

Report of the

Controller and

Auditor-General

Tumuaki o te Mana Arotake

Local Authority Involvement

in Economic Development

Initiatives

Choices for Successful Management

August 2002

ISBN 0 477 02896 9

Foreword

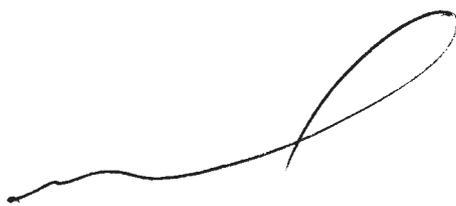
We undertook this study prompted by concerns about potential liabilities and risks associated with local authorities' endorsement of, and (often) tangible support for, a wide range of economic development initiatives.

Some local authorities have been involved in economic development initiatives for a long time, while others have little experience of such initiatives. Around the country, there is much useful information and experience to be gained from successes and failures.

This report is based on information and experiences obtained from interviews with Mayors, Councillors, Chief Executives and staff of 11 local authorities. We also spoke to a selection of economic development agencies.

Economic development initiatives are a means by which local authorities aim to sustainably increase jobs and the wellbeing of their communities. At the same time, the initiatives create risks that must be carefully managed if local authorities are to achieve their goals.

I hope that this report will provide useful guidance to every local authority – whether considering becoming involved in economic development initiatives for the first time, or having a history of involvement.



K B Brady
Controller and Auditor-General

23 August 2002



Contents

	<i>Page</i>
Overview and Main Findings	7
Part One: Introduction	9
What Is Economic Development?	11
How do Local Authorities Undertake Economic Development Initiatives?	11
What Economic Development Initiatives do Local Authorities Undertake?	12
What are the Intended Benefits of Economic Development?	13
What Did We Do?	13
Other Information Sources	14
Part Two: Key Questions	15
Figure 1 – Establishing an Economic Development Strategy	17
Figure 2 – Ensuring Capability to Achieve Economic Development Outcomes	20
Figure 3 – Managing Proposed Economic Development Initiatives	24
Figure 4 – Measuring Economic Development Impacts	30
Part Three: A Strategy for Managing Risk	33
Introduction	35
The Strategy Needs to be Well Balanced, Current, and Sustainable	35
The Strategy Needs to Have Proper Regard to Community and Regional Views	37
Internal Expertise May be Limited	39
Joint Ventures Offer Benefits and Pose Risks	40
Legal Liabilities Can Arise	41
Measuring the Impact of Expenditure Needs to be Effective	42
Performance Measures Need to be Properly Developed and Interpreted	47
Appendix – Economic Development Initiatives that Local Authorities are Undertaking	49
Introduction	51
Direct Financial Support	51
Indirect Support	52

Case Studies

	<i>Page</i>
1 Developing a Clear Economic Development Strategy	18
2 Being Aware of Factors that Can Lead to Financial Loss	21
3 Sharing the Burden of a Direct Investment	22
4 Planning for Major Investment	23
5 Supporting a Major Community Initiative	25
6 Focusing on Support for Business Clusters	27
7 Working with a Tertiary Institution to Increase Student Numbers	29
8 Measuring the Impacts of Initiatives	31
9 Studying Options for Future Management and Development of a Key Sector	38
10 Supporting Low-risk Initiatives that are Important to Local Industry	40
11 Developing Long-term Outcome Measures and Targets	45



Overview and Main Findings

Overview

This report seeks to answer those questions that leaders of local authorities who are directing and managing economic development initiatives are most likely to ask. Many of these questions are fundamental:

- **How do we develop an economic development strategy?**
- **How should we manage the risks?**
- **How can we measure results?**

Local authorities' economic development initiatives encompass a variety of delivery structures, activities, objectives, risks, and ways of managing those risks. We have therefore not attempted to provide a template for success. The questions and answers set out in this report have been designed to apply to a range of circumstances.

We have sought to provide guidance based on actual practice. Almost all of our recommended practices are drawn from case studies and the experiences of the 11 local authorities that participated in this study. Individual authorities should adapt these practices and our guidance to suit their particular situation.

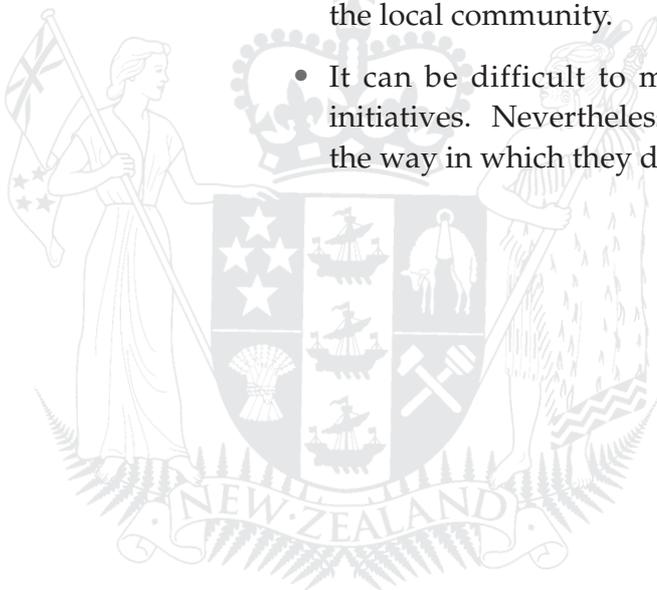
Main Findings

Our main findings are that:

- Local authorities' interest in economic development is growing.
- A wide range of initiatives has been designed to increase local employment and community wealth. The right mix of options for an individual local authority depends on its opportunities, capabilities, resources, and risk management policies.
- Many different types of initiative are under way – posing many and varied risks to local authorities.
- Local authorities have focussed on the benefits from economic development, but initiatives may also create potential for financial losses to the ratepayer without identifiable benefits. Local authorities can learn from one another and avoid making the same mistakes by consulting and exchanging experiences.

OVERVIEW AND MAIN FINDINGS

- Local authorities have achieved successful outcomes from low-cost and low-risk initiatives.
- Risks tend to decline as local authorities switch from making direct investments or delivering services themselves to a less costly 'facilitation' approach (see paragraph 1.3 on page 11). Local authorities with experience in promoting economic development tend to focus on facilitation rather than costly (and higher-risk) direct investment. However, a facilitation approach gives a local authority less influence over the direction of an economic development programme and makes it more difficult to measure benefits.
- Local authorities that successfully involve themselves in economic development initiatives have a well-defined strategy to withdraw from their involvement. Having helped to set up a particular project, they avoid ongoing risk by transferring responsibility for day-to-day operations to someone else.
- To protect their investments in economic development, local authorities and/or their economic development agencies need access to adequate expertise, experience, and capability.
- Maintaining skills and experience in-house can be difficult for small rural local authorities that are generally less able to attract and retain skilled staff experienced in managing the risks associated with economic development initiatives. In such cases, local authorities will need to consider engaging external expertise – sharing expert resources between authorities, or avoiding high-risk projects.
- Local authorities can avoid or reduce risk by ensuring that they have in place a clearly stated economic development strategy. The strategy should be up-to-date and the product of appropriate consultation with the local community.
- It can be difficult to measure the impact of economic development initiatives. Nevertheless, there is scope for local authorities to improve the way in which they do it.



Part One

Introduction



Public
Development
Region

Future Growth



rural initiatives for prosperity in southern New Zealand

Wanganui - Future Economy

Wanganui District Council is committing more than \$1 million annually to economic development and works closely with the business community, and in partnership with central government, to provide a solid infrastructure for job creation.

A strategic plan has been developed that focuses on expanding the Wanganui economy over the next 10 years. This includes development of e-commerce skills and infrastructure, and a key sector focus on education, tourism, light engineering, forestry, manufacturing and primary processing. A regional partnership programme, initiated by central government, which builds co-operation between the Wanganui District, Rangitikei District, Ruapehu District and Te Tai Pōhē will provide a platform for resolving inter-agency issues as they arise.

