
REPORT 2
(1215/52/IM)

DRAFT ECONOMIC DEVELOPMENT STRATEGY

1. Purpose of Report

This report seeks the Committee's approval to consult on the **attached** draft Economic Development Strategy for Wellington City, developed in response to the '2015' Councillor workshop on economic development priorities for the City held in May 2011.

Following consultation any consequent amendments, the Strategy would replace the Council's current Economic Development Strategy, and form one of the seven Council strategies as part of the 2012/22 Long Term Plan.

The draft Economic Development Strategy identifies priority activities that Wellington City Council, together with key partners, should undertake to develop a stronger, smarter and more resilient economy.

2. Executive Summary

Following the '2015' Councillor Workshop on economic priorities held on 25 May 2011, officers were asked to report back to this Committee on how best to support economic growth for the city in terms of business, jobs and vibrancy.

A wide range of research, targeted engagement and economic analysis, using the Ministry of Economic Development's *Economic Futures Modelling*, was undertaken to better understand the nature of the opportunities and challenges for the city.

Wellington City increasingly competes with other cities, both nationally and internationally, to retain and attract business investment and talented people. Its future prosperity relies on building on its existing industry strengths while at the same time diversifying and broadening the base of its economy.

The City has all the ingredients needed to significantly increase the proportion of economic output from "smart businesses"¹, which economic modelling suggests should form a key basis of growth for the City over the next 20 years. Wellington City has one of the most productive economies in New Zealand; its workforce is comparatively highly educated and well paid; it is developing as a

¹ **Smart businesses** are a segment of Wellington's businesses using knowledge and technology intensively during every day operations including businesses such as telecommunications services, computer consultancies, engineering, business management and professional services. It also refers to the way businesses operate, using smart technology or innovative processes to add value.

national hub for some creative and digital industry sub-sectors; and it consistently ranks as one of the world's most liveable cities.

While recent developments in the City's economy suggest it is on the right path, reaching its potential requires a step change in economic performance to increase the number and quality of business and jobs in the Wellington economy. To achieve this, the Strategy suggests a focus on four strategic areas:

- *Destination Wellington* – developing and promoting the City in a way that attracts the visitors, skilled people, business and investment needed to achieve greater prosperity including through events, amenities and promotional activities
- *Smart capital* – generating a significant proportion of future economic growth from smart, innovative, knowledge-intensive businesses
- *Connected capital* – increasing physical and virtual connectivity within the region, with other parts of New Zealand, and internationally
- *Open for business* – delivering the Council's services with a "can do" attitude, providing a world class built environment and fostering a business environment where it is easy, efficient and affordable to invest and do business.

Each of the four areas contains a number of high priority and supporting activities, several of which will require further development and approval through the 2012/22 Long Term Plan deliberations.

3. Recommendations

1. *Receive the information.*
2. *Agree to consult on the Draft Economic Development Strategy (**attached**) from 3 October to 4 November 2011*
3. *Agree to delegate to the Chief Executive and the Economic Development Portfolio leader the authority to make changes to the draft Economic Development Strategy, required as a result of the decisions of this Committee, prior to its release for public consultation*
4. *Agree that the following be developed as new initiatives for consideration as part of the draft 2012/22 Long Term Plan deliberations:*
 - a. *Clearly define Wellington's competitive advantage and develop an integrated talent, business and investment attraction strategy*
 - b. *Pursue the attraction of a long haul carrier to Wellington Airport by 2013 and investigate the feasibility of the creation of a Long Haul Attraction Fund to support this activity*
 - c. *Consult business owners in suburban centres on their interest in being part of a Business Improvement District to promote local business vitality*

- d. *Develop economic intelligence capability and expertise within the Council to support economic development in the City, in a manner that is complimentary to the role of other economic development partners*

4. Background

4.1 The 2015 workshop

On 25 May, the Council held a 2015 Economic Workshop to provide Councillors with information on the performance of the Wellington economy and to consider what actions the Council might take to respond to the issues confronting Wellington in the shorter-term.

Councillors identified several areas they considered key to creating a successful Wellington economy with a thriving jobs market that would attract, retain and grow productive businesses and a talented workforce.

