

**REPORT 2
1215/38/IM**

**PROPOSED WELLINGTON REGIONAL ECONOMIC
DEVELOPMENT AGENCY**

1. PURPOSE OF REPORT

1.1. This report outlines a proposal to establish an independent Wellington Regional Economic Development Agency (REDA). This option involves an entity that is at arms' length to the founding TLAs and a funding deed similar to Totally Wellington.

1.2. The proposed organisation will provide for co-operation with the private sector, Government, Iwi and for joint ventures with other TLAs and their agencies.

1.3. This proposal builds on and replaces the original proposals from the Start Up Group ("SUG") as well as the proposed Wellington Regional Economic Development Agency ("REDA"), which was supported by this committee- on 30 November 2000 and again on 21 March 2001.

2. RECOMMENDATIONS

1. *THAT the information be received.*
2. *THAT the Committee recommend the establishment by 1 July 2001 of an independent Wellington Regional Economic Development Agency ("REDA") in partnership with Porirua City Council (PCC) and Hutt City Council (HCC) with opportunity for co-operation with Government, the private sector and Iwi, and with the ability for other TLAs to participate in specific programmes and projects.*
3. *THAT the Committee recommends that the governance structure of the REDA is to be a Trust and that the governance documents for the REDA ensure appropriate accountability arrangements with WCC.*

3. STRATEGIC FIT TEST

3.1. The Council has a long-standing policy that it wants to encourage economic activity on a "greater Wellington" or regional basis for a whole range of reasons.

3.2. The proposed establishment of a Wellington Regional Economic Development Agency ("REDA") with PCC, HCC and other TLAs links into the following areas of the Council's Strategic Plan:

- ◆ To encourage a wider regional approach to economic development;
- ◆ To assist and encourage economic development through the support of the City's key business clusters;

- ◆ To examine innovative ways of retaining key businesses, organisations and company offices in Wellington;
- ◆ To work closely with the business community of the City; and
- ◆ To further develop and brand Wellington as a centre of excellence for Information Technology industries and businesses.

4. ANNUAL PLAN PROJECT REFERENCE

The proposed WCC funding for the planned Wellington Regional Economic Development Agency ("REDA") forms part of the additional \$988,875 of funding recently approved by the Council and does not currently have an Annual Plan Project Number.

5. FINANCIAL IMPLICATIONS

5.1. *Provision has been made in the Economic Development Group's 2000/ 01 budget for \$120,000, specifically to assist with the establishment of a Regional Economic Development Agency.

5.2. When REDA is established WCC will transfer most of its current Economic Development Group into the new organisation. WCC will simply retain in-house economic policy, planning and commissioning functions.

6. TREATY OF WAITANGI IMPLICATIONS

There are no specific Treaty of Waitangi implications that arise from the proposed establishment of the Wellington Regional Economic Development Agency. However, it is important that Maori have full opportunity to participate. Moreover, Maori agencies and authorities should be encouraged to partner.

7. CONSULTATION

This report has been peer reviewed by Garry Poole, Chief Executive.

8. BACKGROUND

8.1. The City Development and Business Committee considered a report with regard to the above recommendations at their meeting on 21 March 2001. It subsequently resolved and recommended that the Council support, in principle, a regional economic development entity subject to Porirua and Hutt City committing in their Long Term Financial Strategy to funding by year three at the following levels:

| | |
|-----|--------|
| WCC | \$2.0m |
| PCC | \$0.4m |
| HCC | \$0.9m |

These amounts were based on an understanding from a meeting held on 2 March 2001 attended by the Mayors and Chief Executives from WCC, PCC and HCC. In discussions held with PCC and HCC since the 21 March 2001 City Development and Business Committee meeting, it is clear that there are different interpretations of what had been agreed to.