Support for local businesses is provided by Enterprise Wanganui, with a key focus on supporting small and medium sized businesses, using programmes developed by central government. A comprehensive range of professional services, including law and accounting firms, property developers, architects, planners and surveyors, business, financial and immigration consultants also support the existing businesses and those relocating to the area.

Enterprise Wanganui and the Wanganui District Council work together to facilitate business relocation, and to encourage existing industries to expand and strengthen their business bases in both the domestic and international markets. This work is ongoing.

Wanganui - The Night Place

initiative



The Wanganui District Council's policy is to actively promote the development of manufacturing industries in the District. Industrial location is determined by the ability of a particular industry to comply with regulatory requirements set down for a particular locality. The different types and levels of activity in manufacturing zones include heavy and light manufacturing, commercial activity and food processing.

What Is Economic Development?

- 1.1 *Economic development* refers to the enhancing of a community's growth and economic wellbeing. Local authorities typically undertake a range of activities in pursuit of economic development, with the objective of creating jobs and wealth, and (consequently) improving citizens' quality of life.
- 1.2 A wide range of local authority activities – such as land use planning, tourism support, infrastructure development, and regulatory activity – have economic development impacts. For the purposes of this report, we use the term *economic development* to refer only to discretionary activities that:
 - have economic development as their primary purpose;
 - aim to attract people and businesses to the region; and
 - promote the growth of the existing business sector.
- 1.3 By *facilitation* we mean local authority activities that promote economic development without direct financial support. Facilitation includes providing information and advice.

How do Local Authorities Undertake Economic Development Initiatives?

- 1.4 Local authorities undertake economic development initiatives mostly through organisations commonly called Economic Development Agencies (EDAs) or Economic Development Units (EDUs). Currently, there are about 50 EDAs and EDUs across the 87 local authorities.¹
- 1.5 An EDA is an independent entity, and can have one of a range of relationships with its associated local authority. Most EDAs have their own governing boards, committees, or (in some cases) trustees to oversee their activities. Other EDAs are much less dependent on local authority funding and receive all or most of their funding from local businesses.

1 Not including tourism promotion agencies which, like EDAs, are often fully or partly funded by local authorities.

- 1.6 Close working relationships exist between an EDA and local businesses, whose growth is essential to economic development in the community.
- 1.7 An EDU is part of the supporting local authority, although often operating as a semi-autonomous business unit.

What Economic Development Initiatives do Local Authorities Undertake?

- 1.8 Local authorities choose widely different economic development initiatives. Some use a mix of financial incentives and facilitation. Some promote economic development only where no direct financial subsidies or incentives are involved.
- 1.9 We identified six main types of discretionary economic development initiative:
 - three that involve payments to businesses or other service providers; and
 - three involving indirect support.
- 1.10 The Appendix on pages 49-53 explains the six types in detail.
- 1.11 The three types of economic development initiative involving **direct financial support** are:
 - making grants to businesses, providing guarantees to lending institutions, or underwriting initiatives of other local organisations;
 - funding providers of economic development services, both EDAs and EDUs; and
 - subsidising businesses by discounting (in part or in full) local authority charges.
- 1.12 The three types of **indirect support** are:
 - facilitating economic development by other agencies;
 - ensuring that all local authority planning, regulatory, and service delivery activities have a positive impact on economic development; and
 - providing economic development services under contract to other agencies (such as *Work and Income NZ*).

What are the Intended Benefits of Economic Development?

- 1.13 Economic development is designed to create jobs and foster the growth and economic well being of the community. The Wellington City Council says that these goals can be met by:
- identifying, refining, and promoting business, residency and visitor destination advantages – leading to more business investment, more inward migration, retention of local talent and skills, and more visitor activity;
 - investment growth in new and existing businesses for more and better jobs, and increased household and personal incomes;
 - partnerships with the private sector, tertiary education institutions, research institutes, and central government – for harnessing more resources, higher levels of work skills, and more consistently supporting economic development objectives;
 - improving urban and rural accessibility – thereby enhancing the area’s attractiveness for businesses, workers, and residents; and
 - increasing citizens’ well being and sense of satisfaction with the amenities and experience of living in the area, and supporting the location decisions of residents and would-be residents and businesses.²

What Did We Do?

- 1.14 Our mandate for the study is provided by section 16(1)(a) of the Public Audit Act 2001 –

The Auditor-General may at any time examine:

(a) the extent to which a public entity is carrying out its activities effectively and efficiently:

- 1.15 We interviewed staff, Mayors and some Councillors of 11 local authorities and associated EDAs with experience in economic development. In this report we have summarised their different approaches to maximising the benefits and minimising the risks.

2 *Economic Development Strategy*, Wellington City Council, October 1996, pages 8 and 9.

- 1.16 The local authorities we visited were a mix of urban and rural, small and large, and from the North and South Islands. The selection included some that had been involved with economic development initiatives for many years and others that had been less involved.
- 1.17 We also selected 11 case studies to illustrate key issues for local authorities, which we describe throughout the report.

Other Information Sources

- 1.18 Our study complements a useful report on economic development published over a year ago by Local Government New Zealand.³
- 1.19 Local authorities might also find it helpful to refer our report on *Reporting Public Sector Performance*.⁴ This report offers general guidance on how performance reporting in the public sector can be improved, that local authorities would find useful in the context of reporting on economic development initiatives.
- 1.20 In April 2002 we issued a report on our inquiry into two initiatives of the Taupo District Council and the accountability to the Council for the funds that it had made available.⁵

3 *Unleashing the Economic Development Potential of our Communities, A guide to Economic Development for local authorities*, a report prepared for Local Government New Zealand by Business and Economic Research Ltd (BERL), March 2001.

4 The first edition (published in July 2001) is available in hard copy only: ISBN 0 477 02877 2. The second edition (issued in January 2002) is available only on our web site www.oag.govt.nz.

5 *Taupo District Council – Funding of the Interim Establishment Board and the Lake Taupo Development Trust*: ISBN 0 477 02894 2.

Part Two

Key Questions

Future Growth



rural initiatives for prosperity
in southern New Zealand

Wanganui - Future Economy

Wanganui District Council is committing more than \$1 million annually to economic development and works closely with the business community, and in partnership with central government, to provide a solid infrastructure for job creation.

A strategic plan has been developed that focuses on expanding the Wanganui economy over the next 10 years. This includes development of e-commerce skills and infrastructure, and a key sector focus on education, tourism, light engineering, forestry, manufacturing and primary processing. A regional partnership programme, initiated by central government, which builds co-operation between the Wanganui District, Rangitikei District, Ruapehu District and Te Tai Pōhē will provide a platform for resolving inter-agency issues as they arise.

Support for local businesses is provided by Enterprise Wanganui, with a key focus on supporting small and medium sized businesses, using programmes developed by central government. A comprehensive range of professional services, including law and accounting firms, property developers, architects, planners and surveyors, business, financial and immigration consultants also support the existing businesses and those relocating to the area.

Enterprise Wanganui and the Wanganui District Council work together to facilitate business relocation, and to encourage existing industries to expand and strengthen their business bases in both the domestic and international markets. This work is ongoing.

