31 October 2006

Mr Ian Buchanan
Chairman
Interim Wellington Regional Strategy Committee
Freepost 3156
Greater Wellington Regional Council
PO Box 11646
Manners Street
WELLINGTON 6142

Dear Ian

Wellington Regional Strategy

Thank you for your letters to Rob McLeod and me inviting submissions on the Wellington Regional Strategy (WRS). I am pleased to respond on behalf of the New Zealand Business Roundtable, an organisation of chief executives of major business firms. A large number of them have operations in the Wellington region.

We share the WRS team's concern about the lagging performance of the regional economy. Both directly and through the Local Government Forum we have drawn attention to this problem in submissions to the Wellington City Council and the Wellington Regional Council over many years. Our analysis has been that council policies have not been conducive to making the region attractive for business. We have predicted that their continuation would see, among other things, an ongoing drift of head offices out of Wellington. These predictions have been borne out. There has, however, been no apparent willingness on the part of the councils to heed our submissions. This year the Local Government Forum collectively decided that it was not worth persisting with them.

Despite acknowledging the region's economic problems, the WRS has not in our view come up with a sound analysis. Our main comment on the report is that it lacks an economic framework. There is a large body of research that sheds light on issues of economic development, whether those of a region or a country. None of this is referenced in the report or appears to have been drawn on. Key insights from it are that the quality of governmental institutions and policies matters most for growth. In the regional context this points to the importance of issues such as the proper role of councils; the need for them to focus on the provision of core public goods; the importance of exiting commercial activities and leaving them to the private sector; the level and quality of council spending; the level and structure of rates, including the case for eliminating the unjustified business rate differential; the need for a minimum of regulation and efficient administration of necessary regulatory functions; and ensuring the provision of key infrastructure (where possible by the private sector).

These issues are not discussed in any depth in the report.

By contrast, private sector firms are fully capable, with the assistance of professional advisers where necessary, of handling such functions as identifying profitable investment opportunities, finding export markets and entering into productive partnerships and joint ventures with other private or public sector organisations. They can form industry associations where they see benefit in collective action and fund them from their own resources. They do not need the 'helping hand' of council bureaucrats or ratepayer funding. In Wellington's case joint ventures would be facilitated if universities and Crown Research Institutes in the region moved in the direction of private sector models, in whole or in part.

We attach the most recent submissions made by the Local Government Forum to the Wellington Regional Council and the Wellington City Council and urge the WRS team to read them carefully. The thrust of the arguments put forward remains valid in our view, and there has been little progress on most of the issues raised in them. They represent a much more orthodox and proven strategy for economic development in the region than is outlined in the WRS.

We draw particular attention to four areas discussed in the submissions.

First, business development, and other desirable goals, are facilitated by limited government, in the form of light spending, rating and regulatory burdens. The Wellington City Council is a big-spending council by national standards. It seems to have difficulty prioritising its spending and has failed to take obvious opportunities to reduce spending and rates. It maintains an unjustified business rating differential.

Secondly, we do not support significant spending on so-called economic development including tourism promotion, events and attractions. No evidence that these can be successful strategies is presented in the WRS report, and there is much evidence that they are ineffective and waste resources. In a national context the New Zealand Institute of Economic Research recently commented:

> … one approach that we contend is unlikely to succeed in improving New Zealand's relative performance is for the government, government agencies or government-funded agencies to attempt to pick "winning" industries or firms and to subsidise their growth and development … Unless it is clear why the market is failing, government intervention is likely to be misdirected and resources wasted. Even apparent success in developing chosen industries and firms redirects resources away from other potentially more efficient uses, the cost of which is not obvious and is seldom recognised by proponents of such schemes. Schemes of this kind were much favoured in the 1970s and early 1980s and the long-run results were poor. Such schemes have recently returned to favour, but we see nothing to suggest greater success this time around.[1]

These arguments apply equally at the local government level. Thus we do not support the proposed increase in spending on economic development in the WRS; indeed we recommend that such spending be eliminated or reduced to modest outlays, essentially on the provision of information about the region and business facilitation within council administrations.

Similar comments apply to events and 'attractions'. There has been a catalogue of wasteful regional initiatives ranging from the Sesqui fiasco to the money wasted on Tiger Woods' visit. The Wellington City Council continues to promote initiatives based on shonky economic analysis, such as Richard Florida's 'creative' city ideas and the V8 car race.[2] These also reflect a misplaced focus in respect of what really matters for development in the region.

Thirdly, we strongly believe councils should exit from all commercial activities and investments. There is abundant evidence that, on average and over time, private ownership and operation is more efficient and contributes more to growth. The Wellington Regional Council has been talking for nearly a decade about selling its interests in forestry, the port company and other assets, but nothing has happened. Council ownership of ports is inhibiting rationalisation of the ports industry. Similarly, central government has sensibly quit its investment in Wellington airport but the Wellington City Council has not. There is no sound argument for maintaining ownership for 'strategic' reasons. The argument that dividend income helps keep down rates is

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1 New Zealand Institute of Economic Research, *The New Zealand-Australian income differential*, NZIER working paper 2006/05, October 2006.

2 On Florida, see the 2004 Local Government Forum submission on the draft 2004/05 annual plan. On the V8 car race, see the 2005 Local Government Forum submission.

also spurious. The WCC has many other commercial interests which belong in the private sector.

Fourthly, the region's performance in respect of infrastructure needed by business is poor. It took the Wellington City Council more than 20 years to get the inner city bypass underway. A stronger focus on roading priorities and less on its raft of peripheral activities is badly needed. Similarly, although Wellington City finally moved to a sound contractual model for the Moa Point sewerage scheme, there has been minimal progress in the region towards more efficient corporatised or private sector supply of water and wastewater. More efficient management of the large volume of resources devoted to roading, water and other infrastructure is far more important for economic development than activities like Positively Wellington Business and Positively Wellington Tourism.

In summary, we believe the WRS has not started from a sound understanding of what promotes economic development and as a result the report lacks an analytical framework and a focus on the issues that really matter. The approaches advocated in the submissions of the Local Government Forum would, in our view, be far more effective. Councils in the region have essentially turned a deaf ear to them for many years, yet there is much evidence, including in the WRS, that their own strategies have failed to lift regional performance. The WRS essentially proposes more of the same, and no better results could be expected from it.

Our principal recommendation therefore is that the exercise should be re-done, involving people with recognised expertise in the factors that promote economic growth and development, that a proper framework for analysing economic development should be articulated, and that the focus should be on 'big ticket' rather than peripheral issues. The main recommendations of the WRS as it stands should not be adopted.

Yours sincerely

R L Kerr
EXECUTIVE DIRECTOR

direct dial: +64 4 499 0790
email rkerr@nzbr.org.nz