The Start Up Group in their August 2000 Report recommended that REDA be established with a budget of \$2m, this would be allocated on a formula based on population (55%) and net capital value (45%). Contributions would be as follows:

| | | |
|------------|----------|----------|
| Kapiti | (9.54%) | \$0.190m |
| Porirua | (9.26%) | \$0.185m |
| Wellington | (44.31%) | \$0.89m |
| L/Hutt | (20.83%) | \$0.42m |
| Upper Hutt | (7.46%) | \$0.15m |
| Wairarapa | (8.6%) | \$0.17m |
| Total | (100%) | \$2.00m |

Over time only Porirua, Mutt and Wellington agreed to proceed with REDA. Based on the original \$2m budget and the same formula, allocation was to be:

| | | |
|------------|----------|---------|
| Porirua | (12.45%) | \$0.24m |
| Wellington | (59.56%) | \$1.20m |
| Hutt | (28%) | \$0.56m |
| Total | (100%) | \$2.0m |

In subsequent discussions with PCC and HCC it was agreed that WCC would transfer its CDA/EDG operations and resources to REDA and that PCC and HCC would contribute to the overall REDA budget on a proportional basis. It was here that misunderstandings have arisen. WCC believed that because their contribution had effectively moved from \$1.2m to \$2m (i.e. the majority of its EDG/CDA budget) that the others would need to increase their contributions to the same proportion (i.e. PCC \$0.4m, HCC \$0.9m).

Both PCC and HCC were working towards the 6 TLA model and therefore believed that their contribution would be in year 3:

| | If other TLAs joined REDA (Yr 3) | If no other TLAs joined REDA (Yr 3) |
|---------|-------------------------------------|--|
| Porirua | \$0.185m | \$0.24m |

10. REGIONAL ECONOMIC DEVELOPMENT AGENCY (REDA)

10.1. Officers believe that in order to capitalise on the benefits of regional co-operation, WCC should proceed with REDA and accept funding from PCC and HCC which whilst less than advised to the 21 March 2001 meeting of the Committee is balanced by the fact that each would appoint one Trustee who would be their direct report back to their Council.

WCC will continue to see considerable benefits in regional co-operation, which in many cases is already occurring through investment activities and the cluster programmes.

10.1.3 Governance

The proposed legal structure is the standard Trust model. The number of Trustees would be:

| | |
|-------|---|
| PCC | 1 |
| HCC | 1 |
| WCC | 6 (in terms of current Council policy one of these positions would be held by a WCC Councillor) |
| Total | 8 |

The WCC Chief Executive will manage the development of the Agency's Business Plan for its first full year of operation (2001/02). The Trust Board will review this as soon as it meets. The plan, as provisionally approved by the Board, will be sent to this Council for its review and agreement. The Trust Board will review any comments made by Council on the draft plan. This arrangement will be enshrined in the Deeds establishing the Trust. A funding deed will be the controlling document for WCC as with Totally Wellington.

Two different methods should be considered by WCC for the appointment of its representation on the Trust Board; namely:

- (a) appointing board members using the standard WCC process as used for its other LATEs and Trust. This process involves identifying what specific competencies are required for the particular entity and selecting from applicants those people with the appropriate competencies; plus a Councillor appointed as per the Council's current policy or,
- (b) a modified appointment process that emphasises the ability to bring specialist economic development competencies to the Board, what we will call a "strategic appointment process"; plus a Councillor appointed as per the Council's current policy.

The officers recommend the strategic appointment process as per (b) option. The features of this process are:

- (a) trustees are appointed to represent key interests e.g. universities, business and community.

- (b) appointments are made of those who have knowledge of economic development and not just for their ability to run a successful business.

Brian Catts and Robert Gonzales, expert leaders of Tucson, Arizona's economic development programme, have had experience with using both approaches to appointing board members and strongly recommend the strategic appointment process.

The original management structure used was a Board of Directors drawn from business leaders of Tucson. Over time this Board started to move away from their original economic development strategy. It has since been replaced by a Board structure representing the city, university, economic clusters and the community.

10.2 BENEFITS OF AN INDEPENDENT ECONOMIC DEVELOPMENT AGENCY

10.2.1 *Scope*

REDA provides the opportunity for WCC to ensure that the advantages of regional co-operation as envisaged in the original SUG concept are maximised.

Whilst REDA will substantially implement the building of business capacity component of the WCC Economic Development Strategy using the Cluster Methodology as the primary mechanism to deliver the required outcomes for the Council, it will also focus on training, education, migrant and other economic growth strategies.

As with Totally Wellington, REDA will submit a three-year Strategic Plan for approval by WCC. In addition, REDA will be required to submit annual business plans to the Councils for funding and be subjected to the regular monitoring of performance as is required by all council funded Trusts and LATE's.