Wanganui - The Night Place

initiative



The Wanganui District Council's policy is to actively promote the development of manufacturing industries in the District. Industrial location is determined by the ability of a particular industry to comply with regulatory requirements set down for a particular locality. The different types and levels of activity in manufacturing zones include heavy and light manufacturing, commercial activity and food processing.



conomic
ment
gion



We believe that Mayors, Chairpersons of local authorities' Economic Development Committees, Councillors, Chief Executives, and managers need to ask certain key questions about:

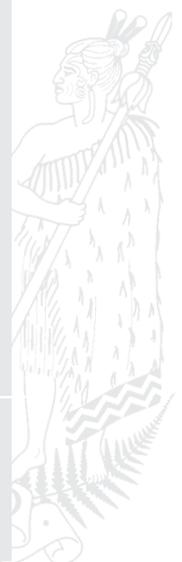
- **establishing an economic development strategy** – Figure 1 on pages 17 and 19 and Case Study 1 on page 18;
- **ensuring capability to achieve economic development outcomes** – Figure 2 on page 20 and Case Studies 2, 3 and 4 on pages 21-23;
- **managing proposed economic development initiatives** – Figure 3 on pages 24, 26, and 28 and Case Studies 5, 6 and 7 on pages 25, 27 and 29; and
- **measuring economic development impacts** – Figure 4 on page 30 and Case Study 8 on page 31.

*Figure 1
Establishing an Economic Development Strategy*

Main Question	Why Ask This Question?	Secondary Questions
Does the local authority have an economic development strategy?	<p>The strategy is the critical document that should identify key roles, goals, and objectives as well as broad policies, priorities and plans of action. It should show what the local authority wants to achieve and how it will happen.</p> <p>The strategy should provide a focus for sound decision-making, assessment of community interests, and effective monitoring of results.</p> <p>A local authority is more likely to be able to implement successfully a strategy that has been the product of consultation with the community and stakeholders.</p>	<p>Is the strategy up-to-date?</p> <p>Do the community, business sectors and other stakeholders support it?</p> <p>Does the strategy ensure that all the community's economic development "eggs" are not all in the same "basket"?</p> <p>For example, is it targeted at a range of employing sectors rather than a single sector?</p> <p>Does the strategy require formal and regular reporting to the Council on the achievement of the strategy's economic development objectives?</p>

Cross references

Case Study 1 on the following page – Developing a Clear Economic Development Strategy. See also paragraphs 3.4-3.6 on pages 35-37 – requirements of the strategy.



... continued on page 19.

Case Study 1 *Developing a Clear Economic Development Strategy*

What Does This Case Study Show?

- That Napier City Council has clearly documented its economic development purpose and specific objectives and how they will be implemented and managed.⁶ It is a useful model.
- That all the Council's departments' planning processes and activities are designed to contribute to and support its economic development strategy.

The Facts

Napier City Council's stated purpose is to improve the overall "quality of life" of all Napier citizens.

Its economic objectives are to increase the City's population, economic growth rates, employment and income levels, visitor numbers, levels of business activity, exporting, investment, and standard of living for the local community.

To achieve these objectives the Council will pursue the following key development strategies:

- Marketing the city for residential development, business, investment, educational, and tourism purposes.
- Upgrading the city's built infrastructure.
- Increasing the quality of service provision.
- Expanding tourism, accommodation, services, amenities and attractions.
- Enhancing the work skills of the local labour-force.
- Increasing the value of production from local businesses.
- Encouraging greater application in business of research, development and technology.
- Facilitating and supporting business development, with a focus on small and medium-sized enterprises.

Economic development considerations will be incorporated into all short and long-term planning processes, and there will be on-going evaluation of all key proposals for their impact on economic development in the city.

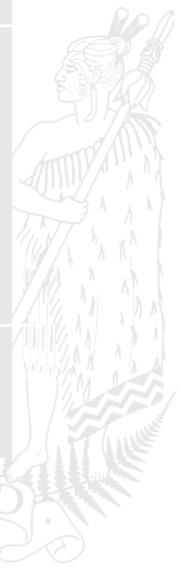
6 Napier City Council, *Economic Development Plan, 2001-2004*.

Figure 1 – continued

Main Question	Why Ask This Question?	Secondary Questions
Does the local authority's strategy accommodate the views of the local community and business groups?	<p>Within any region there will be a range of economic development agencies and organisations with overlapping roles.</p> <p>These agencies and organisations may include Chambers of Commerce, various manufacturers, retailers, professional and business associations and societies, and other community organisations. Local authorities should consult these bodies on their proposed strategy, seeking to complement the activities of other interested parties, and provide certainty in regional economic planning.</p>	<p>Has the local authority consulted groups with an interest in economic development? And how will it keep these groups informed?</p> <p>Are interested groups satisfied that the local authority has considered their views and explained to them, where necessary, why their views have not been accepted?</p> <p>Can the local authority defend itself against any perceptions that its proposals favour targeted new businesses over existing unsupported businesses?</p>
Has the strategy been developed having regard to a cost-benefit analysis prepared from a national perspective?	<p>A narrow or local cost-benefit analysis might appear to justify an initiative that does not have a net benefit from a national perspective.</p> <p>Bidding wars between local authorities to attract commercial enterprises to their own areas may be counter-productive.</p>	<p>Does the strategy promote collaboration rather than competition with neighbouring local authorities?</p> <p>Have the collective activities of the local authorities within the region produced net regional gains?</p>
Does the strategy take account of the need for fairness that benefits flow back to the main contributors of local authority support?	<p>An example of such equity is increasing land values around a proposed marina development (supported by the local authority). The higher land values result in increasing rates contributions that help pay for the development.</p>	<p>Who benefits and who pays for the initiative?</p>

Cross reference

See paragraphs 3.6-3.7 on page 37 – having proper regard for community views.



KEY QUESTIONS

Figure 2
Ensuring Capability to Achieve Economic Development Outcomes

Main Question	Why Ask This Question?	Secondary Questions
<p>Are the economic development proposal and the local authority's capability a good match?</p> <p>In other words, has the local authority considered whether it will have access to the necessary skills and experience to manage the particular project and any investment it is required to make?</p>	<p>In managing some economic development initiatives (such as providing substantial cash loans for new business development), local authorities require access to expert advice. They need confidence that ratepayer funds invested in a venture will be prudently and competently managed and will achieve its objectives.</p>	<p>Does the local authority have the necessary skills and experience in-house or does it need to use external advisers?</p> <p>Does the local authority have the ability to monitor the performance of external advisers it engages?</p> <p>Can the local authority retain experienced and skilled economic development staff?</p> <p>If not, can the local authority share skilled staff with neighbouring local authorities?</p> <p>Does the local authority have the capability to monitor its investment and, if necessary, recover it?</p> <p>Should the local authority consider the options of pursuing less risky initiatives or sharing the risks with other parties?</p>

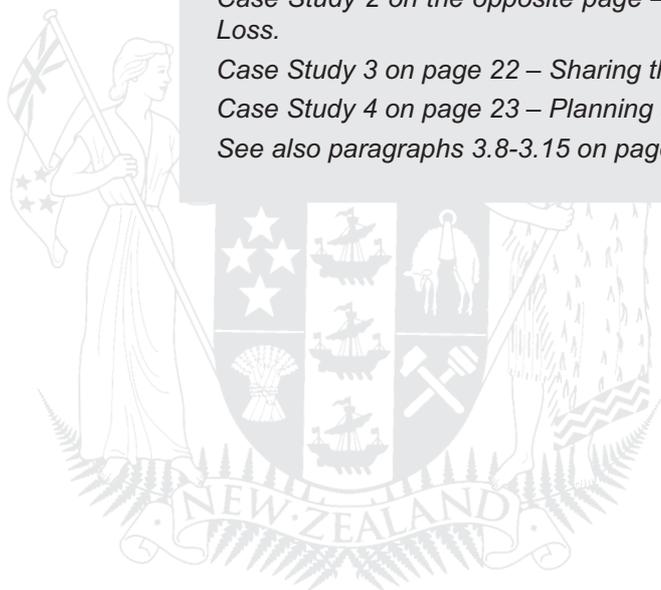
Cross references

Case Study 2 on the opposite page – Being Aware of Factors that Can Lead to Financial Loss.