The outcomes of the workshop were used to target further research and engagement on the direction and priorities for the Council's economic development focus for 2012–2015.

4.2 Research undertaken

The following research activities were undertaken to support the development of the draft Economic Development Strategy:

Market Economics future modelling exercise

A modelling exercise was undertaken to estimate the effect of three economic scenarios on Wellington City's economy – business as usual, continued/deeper government austerity, and broad based economic diversification.

Qualitative research

A series of interviews were undertaken with key stakeholders representing businesses, government departments, education providers, industry organisations, economic development agencies and the chamber of commerce.

Literature Review

Officers reviewed the economic development and destination promotion strategies of other municipalities to inform the development of the proposed economic development strategy for Wellington City, including the new Auckland Tourism, Events and Economic Development (ATEED) agency, as the most pertinent domestic example of economic development thinking in New Zealand.

Review of talent attraction and business investment

On the back of concerns expressed about gaps in the provision of business and talent attraction in Wellington, and the integration of these with other functions such as tourism promotion and business support, an initial review was

commissioned by officers to identify the role that government (in particular Wellington City Council) can play in talent and investment attraction.

Based on a mix of information and coordination problems, and the potential for positive 'spillover' benefits as a result of attracting more talent and investment, the review found that there is a prima facie case for Council intervention.

5.0 Discussion

5.1 Key research findings

The research identified that successful cities are distinguished by several characteristics including²:

- Attractive natural features and environment
- Good social amenities and community environments (with few negative externalities such as crime)
- A high proportion of highly skilled workers and a strong knowledge-intensive service sector
- Strongly performing tertiary education and research institutions that are well connected with business
- Well-functioning transport networks that enable the efficient movement of people, both within the city & region and to other domestic and international locations.

As part of the Core Cities Project that Wellington City is involved in, which is a central-local government economic development project aimed at understanding and aligning each City's competitive advantages, we have identified that Wellington City has the following strengths that it can leverage:

- A compact city with a low environmental footprint, attractive waterfront and distinctive suburban villages
- Its reputation as New Zealand's arts and events capital and recognition as the world's coolest little capital
- Its status as a capital city and the centre of government
- A highly educated and skilled population and the country's most productive and well paid workers
- Industrial specialisations in several knowledge intensive service industries, including finance and insurance, business services, communications
- World class firms and growing strengths in the creative industries, including film, design, digital animation and post production, gaming, IT solutions and software development
- A central New Zealand location, which means it can act as a regional hub and connection point between the North and South islands.

² Grimes, A. (2007) "Auckland's Economic Transformation: Evidence to Underpin Action", Discussion Paper for the Government Urban Economic Development Office (GUEDO).

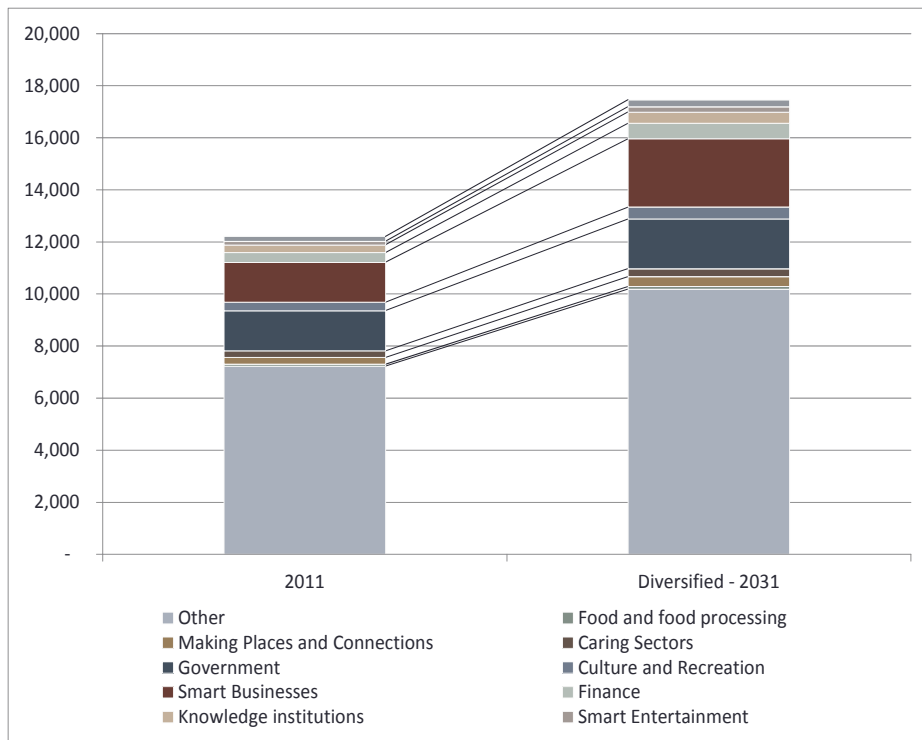
Taken on the whole, our research suggests a number of areas for improvement for the City's economy:

- Wellington is a small city by international standards, and the increasing mobility of workers means that it faces significant competition to attract and retain investment and talent. Focussed talent and investment attraction is critical to achieving sustained economic growth. Our track record to date of attracting highly-skilled individuals and businesses, and high quality Foreign Direct Investment (FDI), has been modest. Businesses in Wellington have signalled that more could be done both at a city and regional level to improve talent and investment attraction
- Wellington has moderate international connections in a New Zealand, let alone world, context. Both Auckland and Christchurch have higher direct trade flows, migration flows and international visitor numbers, and Wellington is the fourth placed region as a place of learning for fee paying international students – suggesting an under-performance in this area. Having a transport hub – the Airport - that more directly connects Wellington with international markets would markedly improve the City's performance on these measures.
- Wellington's education and research institutions could be better connected with the City's businesses
- There are opportunities to streamline the Council's regulatory processes to facilitate and expedite business development, and to deliver the Council's services with a "can do" attitude. This is crucial to support the growth of Wellington's small business sector in particular, as a significant contributor to employment (and in many cases) innovation in the city
- Opportunities exist for co-investment with Wellington iwi in projects that support the realisation of the city's economic potential, such as the development of Shelly Bay
- While Wellington is a highly liveable city, it rates lower than many other world cities for the quality of its infrastructure.
- Wellington's relatively narrow industrial base makes the city vulnerable to structural shifts in dominant industries (most obviously central government, although historically this sector has been a source of stability).

Diversifying the Wellington economy

The Market Economics modelling exercise suggests that "smart businesses" should play a central role in driving future economic and jobs growth in Wellington City, accounting for a third of total value added growth by 2031. Ensuring that Wellington successfully attracts and grows these businesses, and talented people to work in these businesses, is important for our economic future as a resilient and diverse economy.

The table below demonstrates the projected growth in the Wellington economy to 2031 following a 'diversified business base' scenario.



The projections show that the smart business share of value added growth would be significantly higher under than under a business as usual scenario³. Such growth in smart businesses not only offers sustainable growth in per-capita GDP, but also generates additional economic benefits and demand for other service sectors such as retail.

Clearly, other parts of the economic base remain important to the City, including the government sector, and the proposed Strategy and actions respond to this need. However the modelling is also clear that operating a business as usual approach will led to a significant underperformance in the economy over time.

Diversifying the economy will also rely on, amongst other things, building international connections and markets. Importantly, diversification is an extensive process and needs to translate current, short term opportunities into future strengths. Our research suggests that to be successful Wellington’s talent attraction and retention initiatives need to be clearly prioritised and embedded within an integrated framework that focuses action on promoting Wellington’s competitive advantage.

As a small city competing internationally for investment and talented people, we need to be clear about what we are good at and how we can differentiate

³ **Value added growth:** The amount added by businesses to goods and services in the selling process. The contribution can take the form of capital and labour inputs but excludes the value of materials used in making products and delivering services.

ourselves. It is evident that Wellington has significant existing strengths that can be more fully exploited to improve its international competitiveness.

Successful city economies are essentially eco-systems – economic success is not achieved through a set of independent actions, but through a virtuous cycle building the economy over time. The draft Economic Development Strategy recognises the need for this collaborative and long term approach to economic growth. As a result it contains a range of longer term economic goals underpinned by a number of short-term economic measures and actions, that will monitor progress towards the City’s wider economic goals and 2040 vision. These can be reviewed and changed as the economy moves forward and in subsequent Long Term Plans.