Where opportunities for regional co-operation exist outside of the three TLAs, these will be achieved through Memorandums of Understanding or contracts for services between REDA and TLA's or agencies wanting to work together. To maximise the benefits it is a pre-requisite that an arms-length entity be formed, which could contract with other parties.

The sorts of activities a REDA may be able to achieve include:

- (a) Attracting private sector support using a foundation approach as per the successful Tucson model.
- (b) Joint venture projects with central government agencies such as Trade New Zealand, Industry New Zealand etc
- (c) Partnerships with private sector organisations such as Wellington Regional Chamber of Commerce, Employers and Manufacturers etc

The proposed organisation will be operational from 1 July 2001 or, shortly after depending on completion of legal and tax requirements, to allow WCC to confirm its funding as part of their 2001/ 2002 Annual Plan process.

The Tucson experience provides valuable lessons for us:

- (a) Reflecting the reality that the benefits from economic development have no regional boundaries, regional co-operation has been a key success factor for Tucson. Indeed, whilst other neighbouring cities did not financially contribute they were involved and their input sought in shaping Tucson's economic development programme. Over time many have become the programme's major financial contributors having seen the benefits that have emerged from regional co-operation.
- (b) Economic development must be seen to deliver benefits for all sections of the community. Tucson targeted job growth and improved pay rates as their goals. Training programmes coupled with their cluster programme not only provided the skills required for the growth arising from their economic development initiatives but it also raised incomes for many on subsistence income levels. The benefits of the region sharing in the success are evidenced by the increased spending in Tucson of people from other cities within the Arizona region.

Currently, the Council engages the Wellington business community through different forums and mechanisms. Both of the following forums have businesses represented by their Chief Executive.

- Clusters – typically SME's (Small & Medium Enterprises) with some larger corporate involvement such as Ericsson. There are regular cluster meetings – over 200 companies involved in the Cluster initiatives managed by the EDG/ CDA.
- Committee for Wellington – typically larger corporate representation. Meets about three times a year. Developed and driven by the Mayor.

The Economic Development Group also interviewed 30 CEOs in September 2000. Results from the interviews highlighted that:

- The Council should play an active role in supporting businesses to retain and expand their activities in Wellington
- This role should be focussed on the Wellington region
- Many leaders were looking for opportunities to assist the City and the region and were searching for practical ways of where they might work together for mutual benefit.

There has been strong interest within the Committee for Wellington in the economic development activities in Wellington. Already the Committee has received a briefing on WCC's economic strategy and presentation from the experts from Tucson, Arizona, on economic development strategies. There is scope for greater interaction and "work-shopping" of our economic development strategy and projects with the Committee.

By leveraging and actively engaging members of the Clusters and the Committee for Wellington, officers believe this could provide a way of engaging the business community. The proposed make-up of board members through the strategic appointment process takes into account these wider interests.

Particular care will need to be taken in forming the Trust so that it avoids being deemed to be a LATE, with the associated tax and other disadvantages, and so that it will be approved for Charitable Status by the IRD.

The Trust funding deed document will be drafted to provide for appropriate accountability mechanisms.

10.2.3 Benefits

1. There are a number of compelling benefits for establishing the REDA. These include:

- A REDA Trust, which has a strong commercial focus, is more likely to be effective in developing private sector partnerships and participation. The private sector will feel more comfortable entering partnerships with a Trust than with the Council. An example of the reality of this is Totally Wellington which have been able to source approx. 20-25% of this year's funding from the private sector.
- Peter Allport, inaugural chair of Totally Wellington suggests that the fact that the Trust was established and seen as arms length from the Council has been one of the key factors in the success of Totally Wellington. He attributes the reasons for this as being the perception that the trust is at an "arms length" from the Council and free from political interference. With a stronger commercial focus, he believed that the business community felt that the Trust would talk to them in a language that they can understand. Another advantage which he saw coming from the Trust was the independence it gave politicians who could refer approaches from constituents to support various activities and allow Totally Wellington to decline without causing councillors any political offence.
- REDA will be able to offer services to other local authorities across the region and partner on mutually beneficial programmes as has occurred with Invest Wellington but at a greater level than can be achieved by a CDA/ EDG structure. There are undoubted advantages in utilising the opportunities presented by working closely with the other TLAs within the Wellington Region. These were clearly identified in the SUG Report. Again Totally Wellington provides a successful model for REDA e.g. Totally Wellington produces the city's tourism strategy and delivery mechanisms and has also leveraged further benefit to the city through using such vehicles as the Centre Stage model and partnerships with the private sector e.g. hotel owners etc.
- WCC's reputation for service delivery with external providers such as government is held in high regard. However, Industry New Zealand (INZ) has indicated a strong preference for a more regional approach to its programmes. WCC has tendered for renewal of INZ's Business Development Programme (BIZ) which, with the support of the region's economic development agencies, will be made available for the wider region including Wairarapa. We believe REDA will be better placed to both win this contract as well as attract an expanded range of services sourced from Industry NZ and other government agencies.

