

Report to Upper North Island Strategic Alliance Mayors/Chairs

Opportunities to grow the Upper North Island economy

Executive summary

The draft Upper North Island Strategic Alliance (UNISA) agreement identifies economic development linkages as an initial focus for inter-regional collaboration. Economic development linkages is an overarching proposition which encompasses a number of other issues identified in the proposed UNISA agreement: namely transport (including rail, roads and freight), economic infrastructure (including ports, airports, science and technology parks, research facilities etc) and economic activities such as sector development (including tourism).

This paper outlines why the current economic performance of the upper North Island (UNI) is important for New Zealand as a whole, the existing sectors of comparative advantage within the UNI, and areas of potential focus for future collaboration.

It is recommended that Upper North Island Strategic Alliance (UNISA) develop a common economic framework based on the collaboration opportunities identified in this paper, and in particular a regionally interconnected, innovation focused economic system.

Recommendations

It is recommended that the UNISA:

1. Agree to work towards to developing an integrated UNI economic framework that can be championed by UNISA, and
2. Agree that this framework should, where appropriate, apply the methodology of the LGNZ/MED Core Cities project at the regional level, and
3. Agree to undertake further work to identify opportunities to create a shared work programme around opportunities relating to infrastructure and investment, in particular to identify what is required to develop a regionally interconnected, innovation focussed economic system and the benefits that could be expected from such a system.

Background to the Upper North Island economy

In 2010, the UNI population was estimated at 2.3 million (52.7% of the national total). Population growth within the UNI has been robust and accounted for 72% of total population growth in New Zealand from 1996 to 2010. Strong population growth in Auckland has been the key driver for this growth.

The UNI region produces just over half of New Zealand's total GDP - approximately \$70 billion in annual gross domestic product (GDP) as at March 2011 (refer Table 1 overleaf). UNI GDP growth rates have been greater than the national average (2.6 per cent versus 2.4 per cent respectively) from

1998 to 2011. GDP per capita for the UNI region is \$30,340. However, this is less than that for New Zealand as a whole.

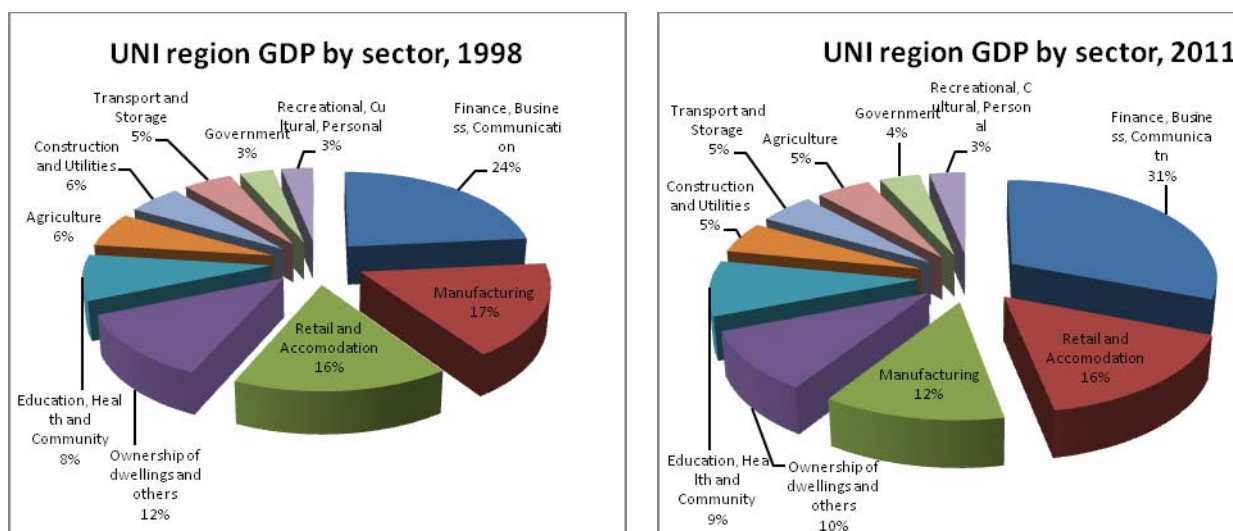
Table 1: The Upper North Island Region, GDP 1998 and 2011