Case Study 3 on page 22 – Sharing the Burden of a Direct Investment.

Case Study 4 on page 23 – Planning for Major Investment.

See also paragraphs 3.8-3.15 on page 39 – requirements for expertise.



Case Study 2

Being Aware of Factors that Can Lead to Financial Loss

What Does This Case Study Show?⁷

- That the omission of significant costs from an evaluation that forms the basis for a decision to proceed with a project can provide a false sense of the project's viability.
- That the high levels of risk and uncertainty associated with the project were not communicated to the Council. And had they been communicated, they might have influenced its decision to proceed.
- That this experience has made the Council very careful with proposals for similar large direct investments for economic development purposes. It is concentrating on lower risk facilitation activities, or projects where the risks are shared with other investors (see Case Study 3 on the following page).

The Facts

In 1987 the Wellington City Council decided to upgrade the municipal abattoir for a cost of \$7.5 million. After contract variations the final cost of the upgrade was close to \$12.5 million. The upgrade option was chosen because it would avoid job losses and create employment.

Many of the figures in the evaluation prepared by Council officers and provided to the Council had a high degree of uncertainty, stemming from a lack of financial information and reliance on high risk assumptions, which were not communicated to the Council. Significant costs were omitted from the evaluation. The Council's decision to proceed with the upgrade option was based on information that substantially understated its cost.

The validity of the decision to upgrade was dependent on the ability of a major stock supplier to provide for slaughter a minimum of 500,000 stock units a year for 10 years. Two-and-half years later the stock supplier was unable to supply the agreed stock numbers and was placed in receivership owing the Council \$3-4 million.

By mid-1991 the Council had lost \$33.5 million with no prospect of a return on the original capital. The plant was closed later that year with final total losses to ratepayers of \$37.1 million.

7 *The Losses of the Wellington City Council Abattoir 1987 to 1991*, Report of the Audit Office, October 1991, ISBN 0 477 02823 3.

Case Study 3 *Sharing the Burden of a Direct Investment*

What Does This Case Study Show?

- How a major direct investment can be made by contributing local authorities for economic development purposes – the planned benefits of this investment are currently being exceeded.
- That investment risk can be spread by participating local authorities sharing the capital costs.

The Facts

The Wellington Regional Stadium Trust was established to plan, develop, construct, own, operate and maintain the new stadium as a multi-purpose sporting and cultural venue. The Trust reports to the Wellington City Council and the Wellington Regional Council.

A seven-year process identified the Wellington railway yards as the best place for a new regional stadium. Construction began in March 1998.

Business planning and economic impact evaluations were prepared for the construction and operation of the stadium. The direct economic impact of construction was estimated to be \$66.8 million and 400 jobs. The stadium was completed in December 1999 ahead of time and budget, for a total cost (excluding the purchase of the land) of \$126 million. The stadium was expected to operate as a stand-alone commercial entity, generating a net operating surplus and generating net additional revenue for the region annually (including earnings from tourism) of \$44 million, along with 413 jobs.

Construction costs were financed by the Wellington Regional Council (19%); Wellington City Council (12%); New Zealand Lotteries Grants Board and The Community Trust of Wellington (5%); the sale of Deloitte Club memberships and Stadium Corporate Boxes (39%), and a commercial loan from the ANZ Bank (25%).



Case Study 4

Planning for Major Investment

What Does This Case Study Show?

- That a local authority with limited skills and resources available internally may undertake a large economic development initiative, but must recognise that to do so incurs significant risk.
- That, in this case, the local authority intends to manage the risk by seeking assurance as to the credit-worthiness of every applicant and the viability of their proposal, and by engaging commercial expertise to draw up loan arrangements and assist with monitoring of the investment.

The Facts

South Taranaki District Council has decided to use the proceeds from the sale of its power company to promote economic development of the district, including the creation of new jobs.

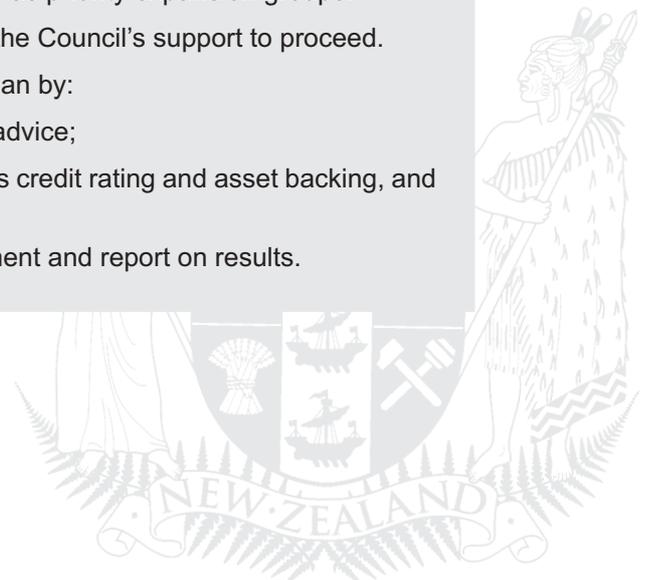
As a first step the Council plans to provide concessionary loans of up to \$10 million to encourage suitable applicants to establish new businesses. At the same time, the Council is considering offering assistance such as discounted rates and utility charges, the installation of infrastructure, and relocation costs.

The Council may also offer non-financial incentives including the provision of general assistance, and a dedicated project manager to assist with project planning, staff training, and liaison with the community. Proposals must meet certain criteria:

- They must be economically and environmentally sustainable over the long term.
- They must generate employment for the district's residents; and demonstrate that they will create a specific number of new jobs.
- The business must be intending to either move into the district or set up a business which is new to the district.
- The proposed business must not compete with existing local businesses except where the Council has identified business clusters as priority expansion groups.
- There must be evidence that the proposal needs the Council's support to proceed.

The Council intends to protect its investment in the loan by:

- obtaining security for the debt after taking expert advice;
- obtaining independent assurance of the applicant's credit rating and asset backing, and the viability of the business plan; and
- using independent auditors to monitor the investment and report on results.



KEY QUESTIONS

*Figure 3
Managing Proposed Economic Development Initiatives*

Main Question	Why Ask This Question?	Secondary Questions
Is the proposal consistent with the economic development strategy?	Consistency promotes the effective use of the local authority's resources and helps avoid resource capture by special interests.	If not, should the proposal be dropped, or should the strategy be reviewed?
How much will it cost the local authority?	The local authority needs to know what the proposal will cost before it can make a decision to proceed. Other organisations and agencies may be willing to contribute funding, thereby reducing the local authority's expenditure and risk exposure.	Does the total cost include direct, indirect, short-term and long-term costs? How will the local authority's investment be protected?
What are the expected benefits and how will they be measured?	The local authority, in the interests of meeting its objectives and being able to justify spending ratepayers' money, needs to be sure that it can identify measurable benefits and report on the achievement of those benefits.	Does the proposal identify all benefits (direct and indirect) and the means for measuring benefits achieved?
<p>Cross reference Case Study 5 on the opposite page – Supporting a Major Community Initiative.</p>		

... continued on page 26.



Case Study 5

Supporting a Major Community Initiative

What Does This Case Study Show?

That a local authority can assist a community to implement a well-supported local project with a minimal commitment of ratepayer funds.

That partnerships with the community and central government can help mobilise resources and local effort to reduce the demand for direct investment by ratepayers.

The Facts

Starting in 1990, the Tuatapere community of Southland had been pursuing the concept of developing a 3-day walking track (known as the Hump Ridge Track).

The Tuatapere Hump Charitable Trust, which operates independently of the local authority, was established by the community in 1995 to develop the concept, and to build, promote, maintain and administer the track and its facilities. Partnerships and arrangements between the community, the Trust, and local and central government have been important for mobilising the resources and local effort to develop the track.

