity as a retirement destination.

In part, also, it may be that there is simply not a high level of awareness of the importance of investment in this type of infrastructure. Another difficulty may be that this type of infrastructure has its greatest appeal to people who are not yet strongly represented in the Western Bay population. This presents something of a dilemma. The strategies necessary to provide the "soft" infrastructure essential

⁴⁸ In a speech "The Context for Culture Now" at a conference hosted jointly by the J. Paul Getty Trust and the British Museum

for a high wage/high skill economy may not be embraced by a population that is markedly more low skill/low income.

Research evidence, and New Zealand experience (for example Dunedin) make a strong case that without significant investment in improving the artistic and cultural infrastructure of the Western Bay, there is little prospect of achieving the shift to a high skill/high income economy. The question is how to obtain community support for that investment.

Feasibility

There appear to be a number of possible strategies. The first is working closely with public funders who themselves have the capacity to make a quite significant contribution. One obvious example is the Tauranga Energy Consumer Trust with its commitment to funding major regional facilities. (It has already made a commitment to the proposed Tauranga Regional Art Gallery, but the Gallery remains some millions of dollars short of its target funding requirement.)

A second is for the community's leadership – for example, local authorities – to play a leadership/educational role in developing a public understanding of the importance of building the artistic and cultural infrastructure. This could usefully be supported by the Sub-region's business community. It would probably be the greatest beneficiary of a successful arts and culture strategy because of its potential to have a positive impact on growth.

A third is to include this within the leverage approach identified above in discussing the tertiary education strategy for the Western Bay.

A fourth is a presentational one. Currently both district councils in presenting their long term financial strategies and funding policies treat different forms of recreational and cultural infrastructure as standalone projects. An alternative is to focus on the commitment that the community is being asked to make towards a portfolio of artistic, cultural and recreational opportunities. This puts the financial focus on the total amount that will be committed (and the strategic rationale for that) and allows a shift towards a discussion of how that should be allocated as between different types of opportunity so that the debate can focus on the needs that could be met, the priorities as between those needs, and why those priorities are important.

4.3.4 TANGATA WHENUA

This report proceeds on the basis that it is primarily for tangata whenua themselves to determine how they can best identify what is needed for their own future development within a wider sub-regional framework seeking a high wage/high skill economy. Demographic data illustrate how vital it is for tangata whenua to seek a lead role in the development of such a strategy. Over the 20 and 50 year planning horizons of the SmartGrowth Study, tangata whenua will:

- ▶ Form an increasing percentage of the population.
- ▶ Generally, be younger than the population as a whole.
- ▶ Generally, have lower incomes and skill levels than the population as a whole.

On the other hand, tangata whenua themselves will have significant opportunities to become major players in the sub-region's growth strategy. As examples:

- ▶ They remain substantial landowners, especially in the Eastern Papamoa area.
- ▶ They are already significant players in the delivery of educational and employment services within the Sub-region
- ▶ They are likely to control significant resources once the Treaty settlement process is finalised – resources that will be held by a number of different hapu under management structures yet to be determined.
- ▶ The history and traditions of tangata whenua are a major treasure, not just for tangata whenua themselves, but for the sub-region as a whole. Amongst other things, they represent the potential to build a very significant cultural and educational resource.

Feasibility

Uncertain. Will very much depend on the extent to which institutions of local governance – the two district councils, the regional council, major trusts and educational institutions – are able to establish working and inclusive partnerships with tangata whenua. Ideally, tangata whenua should be partners in the development and implementation of each of the interventions canvassed in this section.

4.4 Implementation: Who Should be Responsible?

Each of the suggested interventions has been presented as more or less stand-alone. In practice there will be a high degree of synergy between different interventions. There is a very real sense in which they should be seen as the components of an integrated economic development strategy rather than as isolated initiatives.

As one example success of the light manufacturing intervention will, in practice be dependent on at least the following:

- ▶ Developing an effective tertiary strategy as a means of providing the training resource firms in the sector require – and the depth of educational resource that is increasingly a pre-condition for an area's ability to recruit and retain high calibre executives (who want their families to have local access to as full as possible a range of educational possibilities).

- ▶ An integrated transport policy, both as a means of reducing distribution costs and to free up the substantial area of potential business land currently occupied by the airport.
- ▶ Building a strong IT sector with the capability to meet the technology based requirements of increasingly sophisticated design and manufacturing processes, as well as the growing importance of e-commerce.

Similar linkages could be spelt out for each of the other interventions scoped.

The New Zealand experience with the development and implementation of integrated approaches to economic development is comparatively limited, partly because of the policy settings in recent years that have encouraged a “leave it to the market” attitude and partly because of mixed attitudes by key players – business, central government, local government - to the role each might be able to play. The one area that has seen much activity has been through economic development agencies but most of this has been based on a combination of delivering government employment creation and business support programmes.

In dealing with major development initiatives most have been reactive rather than proactive – responding to specific enquiries and endeavouring to have in place the means to assist potential investors manage consent processes and assemble the information they need on local resources. Few have been able to take a more strategic approach with a proactive development approach.