Regions	1998	% UNI	% NZ	2011	% UNI	% NZ	1998-2011		GDP per capita
							Ab change	AAGR	
Northland	2,529.8	5.1%	2.5%	3,322.6	4.8%	2.5%	792.8	2.1%	\$21,123
Auckland	34,029.3	68.0%	34.1%	49,083.9	70.2%	36.2%	15,054.6	2.9%	\$33,626
Waikato	8,088.5	16.2%	8.1%	10,721.1	15.3%	7.9%	2,632.6	2.2%	\$26,054
Bay of Plenty	5,388.6	10.8%	5.4%	6,760.3	9.7%	5.0%	1,371.7	1.8%	\$24,583
UNI	50,036.2	100.0%	50.2%	69,887.9	100.0%	51.6%	19,851.7	2.6%	\$30,340
RoNZ	49,647.8		49.8%	65,557.4		48.4%	15,909.6	2.2%	\$31,759
New Zealand	99,684.0		100.0%	135,445.3		100.0%	35,761.3	2.4%	\$31,011

Source: Infometrics Ltd - Regional GDP estimates \$m, 95/96 prices (annual to end Mar 31), except for GDP per capita

Retail and accommodation, finance, business and communications, and manufacturing sectors collectively made the greatest contribution to UNI GDP in 2011. However, the manufacturing sector's share of GDP has been declining (from 17% in 1998 to 12% in 2011).

Figure 1: The Upper North Island Region, GDP 1998 and 2011



Source: Infometrics Ltd - Regional GDP estimates \$m, 95/96 prices (annual to end Mar 31)

Comparison of total employment in 2010 indicates that the UNI is weighted slightly more towards production, distribution and particularly business services than the rest of New Zealand. The Retail and accommodation sector was the largest employer in the region at 24 per cent of total employment, followed by finance, business and communications; and education, health and community sectors at 20 per cent each. Manufacturing made up 12 per cent of total employment, a reduction from 15 per cent in 2000.

The UNI had 933,030 employees in 263,896 businesses in 2010. This represents 52.2% of all businesses in New Zealand. The region is dominated by small medium enterprises (SMEs)¹, with 97 per cent of all businesses in the region having less than 20 employees.

¹ MED defines SMEs as businesses with less than 20 employees and this definition of SMEs is used here.

While much is known about the economic strengths and opportunities within each of the UNISA member areas, a clear understanding of the strengths of the UNI as an 'economic district' is relatively unknown, as are opportunities to leverage existing sector development and other economic initiatives.

For example, "Economic Linkages between New Zealand Cities: Final Report" finds that the degree of economic inter-linkage between Auckland, Hamilton and Tauranga is negligible, although there are significant freight linkages between Auckland and Tauranga. By the standards of international city-systems, the three cities are economically distant. The findings suggest that improving accessibility and connectivity within cities is likely to have greater economic impact, other things being equal, than trying to improve accessibility between cities.² On the other hand, the report does not explore the nature or scale of linkages between the regions more broadly, for example the role of Waikato as a supplier of aggregates, energy and water to Auckland or the presence of complementary industry specialisation, such as dairy, horticulture and food manufacturing.

Regional and City Strategic Directions

A desire for greater economic growth is clearly a key driver that underpins the proposed UNISA agreement. This is also apparent when reviewing the economic development strategies of the UNISA members, with all councils striving to deliver economic prosperity to residents (refer Appendix 1 for more detail). Common focus areas include:

- education and skills development, especially in terms of investing in people to raise capability, to meet business needs and to attract and grow talent
- sector development based on comparative regional economic strengths
- establishing internationally connected economies, innovation hubs and developing an enterprise culture
- creating thriving business environments, including the provision of efficient infrastructure and commercial land
- developing vibrant, creative cities that attracts job seekers, employers and visitors.