The track opened at the end of 2001 and cost more than \$4.5 million, including the value of voluntary labour. This money came from a variety of sources: the Community Trust of Southland, central government, and donated labour and resources. The Council provided direct funding of \$42,000 and staff resources estimated to have cost \$543,000. The Council also promoted the project effectively at central government level.



KEY QUESTIONS

Figure 3 – continued

Main Question	Why Ask This Question?	Secondary Questions
Can the local authority avoid or mitigate legal liabilities or the risk of financial losses associated with the proposal?	Economic development initiatives can generate legal risks for local authorities. Potential legal liabilities can arise from failure to meet contractual obligations, breaches of duty other than contractual, breaches of confidentiality, and fraud, theft, and negligent advice by staff.	Does the local authority have access to the necessary skills and experience for advice on the management of legal exposure? Does the local authority have effective administrative, control, and accountability systems and processes, and are they being followed?
How can the local authority maximise the likelihood that the proposal will meet its objectives?	An economic development initiative may not meet the local authority's objectives for many reasons. When local authorities approve an initiative against advice from officers and other advisers, the reasons for the decisions should be carefully defined and trade-offs made explicit.	Does the local authority's economic development strategy explicitly address the relative levels of risk associated with different initiatives? Have all risk management options been considered – avoiding, accepting and mitigating risk?

Cross references

Case Study 6 on the opposite page – *Focusing on Support for Business Clusters*.

See also paragraphs 3.19-3.21 on page 41 – *identifying and managing liabilities*.

... continued on page 28.



Case Study 6

Focusing on Support for Business Clusters

What Does This Case Study Show?

- That economic development can focus on establishing and supporting business clusters that will be self-supporting.
- That this approach can achieve economic development objectives with little risk and minimal cost.

The Facts

Business clusters are groups of local businesses with close trading relationships and related skills needs, research, distribution and other infrastructural requirement – such as information technology – that have joined together to create the scale needed to pursue bigger markets. Wellington City Council began encouraging the formation of business clusters in 1997, and their formation remains a central component of its economic development strategy.

The business cluster process has developed considerably since 1998. New clusters have been formed, membership has expanded, and the Council's focus has moved from establishing each cluster to international markets. Collaborative projects for new export business are given priority.

Clusters created by the Council are: Creative Capital (multimedia), Film and TV, Software, Mobile Internet, E-business, Earthquake Engineering Technology, Natural Hazards New Zealand, and Education.

Clusters' facilitation and early financial support and an objective of *making them self-sufficient* are planks of the Wellington City Council's economic development strategy.



KEY QUESTIONS

Figure 3 – continued

Main Question	Why Ask This Question?	Secondary Questions
If the local authority proposes a joint venture or partnership investment, what assurance does the local authority have that the partner will meet its performance obligations?	The local authority can be put at risk by the failure of its partner to meet its obligations. Joint venture or partnership ventures have implications for control and risk management. Before entering into any such arrangement, the local authority should decide whether or not it will consider investing further funds in the future should the venture require additional funds.	Has expert advice been sought on the credit worthiness, experience, track record, and expertise of the partner, and on the long-term viability of the proposed investment? Will the local authority be able to protect the ratepayer's investment if it proceeds with the joint venture or partnership?
Does the proposal enable the local authority to readily withdraw from the venture?	The local authority may decide to limit its involvement to encouraging and supporting the start-up of activities and reserve the right to withdraw once the venture has been established.	Does the local authority wish the activity to continue after it has withdrawn? Will the activity be viable after the local authority has withdrawn? Will the local authority continue to monitor the activity after withdrawal, to confirm whether it has produced the desired outcomes and/or continues to be viable?

Cross references

Case Study 2 on page 21 – Being Aware of Factors that Can Lead to Financial Loss.

Case Study 7 on the opposite page – Working with a Tertiary Institution to Increase Student Numbers.

See also paragraphs 3.16-3.18 on pages 40-41 – risks and benefits of joint venture.



Case Study 7

Working with a Tertiary Institution to Increase Student Numbers

What Does This Case Study Show?

- That an initiative can be planned to be sustaining after a period, thereby limiting the need for ongoing local authority funding.
- That multiple funding sources reduce the cost to individual local authorities involved.

The Facts

In September 2000, following an approach from the Southern Institute of Technology (SIT), the Southland District Council began discussions about the possibility of increasing student enrolments by eliminating SIT study fees.

Local organisations agreed to contribute \$7.25 million over a three-year period for students to take SIT courses free of charge. The contributing organisations were the Community Trust of Southland, the Invercargill City Council, the Invercargill Licensing Trust, the Southland District Council, local businesses, and the Gore District Council.

The Government funds tertiary institutions according to student numbers. The scheme was designed to increase student numbers to the point where Government funding would enable the SIT to permanently eliminate all study fees within three years. It was also expected that the higher student numbers would bring economic benefits to the region – including an \$11 million a year increase in regional GDP by 2004, increased demand for accommodation, and revitalisation of the downtown Invercargill area.



KEY QUESTIONS

*Figure 4
Measuring Economic Development Impacts*

Main Question	Why Ask This Question?	Secondary Questions
How will the local authority know that it has achieved the economic development outcomes that it was seeking?	<ul style="list-style-type: none"> • Funders and ratepayers seek value for money. • Business groups and firms seek assurance that economic development activities are helping their businesses. • Programme managers and staff monitor impacts and means of improving performance. • Elected members seek assurance that programmes are achieving the outcomes sought. 	<p>How will the local authority tell if the measured outcomes are due to its initiative or result from other influences?</p> <p>Should the local authority collect similar information on outcomes from similar local authorities and compare the results in order to identify the impact of its initiative?</p> <p>Can impacts be measured directly or indirectly?</p> <p>Within what time is the local authority seeking a positive return from its initiative?</p>
<p>Cross references</p> <p>Case Study 8 on the opposite page – <i>Measuring the Impacts of Initiatives.</i></p> <p>See also paragraphs 3.22-3.50 on pages 42-48 – <i>measuring impacts.</i></p>		



Case Study 8

Measuring the Impacts of Initiatives

What Does This Case Study Show?

- That it is possible to develop a model for describing the state of a district as a benchmark against which to define the impact of future economic development initiatives.
- That trends in social, economic and environmental wellbeing over time will show how the District has evolved, and provide a measure of effectiveness of the initiatives.

The Facts

Wanganui District Council's report *A Picture of Our District*⁸ helps to establish a framework for defining the important elements of the Wanganui District, and for monitoring and measuring indicators of the District's social, economic and environmental wellbeing over time.

Currently, a number of local agencies collect the same information for a variety of purposes. The Council's monitoring programme encourages sharing and co-ordination of that information.

The report provides benchmark indicators on a wide range of characteristics of the District. Indicators relate to population, income and employment, costs of living, crime, safety, education, health, economic activity, and residents' perceptions about Wanganui.

This monitoring and reporting programme will be used by the Council to help make informed decisions about improving the wellbeing of the community and the environment.

8 *A Picture of Our District, a report on the social, economic and environmental conditions of the Wanganui District*, a report prepared for the Wanganui District Council by Jane Davis, Consultant Planner, 2001.

Part Three

A Strategy for Managing Risk



Public
Development
Region

Future Growth



rural initiatives for prosperity in southern New Zealand

Wanganui - Future Economy

Wanganui District Council is committing more than \$1 million annually to economic development and works closely with the business community, and in partnership with central government, to provide a solid infrastructure for job creation.

A strategic plan has been developed that focuses on expanding the Wanganui economy over the next 10 years. This includes development of e-commerce skills and infrastructure, and a key sector focus on education, tourism, light engineering, forestry, manufacturing and primary processing. A regional partnership programme, initiated by central government, which builds co-operation between the Wanganui District, Rangitikei District, Ruapehu District and Te Tai Pōhē will provide a platform for resolving inter-agency issues as they arise.