5.2 Role of Council – funding, regulation, leadership and attitude

Funding

Council already invests in a number of activities that support economic development, with a particular emphasis on the provision of visitor attractions and the operation of venues, attraction of and support for events, tourism promotion, the provision of business development services through Grow Wellington (funded regionally and governed by the Wellington Regional Strategy Committee) and support for suburban and city centres. Recently, significant resources have been allocated to take advantage of opportunities afforded through the city’s hosting of Rugby World Cup matches.

The table below summarises 2011/12 expenditure with relatively direct economic development outcomes by activity:

Activity 2011/12	\$000’s p.a.
Visitor attractions – WMT, Te Papa, Zoo, Carter, Zealandia	12,500
Tourism Promotion (PWT)	5,800
Grow Wellington (regional)	4,400
Events attraction / support	4,400
Wellington Venues - Opex	3,000
Wellington Venues - Capex	2,200
RWC \$1.9m (2011/12)	1,900
Long Haul	200
International Relations	80

The draft Strategy will have implications for both the quantum and allocation of resources for economic development activities. The draft Strategy does not propose stopping or significantly reducing current support. Indeed, it highlights the importance of maintaining and enhancing the provision of visitor attractions and venues, activities to attract and provide support for events, and tourism promotion and visitor attraction activities.

A recently commissioned report⁴ suggests that Council's investments in tourism, visitor attractions and events activities have yielded significant dividends. Tourism spending has nearly doubled over the last decade to some \$1.1 billion dollars in Wellington City, accounting for 85% of tourism spending in the entire Wellington region. This spending supports the employment of 11,180 FTEs, or 8.7% of all jobs in the City. Importantly, although it is often commented on that tourism jobs are not 'high wage' jobs, they do support the employment of diverse and sometimes vulnerable groups who may not directly benefit from moves to support smart business growth in the City. This includes the important retail sector, which accounts for around 9% of jobs in Wellington.

A number of the high-priority activities proposed in the draft Strategy are new and will not be able to be progressed without new or reallocated funding. We propose to develop those initiatives that require additional resources as new initiative for consideration as part of the 2012/22 Long Term Plan process.

Core services and regulation

WCC currently has a range of core service and regulatory functions which can support or inhibit business growth directly and indirectly. These include the areas of:

- Consenting and enforcement activity – District Plan, building and resource consents, licensing, bylaws, parking enforcement etc
- Provision of critical infrastructure e.g. water supply, waste water disposal, stormwater, maintenance of the roading network, provision of car parking
- Strategic planning and urban design, e.g. Central City Framework, centre plans
- Rates Policy e.g. targeted rates and levies

The Council has made moves to ensure that the experience business has with the Council in terms of its regulatory functions is both supportive and positive through the development of a streamlined One Stop service for Building and Resource Consents to reduce timescales projects, particularly with significant developments. The council has also created the Downtown Levy to support tourism in the CBD.

Feedback from some businesses and representative groups suggests that more needs to be done on this front, whilst ensuring regulation and its enforcement protects public interests. It will be important to the future success of the Wellington economy that the Council as an organisation has the expertise and organisational culture to support business friendly interactions and services with a 'can-do' attitude.

Leadership and Partnerships will be critical

Many of these proposed economic development activities require close collaboration with key partners. A number of the priority actions within the

⁴ *Tourism in Wellington: a decade of proof*, BERL 2011.

draft Strategy will only be achieved with the buy-in and support of these partners, therefore action planning needs to be a joint activity. Key delivery partners include Positively Wellington Tourism, Grow Wellington and New Zealand Trade and Enterprise.

Other key stakeholders include the chamber of commerce, business leaders and industry organisations, local iwi, tertiary education and research institutions, other economic development agencies including the Auckland Tourism, Events and Economic Development agency (ATEED), and central government departments including the Ministry of Economic Development, the Ministry of Science and Innovation and the Ministry of Foreign Affairs and Trade.