- The business community have clearly indicated their support for WCC economic development programmes, and through discussions and reports such as the Vantage and SUG Reports given a clear preference for a regional approach which they see better delivering economic growth for the Wellington Region. There is growing enthusiasm for partnering and involvement by the business community. REDA will an important vehicle to allow this to occur in terms of governance and financial controls i.e. perception of 'arms length' from the Council.

10.2.4 Risks

The risks with this option are:

- With a distancing from the Council, the Council could, over time, lose influence over key high profile projects.
- The Trust could diverge its focus over time.
- The Council may be reluctant to transfer sensitive resources and valuable assets to a Trust over which it has a lessened political control or influence.
- The Trust, rather than the Council, may receive the political benefits of successful high profile projects.
- Less delivery for the same costs. Money would need to be found within existing budgets or alternative revenue sources for costs of the Board and CEO, and additional operational costs.

All of these risks can be mitigated by ensuring the best people are involved both at board and management level.

10.2.5 Financial Implications

REDA is to start up from 1 July 2001 , or as soon as possible after, with the transferred resources of the Wellington City Council (\$2 + million) plus year 1 funding from PCC and HCC.

Additional funding may be secured from Central Government, Iwi, Te Puni Kokiri, the private sector and joint projects with other TLA's.

WCC will transfer its CDA staff and external contracts.

10.3 REASONS WHY THE EXISTING EDG/CDA SHOULD BE REPLACED

WCC could retain the status-quo i.e. CDA within the Economic Development Group continuing work as usual.

Officers believe that whilst EDG/CDA has been very successful it is time to change and capitalise on the advantages of a regional approach because:

- Business is unlikely to be keen to financially support a Council unit because of the perception that there is less entrepreneurial and business acumen in projects, and that there is undue political interference in the economic development initiatives.

- Not leveraging business goodwill and ignoring its strong preference for a regional approach to economic development will inhibit the ability of Wellington to make the most of the opportunity to maximise the potential for our region.

11. DISCUSSION

REDA provides an opportunity to WCC to build on its existing successes in delivering its economic development strategy, policies and projects because:

- The business community is keen to develop partnerships and participate in joint programmes. REDA provides an at 'arms length' entity with which they can contract and partner.
- There is good logic for regional economic co-operation. Industry New Zealand who has publicly declared their interest in dealing with regionally focussed organisations has endorsed this. Other TLAs not party to REDA are prepared to partner with Wellington on projects that have mutual benefits. REDA provides a vehicle, which can accommodate these opportunities as they arise.
- EDG/CDA is seen as part of the Council and is treated with suspicion by some people who feel reluctant to partner with an arm of the Council – they would rather deal with an entity that is seen to be separate but secure from the point of view of WCC parentage and support.

12. CONCLUSION

Officers recommend the establishment of the Wellington Regional Economic Development Agency which is the culmination of regional co-operation over the past six years and sustained discussion amongst the TLAs and the private sector for the past nine months.

Different TLAs have chosen options that most suit their local needs but most will want to partner with REDA in furthering regional economic development opportunities on a project by project basis.

This establishment of the Regional Economic Development Agency offers WCC the best option for delivery of its economic development activities and ensuring that the momentum of the Start Up Group Report for regional co-operation in economic development is not lost.

Report by Ray Lind, Director, Capability Development