Support for local businesses is provided by Enterprise Wanganui, with a key focus on supporting small and medium sized businesses, using programmes developed by central government. A comprehensive range of professional services, including law and accounting firms, property developers, architects, planners and surveyors, business, financial and immigration consultants also support the existing businesses and those relocating to the area.

Enterprise Wanganui and the Wanganui District Council work together to facilitate business relocation, and to encourage existing industries to expand and strengthen their business bases in both the domestic and international markets. This work is ongoing.

Wanganui - The Night Place

initiative



The Wanganui District Council's policy is to actively promote the development of manufacturing industries in the District. Industrial location is determined by the ability of a particular industry to comply with regulatory requirements set down for a particular locality. The different types and levels of activity in manufacturing zones include heavy and light manufacturing, commercial activity and food processing.

Introduction

3.1 We define “risk” as the likelihood that the local authority will not achieve its intended economic development outcomes. We outline some of the strategies adopted by local authorities to manage this risk.

3.2 We identified the following areas of risk:

The local authority’s economic development strategy may fail, for reasons such as:

- the strategy may not be balanced, current, and sustainable; or
- the strategy may not have proper regard to community and regional views.

The local authority’s ability to achieve its economic development outcomes may be hindered, because of:

- limited internal expertise;
- joint ventures that offer benefits but may also pose risks;
- legal liabilities that can arise from economic development initiatives; and
- ineffective assessment of impacts.

Performance measures may not be properly developed and interpreted.

3.3 We suggest in the following paragraphs how each risk can best be managed.

The Strategy Needs to be Well Balanced, Current, and Sustainable

3.4 The local authority will find it easier to implement its economic development strategy if Councillors, local authority staff, and the community can see that the strategy is well balanced – even if they do not entirely agree with it.

3.5 The following practices will help to ensure support and commitment to the strategy:

- Choose the right people with the skills, knowledge and reputation to develop the strategy. Their work will be more readily accepted.

A STRATEGY FOR MANAGING RISK

- Provide opportunity for research and consultation.
- Seek as much community, business, and political agreement as possible on the key goals of the strategy and its primary focus, timescale, and priorities. These are the most important parts of the strategy and early agreement on them is essential.
- Avoid the perception that groups with a vested interest have taken over the local authority's strategy. Such a perception can be a significant obstacle to the co-operation necessary for successful implementation.
- Ensure that the proposed initiatives are shown to be *sustainable*.

The strategy should:

- be complete and distributed to stakeholders;
- identify the local authority's key economic development roles, goals, and objectives as well as broad policies, priorities and plans of action;
- be agreed with the community and business sectors through good consultation;
- be up-to-date and regularly reviewed;
- avoid if possible a high level of dependency on one sector that could increase the local economy's vulnerability;
- address the risk of competition with neighboring local authorities for the same investments and immigrants; and
- be consistent with the regional economic development strategy, and the strategies of neighboring local authorities.



The Strategy Needs to Have Proper Regard to Community and Regional Views

3.6 The local authority should:

- *Seek the views of, and share information with, local organisations* with an interest in economic development – so that all interested organisations are well informed about progress in implementing the strategy, and aware of all interests. Councillors and local authority staff need to keep in touch with community needs, and provide forums for sharing information.
- *Consult with neighbouring local authorities* in developing its strategy, to enhance collaboration and avoid conflicting initiatives. Competition is likely to redistribute resources rather than generate new economic activity. The local authority should document in its strategy the arrangements or alliances reached with other authorities as part of this consultative process.
- *Consider the wider impacts of any proposed economic development initiative on:*
 - local infrastructure such as schools, roads, water supply, and waste disposal systems; and
 - local authority planning policies.
- *Consider the impact on existing firms of supporting a new business.* The local authority should consult with existing businesses on the proposed economic development support strategy, to ensure efficiency and equitable treatment.

3.7 The importance of consultation and planning is illustrated by Case Study 9 – Studying Options for Future Management and Development of a Key Sector (see next page).



A STRATEGY FOR MANAGING RISK

Case Study 9

Studying Options for Future Management and Development of a Key Sector

What Does This Case Study Show?

- That an economic development challenge (in this case managing tourism growth in ways that preserve the natural environment) can be assisted by study of the economic, social and environmental impacts of the sector and its further development.
- That such studies can highlight wider needs – in this case for strategic tourism planning to achieve broad-based community participation, and the development of tourism activities that are compatible with local aspirations, community resources, and the region's infrastructural needs.

The Facts

Lincoln University carried out a study⁹ aimed at identifying options for improving management of Westland's tourism growth and developing guidelines for the sustainability of the sector, having regard to the expectations of the various communities within the Westland District.

Tourist numbers increased significantly over the 1990s and the industry is likely to play an even bigger role in the future. It is doubling in size every 7-8 years and now provides almost 30% of all employment in the Westland District. However, the community is vulnerable to cycles of activity because large numbers of people are highly dependent on the sector and tourism numbers fluctuate markedly over the year.

The Council welcomed the study and is now considering its recommendations.



⁹ *Tourism in Westland: Challenges for Planning and Recommendations for Management*, David G Simmons and John R Fairweather, Westland Case Study, Report no 29/2001, Lincoln University.

Internal Expertise May be Limited

- 3.8 Some local authorities do not have specialist commercial, financial, or legal skills among the staff. Such skills may be needed to conduct due diligence, evaluate business proposals, or establish commercial agreements with third parties.
- 3.9 A local authority may also draw on outside expertise to monitor progress towards meeting its economic development objectives, and to oversee management of its investment.
- 3.10 Local authorities with limited specialised skills in-house may decide to:
- avoid proposals that require expert assessment and monitoring;
 - share skilled staff with neighbouring local authorities;
 - engage external expertise; or
 - seek staff training opportunities with other local authorities that have experienced and skilled staff.
- 3.11 A local authority may also choose to engage external facilitators, as such skills are vital for the successful implementation of some initiatives.
- 3.12 In many instances, however, local authorities will have the necessary resources in-house to manage economic development activities. Case Study 10 – Supporting Low-risk Initiatives that are Important to Local Industry – outlined on the following page illustrates how a small local authority was able to pursue an economic development initiative within its capability.
- 3.13 Any economic development strategy quickly becomes out-of-date with changes in technology, business markets, employment, and migration. Economic development initiatives based on a strategy containing outdated information may be misguided and inappropriate.
- 3.14 The local authority should:
- identify those aspects of its strategy most likely to change over time; and
 - periodically review its strategy to ensure that the strategy remains relevant and based on accurate information.
- 3.15 Continuing liaison with key stakeholders, the community, other economic development service providers and business will also help suggest to the local authority when strategic changes are needed.

Case Study 10 *Supporting Low-risk Initiatives that are Important to Local Industry*

What Does This Case Study Show?

- That a low-cost, low-risk initiative can be well within the capability of even smaller local authorities with limited resources.
- That gains can be made from encouraging and supporting a growth sector with natural comparative advantages.

The Facts

The overall goal of the Central Otago District Council's economic development strategy is to improve the community's wellbeing through the support of new and growing businesses. Horticulture is one such business and is a key part of the Central Otago economy. It is the fastest growing sector. It covers pipfruit, stonefruit and grape growing, and is strongly linked to tourism. Specific actions by the Council to promote the horticulture sector include:

- Surveying all Central Otago fruit and grape growers for their planting and production intentions for the next five years.
- Forecasting labour requirements for the next five years. Labour demand is currently seasonal. Increasing the number of crops will extend the demand for labour across the year and help its retention.
- Determining needs for worker accommodation and social infrastructure (such as vocational training requirements, medical services and child-care facilities) will support further facilities investment.
- Encouraging a grower-directed research programme, and grower education programmes, especially to produce fruit of greater quality and size consistency to meet the growing expectations of the domestic and international markets, will help to grow the District's income.