A comparison of the priority sectors identified in the economic development strategies of the member councils is provided in Table 2.

²<http://www.apo.govt.nz/Shared/Documents/Content/Improving%20our%20Understanding%20of%20Auckland's%20Competitiveness%20-%20A%20synthesis%20of%20the%20Auckland%20Research%20Programme.pdf> page 2

Table 2: Priority Sectors

Northland Regional Council	Whangarei District Council	Auckland Council	Waikato Regional Council (outside Hamilton)	Hamilton City Council	Tauranga City Council	Bay of Plenty Regional Council
Aquaculture	Marine, shipping	Marine	Aquaculture		Marine, shipping	Aquaculture
Tourism	Tourism	Tourism	Tourism (Coromandel, Waitomo, Rotorua)	Tourism	Tourism	Tourism
Agriculture, horticulture		Food and Beverage	Food production & manufacturing (dairy, meat, horticulture, aquaculture) Forestry (value-addition)	Ag-bio, agri-tech, dairy research		Agriculture, forestry
Clean energy		High technology	Bio-packaging Renewable energy technology and services (geothermal, wind, hydro and forestry)	Stainless steel, aluminium, plastics		
	Creative	Screen and creative		Creative		
		Finance				
		Tertiary education and training		Tertiary and research		

Many of the member councils' strategies also recognise key infrastructure components that are inter-regional, including state highway networks, electricity grids, ports, rail networks, research and sector and cluster facilities. They also recognise the need to build complementary settlement and migrant policies.

Potential opportunities

New Zealand's distance from markets means that achieving economic scale is increasingly important to the improving our prosperity. McCann (2009) points out that "all of the world's most productive cities are at least twice the size of Auckland". A key challenge for the UNISA therefore, is how the contribution of the upper half of the North Island to the nation's economy can be increased, and grown in a way that benefits all residents. The following summarises potential opportunities to improve UNI's overall economic contribution.

Collaboration

All the existing economic development strategies recognise a need for improved collaboration across UNI administrative boundaries. This collaboration potentially covers all aspects of economic developments: including land use planning, infrastructure, investment and attraction.

Collaboration could also reduce duplication across the region, as well as improving industrial and land use planning at the administrative borders and ensure that we obtain more optimal use of existing infrastructure networks including ports and airports, water, energy and transport.

The Core Cities project being led by Local Government New Zealand (LGNZ) and Ministry of Economic Development (MED), aims to identify opportunities for new models of collaboration and joint ventures between cities. The core cities project currently includes Auckland, Tauranga, Hamilton, Wellington, Christchurch and Dunedin. The first stage of the project (over the next 12 months) aims to gain agreement from each core city on a generic framework that enables the competitive advantages and areas of distinctiveness of each city to be identified and to then populate this framework. It is likely that shared learnings for UNISA can be gained and applied from this process.

Infrastructure and Investment

There are significant business, freight and other connections within the UNI. These connections are forecast to increase significantly over the next decade, as population and business growth give rise to greater volumes/flows of goods and services. Improving the capacity to support this growth, as well as to improving the linkages to international gateways, will become increasingly important. Substantial economic benefits can be obtained from infrastructure investments that expand and enhance the major transport networks. Investment in transport (and energy, communication) must complement national level investment to gain maximum benefit. To secure improved prioritisation of national investment into the UNI, UNISA has the potential to provide a united front on inter-regional issues of funding and infrastructure investment.

Transport and related infrastructure activities are the subject of another UNISA workstream.

