

**OFFICE OF THE MINISTER
FOR INDUSTRY AND REGIONAL DEVELOPMENT**

The Chair
CABINET ECONOMIC DEVELOPMENT COMMITTEE

**BOOSTING THE IMPACT OF REGIONAL ECONOMIC DEVELOPMENT: DETAILED
CHANGES**

PROPOSAL

- 1 On 22 August 2006, Cabinet agreed to refresh the framework for regional economic development policy ('regional policy') to ensure it remains aligned with the government's overall goals for economic development [CAB Min (06) 31/4 refers]. This paper reports on the detailed changes required to give effect to this.

EXECUTIVE SUMMARY

- 2 In August 2006, Cabinet agreed to refresh the framework for regional policy. The government's goal for refreshed regional policy is to improve the quality of the regional business environment to support the development, attraction and retention of globally competitive firms. This ensures that regional policy is clearly aligned with the government's economic transformation agenda. This paper sets out how the existing regional policy and the Regional Partnership Programme (RPP) will be reshaped around the achievement of the goal.
- 3 To assist with the transition from the current 26 regional groupings to about 14, it is proposed that existing RPP regions be offered up to \$0.05m to meet one-off costs directly caused by the aggregation of RPP regions and the establishment of the associated governance structures.
- 4 The RPP provided for funding for regional economic development strategy development and for capability building. It is proposed that this funding be reshaped as the Enterprising Regions fund. This funding will similarly focus on encouraging regions to develop robust regional economic development strategies and to undertake activities arising out of their strategies. It is proposed that \$0.75m be available to regions over a three year period, with flexibility in accessing this funding. This funding will encourage regions to take a longer term perspective, and to take a productivity based approach to improving the quality of the regional business environment to support the development, attraction and retention of globally competitive firms.
- 5 It is proposed that Major Regional Initiative (MRI) funding be reshaped as the Enterprising Partnerships Fund. This fund will be available for regionally based projects that are commercially driven, generate substantial economic benefits for the region, and align with national goals and priorities.

- 6 The Enterprising Partnerships Fund will be a contestable fund, with funding decisions made by Cabinet. Projects to be funded will be selected based on their merits relative to other projects, as well as their ability to contribute to both regional and national economic outcomes. It is proposed that up to two funding rounds be held per year. The total amount of funding available per year will vary subject to the other commitments outlined in this paper, and will be approximately \$9m in 2007/08, \$10.5m in 2008/09 and 2009/2010, and \$11.5m in 2010/11 and outyears.
- 7 Recognising that Auckland's regional economic development is a key part of government's economic transformation agenda, it is proposed that \$1m per annum be ring fenced for activities in Auckland that reinforce the linkages between Auckland's economic transformation and regional economic development.
- 8 Given the small scale of the Chatham Islands, but also recognising that the principles of regional economic development will be relevant to their needs, it is proposed that \$0.15m over three years be available for strategic planning and implementation.
- 9 This paper also proposes a number of work items designed to support the refreshed approach to regional economic development. These will be undertaken collaboratively, including Local Government New Zealand (LGNZ) and the Economic Development Association of New Zealand (EDANZ), and will be reported to the Minister of Industry and Regional Development by 14 December 2007. These are:
 - Communicating national goals and priorities. This will help build the economic development capability of regions by ensuring that they have access to the best information for developing strategies and identifying and exploiting economic opportunities. It also helps ensure that regional activity is aligned with the achievement of national economic goals.
 - Stocktake of current central government activity at the regional level that affects the regional business environment. This will provide useful information to regions, and from a central government perspective, will provide information on whether there are any gaps, overlaps or inconsistencies that need to be addressed or managed.
 - Regional Coordination Models. There are currently a range of different models in place for coordinating central government input into regional economic development processes. There will be significant value in analysing the different models to determine what works and what doesn't work in different circumstances, as well as capturing some of the learnings and experiences from implementing and working with different models.

BACKGROUND

- 10 On 22 August 2006, Cabinet considered a paper entitled, "*Boosting the Impact of Regional Economic Development*". The paper identified the need to update regional policy to reflect changes since the introduction of the Regional

Partnerships Programme (RPP) in 2000¹ while building on the aspects of the RPP that have worked well.

- 11 Cabinet agreed to refresh the framework for regional policy to ensure it remains aligned with the government's overall goals for economic development. Cabinet also noted that a number of changes to the current RPP will be required to give effect to the refreshed approach, including:
- the number of regions for the purposes of New Zealand Trade and Enterprise (NZTE) funding will be consolidated from 26 to about 14;
 - strategy and capability funding will be revised to get more focus on building capability to undertake strategic planning for economic development;
 - Major Regional Initiative (MRI) funding will be revised to generate high quality large scale projects through contestability, and ensure alignment with other funding streams (with Ministers making final decisions on grants following advice from the NZTE board); and
 - recognising the role of government agencies other than NZTE in regional economic development and, where possible, ensuring these activities are aligned with regional economic development strategies.
- 12 I was asked to report back with detailed proposals on each of these items by 1 December 2006 [CAB Min (06) 31/4 refers]. This report back was subsequently deferred to 28 February 2007 to allow for further departmental discussion. This paper responds to the report back requirement.