Joint Ventures Offer Benefits and Pose Risks

- 3.16 The local authority may enter into a joint venture arrangement to undertake an economic development initiative. Failure of the joint venture, or withdrawal of the partner, may put the local authority's investment at risk. This exposure needs to be considered in the light of the potential benefits from such an arrangement: the expertise and funding that the partner may be able to bring to the venture, and the sharing of financial risk.

- 3.17 The local authority may have less influence over a joint venture than over an investment in which the local authority is the sole funder. It should take expert advice as to how best to protect ratepayers' investment in any joint venture.
- 3.18 The local authority should seek assurance on the viability and credit-worthiness of any proposed joint venture partner and on the sustainability of the partnership investment.

Legal Liabilities Can Arise

- 3.19 The local authority is exposed to potential liabilities through the actions of its agents or staff. For example, their misconduct, unethical practice, or failure to perform contractual obligations may put the local authority at risk. Drawing on sound legal advice can minimise these legal exposures and risks to the local authority's reputation.
- 3.20 Councillors may, at times, have to manage conflicts between their roles as elected members and their private financial interests. All elected members are responsible for ensuring that they comply with the provisions of the Local Authorities (Members' Interests) Act 1968. This Act regulates the activities of elected members and fulfils two purposes:
- It prevents members from using their position, in contracting situations, to obtain preferential treatment from the authority of which they are a member.
 - It ensures that members are not affected by personal financial motives when they participate in authority matters.¹⁰
- 3.21 Effective management systems and processes are essential for avoiding, detecting, or managing potential liabilities. In assessing the viability of proposed economic development initiatives local authority staff should have regard for risk implications, how those risks will be controlled, and how the local authority will account for its activities internally and to the community.

¹⁰ We fully explain the provisions of the Act in our publication *Financial Conflicts of Interest of Members of Governing Bodies*, September 2001, ISBN 0 477 02885 3 – also available on our web site www.oag.govt.nz.

Measuring the Impact of Expenditure Needs to be Effective

Access to Advice

- 3.22 Expert advice is essential to managing risk. The local authority should have available for its consideration a comprehensive expert analysis for every proposed economic development initiative. The analysis should include an assessment of all financial and non-financial aspects.
- 3.23 Also needing expert input are the regular monitoring and evaluating of outcomes of economic development projects in which the local authority is financially involved.

Measuring the Results

- 3.24 To judge the effectiveness of economic development initiatives, local authorities must measure and monitor the results or outcomes. Assessing results or outcomes can serve a number of purposes, such as:
- providing support for an ongoing programme; and
 - identifying scope for improvement in the delivery of services.
- 3.25 In the past, local authorities have not always allocated sufficient resources to monitor the outcomes of their economic development initiatives.
- 3.26 Local authorities should evaluate the outcomes of economic development initiatives in order to meet the needs of two broad groups:
- sponsors, oversight agencies, funders, and the community; and
 - management decision-making, including resource allocation.
- 3.27 Measuring outcomes can be difficult. Economic development outcomes are the product of many different factors and influences, and it can be difficult to determine the extent to which such outcomes are the product of a particular local authority initiative.
- 3.28 It is easier to quantify the impact of some initiatives than others. For example, it is likely to be more difficult to measure the effectiveness of indirect support provided through a local authority's broad-based facilitation initiatives than to assess the impact of specific activities funded directly by the local authority.

- 3.29 The timing of the evaluation should be considered. Some initiatives, such as the provision of economic development information, may produce measurable effects within a short time. Others – such as promoting inter-firm cooperation, mutual support and cluster development – may need years for the full benefits to emerge. To measure impacts, it may be necessary to examine trends in key indicators over a number of years.

What Measures Should Local Authorities Use?

- 3.30 Measures for assessing the impact of economic development initiatives can be classified in four groups, according to different purposes and for different parties:
- economic and social wellbeing;
 - activity and cost;
 - business level indicators; and
 - success stories from business.
- 3.31 Where possible, the local authority should identify and use relevant measures from all four groups, to build a comprehensive picture of performance.

Measures of Economic and Social Wellbeing

- 3.32 Measures of economic and social wellbeing show whether an economic development initiative has been successful at the strategic level.
- 3.33 Statistics New Zealand regularly publishes, on its web site, useful information on community profiles, and economic indicators at a regional, district, and suburban level – including comparisons with other regions.¹¹

Outcome Measures

- Increased levels of wellbeing for the community, as determined by surveys of residents
- Economic growth of the region
- More jobs created or retained in the community
- Increased quality of jobs
- Increased personal incomes

¹¹ See www.stats.govt.nz. See also www.nzhis.govt.nz for health statistics, and www.police.govt.nz for local crime statistics.

A STRATEGY FOR MANAGING RISK

- 3.34 For monitoring trends, and for comparing economic performance with that of other regions, the composite statistic – economic growth – is also a key measure.¹² Comparisons of economic growth may help a local authority to isolate the impact of its economic development initiatives from the influence of other factors.
- 3.35 Case Study 11 – Developing Long-term Outcome Measures and Targets – on the following page illustrates how one local authority uses a range of information to monitor the impact of its economic development initiatives.

Measures of Activities and Cost

- 3.36 Measures of the type and number of activities undertaken, and of the resources used in doing so, enable local authority managers to review levels of resource use, enabling them to identify areas where management or service delivery changes should be made.

Activities undertaken

- Initial site visits
- Informal engagements
- Unscheduled contacts, phone calls, or visitors about economic development
- Formal assessments
- Technical assistance studies
- Businesses served
- New businesses assisted
- Repeat requests for assistance
- Services delivered
- Fee-based services
- Partnership arrangements
- Client backlog

Resources used

- Total cost to the local authority
- Amount of staff time spent
- Other local authority resources used such as buildings

¹² See, for example, the quarterly and annual regional statistics and comparisons of economic growth produced by The National Bank of New Zealand Ltd, www.nationalbank.co.nz/economics/default.htm.

Case Study 11

Developing Long-term Outcome Measures and Targets

Long-term Measure	Intermediate Target	Long-term Target	Historical Results	How is it Measured?	When is it Measured?																						
Growth in the proportion of the work force in the Auckland region that is employed within Waitakere City.	<table border="1"> <thead> <tr> <th>Year</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>2006</td> <td>55</td> </tr> </tbody> </table>	Year	%	2006	55	<table border="1"> <thead> <tr> <th>Year</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>2011</td> <td>60</td> </tr> </tbody> </table>	Year	%	2011	60	<table border="1"> <thead> <tr> <th>Year</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>1991</td> <td>43</td> </tr> <tr> <td>1996</td> <td>44</td> </tr> <tr> <td>1997-98</td> <td>45</td> </tr> <tr> <td>1998-99</td> <td>42</td> </tr> <tr> <td>1999-2000</td> <td>48</td> </tr> <tr> <td>2000-01</td> <td>50</td> </tr> </tbody> </table>	Year	%	1991	43	1996	44	1997-98	45	1998-99	42	1999-2000	48	2000-01	50	Council survey asks whether individuals are employed within the city.	June each year.
Year	%																										
2006	55																										
Year	%																										
2011	60																										
Year	%																										
1991	43																										
1996	44																										
1997-98	45																										
1998-99	42																										
1999-2000	48																										
2000-01	50																										
Local employment grows more quickly than the eligible working population.	Growth in employment exceeds the increase in the workforce over the period.	Employment growth continues to be greater through to 2010.	Between 1997 and 2000, there has been an average 3% annual increase in local jobs, and an estimated 2% annual increase in the workforce.	The Council measures the percentage annual change in the total number of full-time equivalents in employment and changes in the numbers of adults eligible for employment.	November each year.																						
Unemployment in the city is less than the Auckland region average.	The city's unemployment rate continues to be lower than the Auckland region.	The city's unemployment rate continues to be less through to 2010.	<p>Unemployment December 1999</p> <table border="1"> <thead> <tr> <th>City</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>Waitakere</td> <td>4.5%</td> </tr> <tr> <td>Auckland</td> <td>6.4%</td> </tr> <tr> <td>North Shore</td> <td>2.5%</td> </tr> <tr> <td>Manukau</td> <td>6.7%</td> </tr> </tbody> </table>	City	%	Waitakere	4.5%	Auckland	6.4%	North Shore	2.5%	Manukau	6.7%	The official unemployment rates are used for comparison.	Annually, January – March.												
City	%																										
Waitakere	4.5%																										
Auckland	6.4%																										
North Shore	2.5%																										
Manukau	6.7%																										

Source: Waitakere City Council: Economic Development Long Term Targets, 18 October 2001.