Innovation and international connectivity

A number of the UNISA member strategies indicate the need for improved innovation and international connectivity. There are a number of opportunities to achieve this, including:

- *Fostering improved knowledge sharing through improved connection to education providers* – this could occur by identifying particular niche areas where tertiary education opportunities can be aligned with economic opportunities. For example, the **marine** industry has been identified as a growth industry and the Northland Polytechnic offers a range of training and apprenticeships on different aspects of the marine industry that can be leveraged upon.
- *Improved value and supply chain linkages* - businesses operate across administrative regional boundaries, and consequently there are opportunities to achieve improved value and supply chain integration. Further, an integrated regional economic approach for sector and cluster development would allow the region to take better advantage of the variation across the UNI in terms of resources, population, labour markets and industry composition.
- *Development of key growth sectors* - each area's economic strengths can be further enhanced by drawing on each other's comparative advantages and areas of expertise. For example:

- Hamilton's strong association with the country's dairy and agricultural sectors has seen industry clusters develop in food, ag-bio and agri-technologies. **Food and beverage, biosciences** and **specialised manufacturing** are fast growing sectors that will be further advanced through the development of a network of food innovation entities that includes entities in Auckland and Hamilton.
- **Aquaculture** Auckland, Waikato, Northland and the Bay of Plenty have a range of coastal space for aquaculture, supported by an established industry and research base. Opportunities exist to better support the continued development and growth of this sector, as identified recently by the Sapere report "Economic impact of Coromandel Aquaculture". In addition, there are opportunities for freshwater aquaculture spanning Waikato and Bay of Plenty.
- The Waikato region supplies 40 per cent of electricity in New Zealand, but only uses 9 per cent (EECA, 2009). A significant amount of electricity is therefore exported to other regions around the country, primarily Auckland. The region's **renewable energy** resources include hydro, 80 per cent of New Zealand's known geothermal systems (the remainder are in Bay of Plenty and Northland), Te Uku wind farm (64.4MW) and three other wind farm sites consented, cogeneration plants at major forestry and dairy industries and significant potential for wave power and biofuels. Further development of these resources and the related research, development and commercialisation capabilities are international opportunities the UNI region could explore given the focus on green growth and the branding of a 'clean green image'.

Proposed Approach

It is recommended that UNISA develop a work programme based on the opportunities identified, which will seek to maximise for the UNI the benefits to be gained from creating a regionally interconnected, innovative economic system. To achieve this, we propose the following approach:

1. Agree to work towards developing an integrated UNI economic framework that can be championed by UNISA, and
2. Agree that this framework should, where appropriate, apply the methodology of the LGNZ/MED Core Cities project at the regional level, and
3. Agree to undertake further work to identify opportunities to create a shared work programme around opportunities relating to infrastructure and investment, in particular to identify what is required to develop a regionally interconnected, innovation focussed economic system and the benefits that could be expected from such a system.

Appendix 1: UNI Economic Strategies

Northland

Northland Regional Council's "Strategy for the sustainable economic development of Northland" Update 2007-2011 vision for Northland is:

"A vibrant economy that creates wealth and jobs, and provides choices and opportunities for people to live, work and invest in Northland, whilst recognising the value of its unique environment for present and future generations."

Northland's comparative advantages relate to its topography – tourism landscapes, its climate – year round grass growth, its geology – sands, clays, aggregates etc, and its people – unique Maori and European settler history. Additional opportunities arise from Northland's proximity to Auckland. According to the Strategy, Northland opportunities from aspects of comparative advantage include:

- vertical/horizontal integration in land/sea based sectors – aquaculture and derivatives
 - food and food derivatives
 - value added manufacturing e.g. marine and forestry related
- tourism
 - Maori culture, Maori and settler history
 - high end products/services based on "pure" or "clever natural"
 - active/experiential
- minerals and mineral derivatives
- clean energy
- proximity of Auckland

Other opportunities from aspects of "market failure" include the following:

- re-location of SMEs/corporate divisions from higher cost structures
- intelligent start ups
- change image of "lifestyle" from "slack" to "smart"

The Strategy identifies the plan for Northland going forward with the following development priorities:

Development priority 1. Creating an effective growth platform
Strategy 1.1: Delivering secure infrastructure to Northland
Strategy 1.2: Positioning Northland for investment and growth
Strategy 1.3: Establish a regionally supported process for identifying/developing Northland leaders
Development priority 2. Raising capability
Strategy 2.1: Deliver improved educational/skills outcomes that lift Northland's productivity and prosperity
Strategy 2.2: Instil an enterprise focus in youth prior to transition from school to the workplace
Strategy 2.3 Enhance communities focus and ability to capitalise on development opportunities
Strategy 2.4: Establish integrated "single entry" business growth and support process
Strategy 2.5: Increase governance skills and understanding throughout business and community
Strategy 2.5: Encourage research activity in Northland through increased presence and collaboration between NorthTec, Universities and Crown Research Institutes
Development priority 3. Changing Northland's economic profile
Strategy 3.1: Intensify sector strategic activity – across all key sectors
Strategy 3.2: Implement a suite of activities to encourage and increase investment in Northland
Strategy 3.3: Take action to effectively position Northland as a desirable place to live, work and invest

The Whangarei District Council Growth Strategy “Sustainable Futures 30/50” sets out a vision for the sustainable development of Whangarei District and supports the development of a “sense of place”. It has identified the following broad areas for development:

- Creative class
- Amenity-led development
- Business Improvement Districts (BIDs)
- Cluster Development

Auckland

Auckland Council’s draft Economic Development Strategy vision is for Auckland is to be the *world’s most liveable city, with an internationally competitive, prosperous economy that all Aucklanders can benefit from and participate in.*

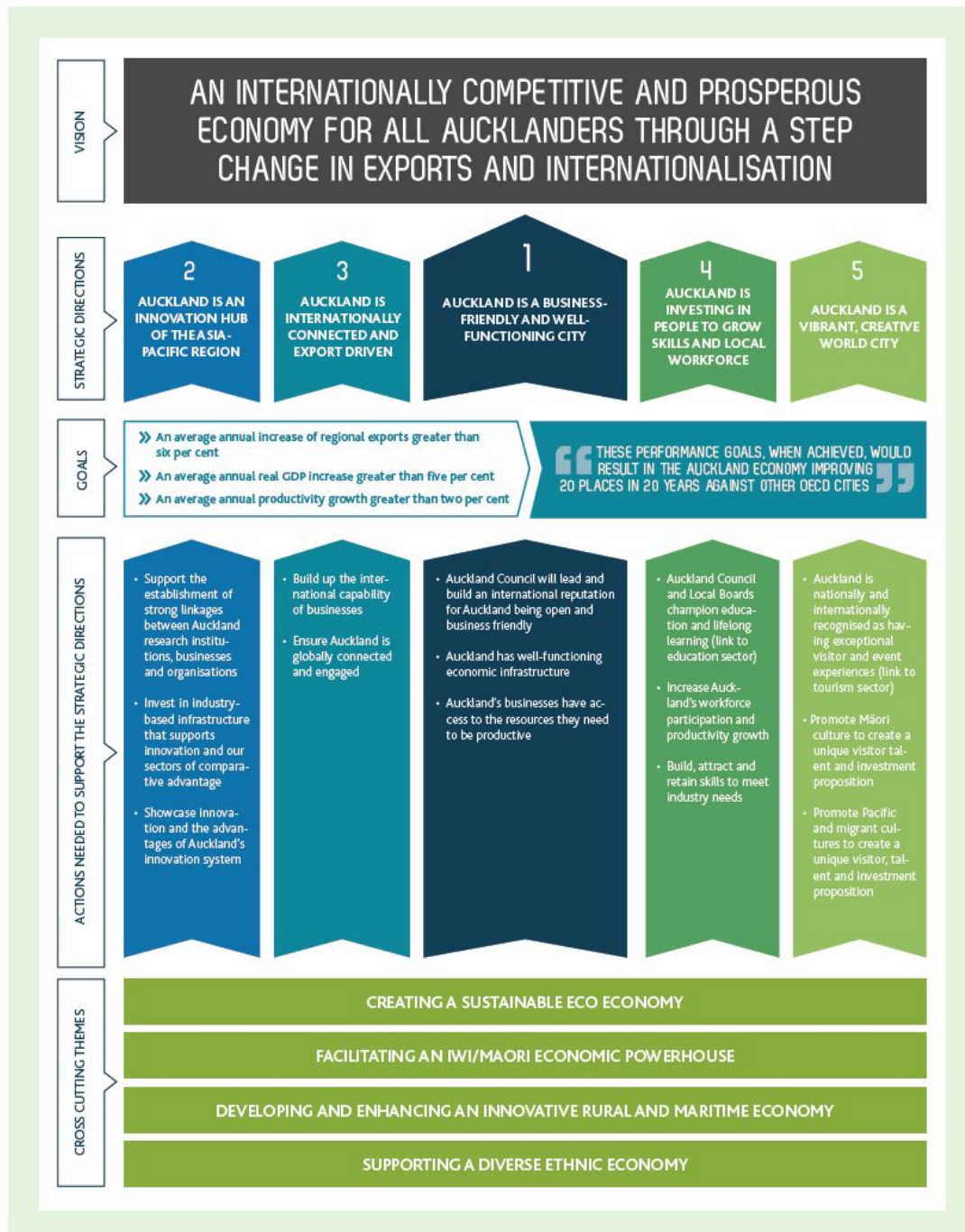
The draft EDS identifies five strategic directions supported by four cross cutting themes (refer Figure 1) to achieve this vision for Auckland.