5.3 Areas of focus and priority actions

The Strategy identifies four strategic platforms which help to organise the Council's efforts. The platforms are:

- *Destination Wellington* – developing and promoting our city in a way that attracts the visitors, skilled people and investment we need to achieve greater prosperity including through events, amenities and promotional activities
- *Smart capital* – deriving a significant proportion of future economic growth from smart, innovative, knowledge-intensive businesses
- *Connected capital* – increasing physical and virtual connectivity within the region, with other parts of New Zealand, and internationally
- *Open for business* – delivering Council services with a “can do” attitude, providing a world class built environment and fostering a business environment where it is easy, efficient and affordable to invest and do business.

A coherent Strategy, but focussed on the short term priorities

A number of priority actions are identified in the draft Strategy. Consistent with the focus of the Councillor workshop in May, many of these actions are short term actions focussed on what the Council can do to support the economy in respect of its immediate challenges in the period 2012 -15. These activities are designed to support the growth of the number of business trading in Wellington and create new jobs by exploiting more fully the significant economic, social cultural and environmental assets of the city. They are:

- **Develop an Integrated Talent and Business Attraction Strategy**
Research undertaken suggests that the City needs to broaden its current marketing of the City, which is primarily focussed on tourism, to maximise the economic impacts for the economy. Wellington's track record in attracting highly-skilled individuals and businesses, and high quality foreign direct investment (FDI), has been moderate despite its assets and its status as a capital city. This is largely due to both the fragmentation of activity and to gaps in activity around the attraction of business, investment and talent.

As the attraction of talent and investment is essential for the economic success of the city, we need a more coherent and coordinated approach to promoting Wellington internationally. It is therefore recommended that the council develop a proposal for the creating an integrated strategy for talent and business attraction. This would include a clear articulation of the city's offering and value proposition, and be based on a review of current activity around tourism, events, business and international education marketing and undertaken in consultation with key stakeholders.

- **Attract direct Long Haul Carrier by 2013** - Successful cities have access to international markets to facilitate the flow of talent, trade and investment vital to attract, retain and grow business. Long haul flights are a critical component of this activity, and are seen as a priority for the business sector if Wellington is to attract and retain high value businesses, talent and investment.

Wellington City Council has been supporting this activity through PWT and it's work with WIAL for a number of years. It would now appear that there are now real opportunities to attract long haul. However to make this a reality may require investment from the council by way of a Long Haul Attraction Fund, in conjunction with taking a proactive role in attracting a long haul carrier to the city working with WIAL and other key stakeholders. This will have implications for the Long Term Plan deliberations, however officers consider it is vital to secure direct long haul if Wellington is to remain internationally a competitive and attractive destination for talent, business, investment, trade, tourism and education.

- **Promote a Business Friendly Culture** - The strategy recognises the importance of small business in Wellington and the need to develop and build on our approach to business. They provide the city with a rich source of innovation and jobs which drive and service the economy. Consultation with members of the business community has raised issues around service delivery e.g. regulatory functions and engagement, that would suggest the need for the council to develop a more "business friendly" "can do" culture towards business.

This new proactive approach may have implications at both a policy level (for example ensuring the impacts of decisions on business are considered) and at an operational level (for example customer service and the execution of our regulatory functions, information provision on how to get business support etc). As a first stage it is proposed that council undertake consultation with SMEs to identify issues around service delivery, and work with business on ways to address these. This work would also include the development of a stakeholder engagement plan and potential model for ongoing engagement with business. This activity will be a key to the city attracting, retaining and growing business and jobs.

- **Adopt Business Improvement Districts (BIDs) for suburban centres.** The council recognises the need for the city to have strong, vibrant

suburban centres, as they are not only key locations for businesses but offer a quality of life which is attractive to talent. One of the most successful ways of supporting self determining and economically resilient suburbs identified by research is through the adoption of Business Improvement Districts (BIDs). BIDs allow business communities in a geographical area to develop long term strategies for growth and investment funded through a targeted levy. This is similar to the current Downtown Levy and the levy in Marsden Village. A BIDs approach would also provide the council with an independent partnering organisation to help understand the needs of small business. It is therefore proposed that the Council proactively promote the use of the model by suburban centres and support the initial set up phase of the BID.

- **Build internal economic development capacity.** The development of strategic research capability has allowed cities to understand how their local economy is working and where the opportunities for growth are, as well as the greatest threats to its competitiveness exist. It has become a vital tool in the development of their strategic direction in cities such as London and Sydney. It also provides a robust and transparent basis for engaging with key stakeholders in industry and government on key economic and business development issues.