Those few that have done so, such as the Canterbury Development Corporation or Wellington’s Capital Development Agency with its work in developing clusters in areas such as earthquake engineering, film and IT, have done so with strong local government support and funding and a high level of involvement from the local business community.

Overseas experience supports the view that, to be effective, economic development needs to be strategy based rather than a series of ad hoc measures and that it requires an integrated approach on the part of the public and private sectors. Within that, individual initiatives may certainly be driven solely or principally by one sector, or one group within a sector, but success depends very much on being part of a greater whole.

It is the growing realisation of how important this type of approach is over and above the roles of individual players in successful intervention that public-private partnerships are increasingly recognised as vitally important to local economic development activities. It is an approach that has much practical appeal in a region like the Western Bay where problems of scale, capability and resources inhibit action on even the obviously desirable ideas for economic development. Public-private partnerships allow better leveraging of what each sector can offer, utilising the complementarities and synergies released by the interaction of the partners. They have the further benefit of directly contributing to building the networks necessary for a well functioning economy.

The Toronto Economic Development Strategy⁴⁹ notes that:

"In virtually every other competitor city, problems have been addressed based on concerted actions of alliances that actively involve not just the public sector, but the private and volunteer sectors. In many US cities, in fact, the private sector has actively participated in implementing actions to support urban economic development initiatives." (Page 20)

The Toronto strategy goes on to say:

"Such public-private partnerships must be well thought out and executed properly to ensure that the outcomes satisfy public policy, private sector and volunteer sector objectives. Experience has shown that potential private sector and public sector partners need first to develop a better understanding of the constraints and imperatives the other partner faces. An effective forum for communication to exchange ideas, build trust, and explore potential opportunities, is therefore a prerequisite for implementing a partnership approach." (Page 21)

For the Western Bay this points to developing new ways of working together. One possibility is for SmartGrowth itself to evolve into the type of forum signalled in the Toronto strategy. In favour of this would be:

- ▶ SmartGrowth already combines the four key players in local governance in the Western Bay – the Regional Council, the two territorial local authorities and tangata whenua.
- ▶ SmartGrowth is already recognised by Industry New Zealand as a regional partnership for funding purposes, an important practical consideration when it comes to attracting funding.
- ▶ It is building up a practice of consultation across the community, and a knowledge base of opportunities and constraints that could be invaluable in creating an economic development strategy.

Potential objections include:

- ▶ SmartGrowth was established as a land use study, not an embryo economic development partnership.
- ▶ The two territorial local authorities may not yet feel sufficiently confident in working together on key sub-regional issues to be prepared to hand over responsibility for such a key part of their district's futures to a joint body.

Resourcing the extra work involved may prove difficult, especially as one of the main funders, Environment Bay of Plenty, currently lacks the statutory authority to spend on economic development.

Some of these objections may go once the new Local Government Bill is passed. Thus:

⁴⁹ Toronto City Council (2000).

- ▶ Environment Bay of Plenty will have the necessary authority subject to the agreement of all the territorial local authorities in its region.
- ▶ The two local authorities will find that they will have what amounts to a statutory obligation to work together (and with Environment Bay of Plenty) in identifying community priorities and outcomes for economic development.

PART 5 • LAND USE IMPLICATIONS

From a land use perspective, the purpose of this report has been to identify possible interventions that might change land use demands from those that would result simply from an extrapolation of the base case.

Each of the interventions scoped in the previous section has the potential to impact on land use demand, on occasion significantly. Some of them, rather than or as well as triggering a shift in land use demand, will also require specific land use decisions by local government to support the interventions themselves.

In this section, rather than endeavouring to forecast the exact impacts on land use demand, we highlight the implications from the different interventions so that later stages of the SmartGrowth process are able to take them into account, along with other data, when assessing land use requirements.

We draw out the implications intervention by intervention.

5.1 Leveraging Existing Potential in Agriculture, Horticulture and Aquaculture

Land use implications are likely to include.:

- ▶ Intensification of land use – and increased conflict between competing uses such as rural/residential and intensive horticulture.
- ▶ Better integration/consolidation of support services including cool store and packaging operations.
- ▶ Increased land (and marine based) provision for aquaculture and for processing.

5.2 Light Manufacturing

The principal land use implications will be provision of adequate land serviced to a standard required for elaborately transferred manufactures, including the (potentially significant) requirements for internet access.

5.3 Information Technology

The principal land use implications will arise from creating an environment capable of providing the lifestyle and other requirements to attract and retain people with high human capital in competition with other centres, both domestically and internationally.

5.4 Enhancing the Western Bay's Attraction as a Retirement Destination

Land use implications will include:

- ▶ Ensuring availability of land for retirement industry related activity including health care facilities, retirement villages etc, but also including appropriately located land for related research, teaching and learning facilities.
- ▶ Other requirements will focus on facilities including transport.

5.5 The Super-Region

This concept has spill overs to other interventions, for example leveraging potential in agriculture, horticulture and aquaculture, if it is able to achieve specialisation across the suggested Auckland super-region.