The EDS has 64 high level actions to the five strategic directions to achieve real economic growth. Of the 64 proposed actions, the following 12 actions have been highlighted as key.

1. Auckland is a business friendly and well-functioning city
<ul style="list-style-type: none"> ▪ Deliver an integrated transport system, with emphasis on facilitating the following key transport projects: City Rail Link, completing the Western Ring Route, activating Auckland’s harbour through an effective ferry network, improving regional freight routes, improving rapid transit and airport connections, additional harbour crossing and improvements to inter-regional connections. ▪ Support broadband deployment across Auckland, and work with the industry to ensure that the rollout programme balances economic, commercial, funding and social priorities. ▪ Identify new business land requirements, and provide certainty on the timing of release of new business land (including greenfield land development in rural areas)
2. Auckland is an innovation hub of the Asia-Pacific region
<ul style="list-style-type: none"> ▪ Support the establishment of strong linkages between Auckland research institutions, business and organisations. ▪ Invest in industry-based infrastructure that supports innovation and our sectors of comparative advantage.
3. Auckland is internationally connected and export driven
<ul style="list-style-type: none"> ▪ Deliver initiatives to ensure businesses with international potential have the capability to succeed and grow (e.g., Regional Partner Network) ▪ Facilitate business and market development outcomes from the council’s international relationships, through joint projects undertaken with the council’s partner cities and other local and international networks, outbound trade missions, inbound official visits and delegations.
4. Auckland is investing in people to grow skills and local workforce
<ul style="list-style-type: none"> ▪ Deliver improvements in literacy, language and numeracy to raise productivity ▪ Build, attract and retain skills to meet industry needs.
5. Auckland is a vibrant, creative world city
<ul style="list-style-type: none"> ▪ Deliver the Auckland waterfront as a key destination and events venue for residents and visitors in alignment with the Auckland waterfront plan, including the cruise ship terminal. ▪ Support iwi/Māori to explore the potential of establishing Māori entrepreneurship initiatives and points of difference for Auckland. ▪ Support Pacific peoples and migrant entrepreneurship initiatives.

Figure 2: Auckland’s Draft Economic Development Strategy

AUCKLAND - THE WORLD'S MOST LIVEABLE CITY



Waikato

There is no regional economic development strategy. Hamilton City Council's Economic Development Strategy "Ambition for our city". builds on Hamilton's value proposition as a young, dynamic, agile city able to capitalise on opportunity. It creates an economic vision for the city as New Zealand's leading centre for the research and commercialisation of ideas, for training and labour market strategies and for harnessing the potential of entrepreneurs. As at September 2011 the strategy is under active review.