A STRATEGY FOR MANAGING RISK

Measures of Impacts on Businesses

3.37 Firms will take advantage of an economic development initiative only if there are demonstrable benefits from doing so. Assessing the impact on individual businesses and sectors is a vital means of measuring the outcomes of economic development initiatives and of encouraging ongoing participation by local businesses.

Employment

- Jobs added or saved
- Training provided
- Skills developed

Financial

- Costs saved
- Revenues increased
- Profitability increased

Business processes

- Investment in plant and equipment
- Increased market share
- Improved access to information
- Changes in management strategy and organisation
- Changes in technology adoption

3.38 However, the information might be difficult to collect and interpret. For example:

- the information might be considered commercially confidential, such that businesses are unwilling to disclose it;
- firms may not be collecting the data, or collecting it in a form which makes impact assessment possible;
- the information held by businesses could be unreliable;
- businesses might not be able to identify the financial benefits of participation in the local authority's initiative; or
- services provided to businesses – such as facilitation, coordination and mentoring – may be difficult to quantify.

- 3.39 It may also be difficult to identify the impacts across a business sector or group of firms where benefits to one business or group of businesses (in terms of, for instance, higher sales or employment) may be offset by disbenefits to another business or group of businesses.

Success Stories from Businesses

- 3.40 A local authority may ask assisted businesses to comment on the services that they have received and the benefits from the services. Although subjective and not reliable as a sole indicator of outcomes, such comments obtained from surveys and feedback can add a valuable dimension to quantitative measures.
- 3.41 Comments from assisted businesses can also provide useful publicity for the local authority. Information about the benefits for individual businesses can usefully supplement other quantitative measures.
- 3.42 However, as measures of impact, business success stories have some drawbacks:
- benefits or problems might be over- or under-stated;
 - the comments could be subjective; or
 - a limited response from businesses could raise questions as to whether it is possible to make generalisations about the impact of the initiatives.

Performance Measures Need to be Properly Developed and Interpreted

- 3.43 We set out in the following paragraphs some guidelines for developing and using measures to assess the impact of a local authority's economic development activities.
- 3.44 *Define performance measures* so that they are well understood and can be consistently applied. For example, costs associated with the local authority's support for economic development – such as indirect staff time spent in facilitation – should be applied in the same way to all appropriate projects. And a single definition of “competitiveness” should be used – by reference to factors such as market share, profitability, and employment.

A STRATEGY FOR MANAGING RISK

- 3.45 **Complement and support quantitative data** (if it does not adequately describe achievements) with relevant *qualitative information*. For example, comments from clients and anecdotal success stories from local businesses can helpfully supplement quantitative indicators.
- 3.46 **Monitor the changes** in the measures *over time*. Compare indicators with similar regions across the country and with national averages to establish relative performance.
- 3.47 **Use interim measures** where some initiatives may take years to generate identifiable outcomes. An interim measure provides an early indication of progress towards achieving outcomes. For example, the number of businesses mentored for growth that have gone on to develop growth plans may serve as an interim indicator of possible increases in the number of sustainable jobs. Demonstrating interim success and benefits may thus provide an early indication of possible initiative success.
- 3.48 **Report performance** to the local authority, stakeholders, and the community. The frequency of reporting will depend on the objectives and target audiences.
- 3.49 **Report the contributions of all agencies** that worked towards success, to encourage their future contributions.
- 3.50 **Report both good and bad progress**, so that:
- there are no future surprises to stakeholders; and
 - lessons can be learned as soon as possible.



Appendix

Economic Development Initiatives that Local Authorities are Undertaking

Introduction

Local authorities undertake economic development initiatives through six broad channels. Three involve direct financial support – direct funding of business, funding of service providers, and subsidies for local authorities' fees and charges. The others involve indirect support, in the form of facilitation, agency services, and strategic alignment.

Direct Financial Support

Funding individual businesses, giving guarantees to lending institutions, subsidising new or existing business, or direct infrastructure investment

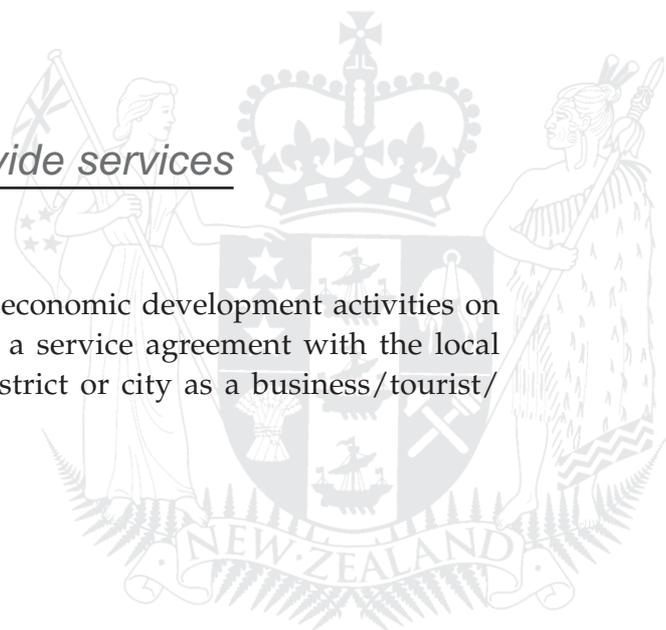
These initiatives include:

- making grants or loans (in some cases interest-free);
- meeting some or all industry infrastructure costs;
- meeting some or all the costs of re-locating a business;
- acting as guarantor for loans; and
- directly purchasing fixed assets, for example –
 - land for the establishment of industrial estates; and
 - specialised buildings.

Funding third parties to provide services

This initiative includes:

- funding organisations to carry out economic development activities on the local authority's behalf, under a service agreement with the local authority, (such as promoting a district or city as a business/tourist/residency location).



Subsidising local authority charges and fees

This initiative includes:

- reimbursing or subsidising local authority levies or charges – for example, for reserve contributions and fees for the issue of planning consents; and
- giving rebates on rates and utility charges.

Indirect Support

Facilitation initiatives include:

- mentoring businesses, advising on business planning, formation or re-location;
- matching potential investors with business opportunities;
- fostering workforce training;
- creating linkages between school, skills and employment, aligning education to the needs of the local business community; and
- preparing and disseminating information to tourists, businesses, and immigrants.

Providing agency services

Local authorities are increasingly acting as the agents of central government in delivering a range of services to local communities. These services include activities related to the promotion of economic development, such as delivery of:

- Employment services under contract to *Work and Income New Zealand*.
- BIZInfo services under contract to *Industry New Zealand*. Such services include providing advice, information, guidance and training to businesses.

Aligning the strategic focus of local authority activities to its economic development goals

This involves:

- ensuring that local authority plans and activities are consistent – and where possible promote – the achievement of economic development goals; and
- minimising the costs to new and expanding businesses of complying with regulations (such as resource consent) and other requirements administered by the local authority.