A related impact is the potential for the super-region to be marketed internationally as a lifestyle destination for high human capital/high net worth individuals, especially those accustomed to working remotely. This will require:

- ▶ Coordination with other local authorities through the suggested super-region.
- ▶ Provision of an appropriate range of facilities, some of which may be treated and funded as public goods (for example cultural facilities) and others of which may be funded as private or club goods, possibly using the rating system, but with the cost being borne by the beneficiaries. This could include enhanced facilities for marine related recreation.

5.6 A Western Bay Tertiary Strategy

The land use implications of this strategy are potentially major. They include:

- ▶ Using land use planning tools to encourage the development of a mixed use tertiary/professional/retail/cultural/entertainment precinct, ideally centred around the existing central business district. This would require a high level of skill in urban planning – lifting the quality and impact well above that proposed with the current relatively cosmetic measures proposed for the waterfront redevelopment.
- ▶ Incorporating within or associated with that precinct provision for accommodation of additional student numbers. Note that if numbers of students in publicly funded/publicly provided tertiary education increased to the national average, the requirement for additional accommodation is in the order of 5,000 persons.

Typically, students will want to live in or close to the central city with its tertiary, entertainment and other facilities. The principal means for providing student accommodation in the Western Bay has been through homestays. The rationale

has been that the target market is primarily overseas students – often here to learn English – so that living in a household speaking English is logical.

In contrast, a tertiary strategy focusing on an increase in delivery to domestic students would need to be satisfied through a mix of hostel, apartment or other rental accommodation.

5.7 Optimising Local Skills (“Tauranga Online”)

This initiative will not have any specific land use implications in its own right. Rather, its principal impact will be to attract/retain people who might otherwise conclude that the Western Bay is not a suitable location to meet their employment needs.

5.8 Efficient Infrastructure

Land use implications of the suggested emphasis on broad band access as such are minimal. Rather, the emphasis is on ensuring access to high quality information infrastructure. The principal requirement will be for local authorities to ensure that if physical infrastructure is involved, there is ready access to utility corridors for this purpose.

5.9 An Integrated Transport Strategy

Land use implications are likely to arise in ways including:

- ▶ Better integration of different modes – possibly including better provision for pedestrian/cycle transport (an emerging feature of government policy but not necessarily an attractive option for most users).
- ▶ A definitive policy regarding future rail use.
- ▶ Resolution of the regional airport issue – which will have major implications both for the future use of existing land (where issues of residual ownership are extremely complex) and for whatever site would be chosen for the future airport.

In the long term, it is this decision that has the greatest potential to trigger further land based business uses within the sub-region.

5.10 Cultural and Artistic Infrastructure

This needs to be seen as an integral part of planning for future land use within the Tauranga CBD in particular. It should be an integral part of the suggested tertiary/ /professional/retail/cultural /entertainment precinct for the CBD. Without an emphasis on cultural and artistic infrastructure, the present imbalance

within the CBD will continue and the potential of other interventions will be diminished.

5.11 Tangata Whenua

It would be presumptuous to predict the likely land use implications from decisions that tangata whenua may take except to note that they are likely to be profound and range from:

- ▶ Further development on or around existing marae sites – housing, kura kaupapa, wananga etc.
- ▶ (Possibly) intensified land use, especially in the post-settlement phase.
- ▶ An increasing demand on the part of tangata whenua themselves for recognition of the interest that they have in other land use decisions – for example the protection of waahi tapu.

PART 6 • CONCLUDING COMMENTS

Much of the analysis in this report is based on the assumption that the preferred future for the communities for the Western Bay of Plenty includes:

- ▶ Higher rather than lower incomes.
- ▶ More rather than less employment.
- ▶ More rather than less satisfying jobs.
- ▶ A wider rather than a narrower choice of recreational, cultural and artistic opportunities.

The report also recognises the interest in continuing the diversity of choice available within the Western Bay (urban/rural, for example) and for maintaining/enhancing its attractiveness as a retirement destination.

Against that background, the main points to take from this report are:

- ▶ The Western Bay economy is substantially low income/low skill compared with the rest of New Zealand and will remain so unless there are specific and successful interventions put in place to shift the economy onto a higher income/higher skill path.
- ▶ There is ample evidence from both overseas and, to an extent, within New Zealand that an integrated approach to economic development is capable of achieving such a lift in the Western Bay economy.
- ▶ The evidence is overwhelming, however, that this requires an integrated approach with commitment from both the public and the private sector.
- ▶ There are a number of possible interventions that show considerable promise.

Finally, this report has been prepared as a contribution to the SmartGrowth process rather than as a definitive statement of the steps that should now be taken. Its authors recognise that putting in place the necessary precondition for lifting economic growth, an integrated approach to development of an economic development strategy, faces a number of obstacles. However, the report also concludes that:

- ▶ Those obstacles are capable of being overcome.
- ▶ If they are not, the Western Bay economy is likely to continue on its present low income/low skill path.