The Strategy identifies the following strategic priorities and shared outcomes:

1. Leadership for Hamilton
▪ Hamilton sells its brand of a young, vibrant and agile city
▪ Hamilton develops a new generation of business leaders
▪ Hamilton shows national and international leadership in food, ag-bio and agri-tech research, engineering and manufacturing
▪ Hamilton is represented in decision making at a national level
▪ Hamilton attracts business investment nationally and internationally
2. A thriving business environment
▪ Hamilton has the infrastructure, land and workspace to provide for future growth
▪ Hamilton has a thriving city heart that provides an attractive and modern business location
▪ Hamilton has leading broadband infrastructure
▪ Hamilton has urban design principles that inspire high quality developments
▪ Hamilton develops a joined up and coordinated information gateway for business
3. Building on economic strengths
▪ Hamilton has continued growth in its food, ag-bio and agri-tech sectors
▪ Hamilton has growing tourism, events and conference sectors
▪ Hamilton develops its industry clusters in ICT and the creative and cultural industries
▪ Hamilton has continued growth in its internationally renowned research institutions
▪ Hamilton supports the commercialisation of new products
▪ Hamilton helps businesses to grow and find new market
4. Attracting and growing talent
▪ Hamilton attracts people to the city by selling its lifestyle and opportunities
▪ Hamilton assists companies in finding skilled people
▪ Hamilton provides employment opportunities for highly skilled graduates
▪ Hamilton encourages people in employment to up-skill
▪ Hamilton tackles worklessness by supporting people into employment and training
5. Developing an enterprise culture
▪ Hamilton is a hot-house for creativity, innovation and new ideas
▪ Hamilton grows new innovative and knowledge-based companies
▪ Hamilton celebrates the success of its enterprises
▪ Hamilton promotes enterprise to all its communities

Bay of Plenty

A SmartEconomy Strategy and implementation plan has been adopted by the Bay of Plenty Regional Council which seeks to address issues of human and physical infrastructure. In particular, the strategy focuses on increasing wage and skill levels, and providing additional business land. Local businesses will have access to opportunities to support their viability and encourage their growth and development. The strategy is focussed on:

- A highly connected economy with effective information sharing across different businesses and solid partnerships are in place.
- Enhanced marketing of western Bay of Plenty as a business location.

- Education and training opportunities provide support to business needs and the needs of individuals in accessing viable and diverse employment opportunities.
- A range of high quality facilities and activities on offer that are attractive to job seekers, employers and visitors.
- Commercial land is available to support the scale and type of economic development the city wants to secure.
- Tauranga's infrastructure is completed and supports a growing economy.

Summary

The UNI region have clear similarities in their economic development strategies as shown in the following table.

Table 3 Summary of Member Council's Economic Strategic Directions

Area	Governance	Productive People (skills/education)	Value added businesses (innovation/exports)	Attraction (tourism)	Business friendly (physical assets/ infrastructure)
Northland		Raising capability	Changing Northland's economic profile.		Creating an effective growth platform
Auckland		Auckland is investing in people to grow skills and local workforce	Auckland is internationally connected and export driven Auckland is an innovation hub of the Asia-Pacific region	Auckland is a vibrant, creative world city	Auckland is a business friendly and well-functioning city
Hamilton	Leadership for Hamilton	Attracting and growing talent	Developing an enterprise culture Building on economic strengths		A thriving business environment
Bay of Plenty		Education and training opportunities provide support to business and individual needs	A highly connected economy	Enhanced marketing as a business location. A range of high quality facilities and activities on offer that are attractive to job seekers, employers and visitors	Commercial land is available to support the scale and type of economic development. Tauranga's infrastructure is completed and supports a growing economy.