Wellington City Council needs to develop its in house capability in this area if the Council is to be able to plan effectively for future economic resilience, and respond to emerging issues in a timely and accurate fashion. There is currently no facility to undertake in-depth economic research or modelling within the Council or the region. It is therefore recommended that the council seek to develop this capacity, in a way that is complementary to the role of other economic development parties.

5.4 Consultation and engagement

Targeted engagement has been undertaken in the formation of the draft Economic Development Strategy, including with business leaders, government departments, education providers, industry organisations, economic development agencies and the Chamber of Commerce.

Subject to the Committee's approval, officers propose that the Council's undertakes public consultation on the draft Economic Development Strategy from 3 October to 4 November 2011. This allows 5 weeks for consultation, including 2 full weeks following the Rugby World Cup final.

5.5 Financial considerations

Several of the actions in the proposed draft Strategy will have financial implications, which are highlighted in the body of this paper. Officers recommend that these be developed as new initiatives for consideration in the 2012/22 Long Term Plan. Some actions can be implemented within existing resources, such as the development and execution of a stakeholder engagement plan.

5.6 Climate Change Impacts and Considerations

At the core of the draft Economic Development Strategy is the further development of Wellington City's smart green credentials, including growing our low carbon knowledge-intensive service industries.

5.7 Long-Term Council Community Plan Considerations

Officers propose that the following new initiatives be prepared for the 2012/22 Long Term Plan deliberations, so that the Council is in a position to act on its short term priorities for the economy through to 2015:

- Clearly define Wellington's competitive advantage and develop an integrated talent, business and investment attraction strategy
- Pursue the attraction of a long haul carrier to Wellington Airport by 2013 and investigate the feasibility of the creation of a Long Haul Attraction Fund to support this activity
- Consult business owners in suburban centres on their interest in being part of a Business Improvement District to promote local business vitality
- Develop economic intelligence capability and expertise within the Council to support economic development in the City, in a manner that is complimentary to the role of other economic development partners

6. Conclusion

The proposed draft Strategy responds to the Councillor workshop on economic development priorities to 2015, held in May 2011.

Officers seek the Committee's approval to consult on the draft Strategy from 3 October to 4 November 2011, which will enable the Council to include the Strategy as one of its seven Long Term Plan strategies.

Due to the sense of urgency to act to support the economy at a challenging time, officers also propose that new initiatives are developed for consideration in the 2012/22 Long Term Plan.

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Supporting Information

1) Strategic Fit / Strategic Outcome

The Draft Economic Development Strategy proposes a new strategic focus for Wellington City's economic development activity. This builds on the Council's overall vision outlined in Toward 2040: Smart Green Wellington. The strategic direction aims to support the increased economic resilience of Wellington City.

2) LTCCP/Annual Plan reference and long term financial impact

The Draft Economic Development Strategy will inform the 2012/22 Long-Term Plan. Those proposed actions with financial implications will be developed as new initiatives for consideration as part of the 2012/22 Long-Term Plan deliberations.

3) Treaty of Waitangi considerations

The Draft Economic Development Strategy acknowledges the role of mana whenua and iwi in Wellington City and the contribution that they make to the economy. It proposes that the council explore opportunities for working in partnership with iwi on economic development projects and Maori business issues

4) Decision-Making

The Strategy and Policy Committee is asked to agree to the inclusion of the Draft Economic Development Strategy and implementation of the priority projects as part of the Long Term Plan deliberations.

5) Consultation

a) General Consultation

Targeted engagement has been undertaken in the formation of the draft Strategy, including with business leaders, government departments, education providers, industry organisations, economic development agencies and the chamber of commerce

b) Consultation with Maori

Mana whenua and Maori business groups have been engaged in the development of the Draft Economic Development Strategy on the proposed direction of the Wellington 2040

6) Legal Implications

There are no legal implications

7) Consistency with existing policy

The draft Economic Development Strategy is aligned with the vision and strategic direction for the City outlined in Toward 2040: Smart Green Wellington, and will replace the Council's existing Economic Development Strategy as one of the seven strategies to be reviewed as part of the 2012/22 Long Term Plan