COMMENT

- 13 The August 2006 Cabinet paper sets out the government's goal for refreshed regional policy as: *'improving the quality of the regional business environment to support the development, attraction and retention of globally competitive firms.'* This approach is a significant change in focus for regional policy, but firmly aligns regional policy with the achievement of the government's broader economic goals as articulated through the economic transformation agenda, particularly, the sub-theme of 'growing globally competitive firms'.
- 14 The focus on the 'regional business environment' and 'globally competitive firms' means thinking about the drivers of firm performance or productivity through a location specific lens². The Cabinet agreed approach to 'growing globally

¹ These changes include: Cabinet agreement that economic transformation be one of the government's priorities for the next decade [CAB Min (06) 7/22 refers]; changes to the structure and focus of New Zealand Trade and Enterprise (NZTE), including a greater emphasis on global connections; higher levels of regional employment; and the introduction of the Local Government Act 2002, including the Long-term Council Community Plan (LTCCP) process.

² These are the same as the drivers of national productivity as described by the Growth and Innovation Framework (i.e. investment, innovation, enterprise, international connections, skills and talent, infrastructure and institutions), with the exception of macroeconomic conditions, which are generally only influenced at a national level.

competitive' firms as set out in the economic transformation agenda will apply³, with existing regional policy programmes and tools reshaped to support these outcomes.

- 15 The refreshed approach recognises that, while central government can influence a number of productivity drivers at the national level, some issues affecting firm productivity can only be addressed at the regional level. Similarly, local government plays a key role in influencing the regional business environment through activities such as funding infrastructure, urban planning, regulatory functions and regional marketing. However, like central government, local government is unable to influence all of the necessary productivity drivers and must balance the achievement of economic outcomes with other outcomes sought by its communities. Furthermore, some location specific determinants of firm productivity may cross multiple local government boundaries.
- 16 Indeed, many economic agents have a role in achieving regional economic development, not just central and local government, with individual firms and industry playing a vital role. As such, fundamental to the refreshed approach to regional policy is the recognition that a broad range of stakeholders have the ability to influence the regional business environment. This reconfirms the underpinning of the RPP that successful regional economic outcomes can only be achieved through collaborative partnerships between a range of stakeholders, including central and local government, economic development agencies (EDAs), Regional Tourism Organisations (RTOs), business and industry groups, Maori/iwi, and research and training organisations.
- 17 This paper sets out some of the activities that the government will undertake to help achieve the refreshed regional policy goal, including reshaping the existing funding programmes. NZTE, as the government's principal economic development agency, will play an important role in the delivery of these. However, it is also important to acknowledge that, at both the regional and local level, there are a number of other activities undertaken by a broad range of central and local government agencies and private sector organisations, that currently, and will continue to, play a crucial role in achieving regional economic outcomes.

Building strategic capability

- 18 In August 2006, Cabinet noted that the refreshed approach to regional policy will require existing RPP strategy and capability funding to be revised to get more focus on building capability to undertake strategic planning for economic development. In addition, it noted that the number of regions for the purposes of NZTE funding will be consolidated from 26 to about 14. This reflects the view that the RPP has been successful in building collaborative regional economic development partnerships and enhancing their ability to think and plan strategically, but that existing partnerships lack the size and scale required for regional development outcomes aligned with economic transformation.

³ Growing globally competitive firms means focusing on improving the productivity and competitiveness of all firms in New Zealand, as well as focusing on those firms that are, or have the potential to be, directly involved in internationalising their business [CAB Min (06) 31/3 refers].

Moving to about 14 regions

- 19 The immediate priority for implementing refreshed regional policy is transitioning from the current 26 regions to about 14⁴, based broadly around regional council boundaries. Conceptually, these regional groupings can be thought of as a working partnership of regional stakeholders, each of which retains its own purpose, functions and governance structures (as occurred under the RPP). However, scale will be insufficient in itself for achieving regional development outcomes and good governance structures supporting the regional groupings will be vital for providing stability, longevity, leadership, and functionality.
- 20 In general, MED and NZTE do not envisage significant difficulties in moving to a new regional formation. The existing RPP partnerships provide a strong platform for further aggregation, and the formation of the new groupings based broadly around regional council boundaries means that many of the linkages between the affected RPP regions already exist. Indeed, discussions with key regional stakeholders indicate goodwill towards the move, with a number already in the new formation⁵ or actively moving towards it. However, it is possible that a small number of RPP regions that have historically faced complex governance issues may take longer to merge. For these regions, it is proposed that the need to build regional size and scale be strongly enforced through the incentives associated with the provision of any government funding under the refreshed regional programme.
- 21 NZTE, through its regional presence, and with the support of MED (where appropriate), will work with all RPP regions in moving to the new arrangements, with particular attention given to regions that may experience more difficulties. NZTE has experience in this activity due to its role in helping form the original 26 RPP groupings. As with the RPP, it is not proposed that any specific governance models be imposed on regions, as experience confirms that the best arrangements will vary on a region by region basis to meet varying needs. However, it is expected that, where possible, relationships and networks established under the RPP will be adapted. In addition, the need for a collaborative approach to effective regional economic development as outlined in paragraph 16 confirms that governance arrangements should provide for the representation of a broad range of stakeholders.
- 22 Discussions with regional stakeholders have indicated that there are likely to be some one-off costs in moving to the new arrangements. To ensure that this does not create a disincentive to regional aggregation, I propose that NZTE be given flexibility in 2007/08 only to offer existing RPP regions up to \$0.05m to meet one-off costs directly caused by the aggregation of RPP regions and the establishment of the associated governance structures. Note that it is not expected that regions already in the new formation will require this funding. The funding will be subject

⁴ These are likely to be Auckland, Bay of Plenty, Canterbury, Hawkes Bay, Manawatu/Wanganui, Marlborough/Nelson/Tasman, Northland, Otago, Southland, Tairāwhiti/Gisborne, Taranaki, Waikato, Wellington and West Coast.

⁵ Auckland, Canterbury, Hawkes Bay, Northland, Otago, Southland, Tairāwhiti/Gisborne, Taranaki and West Coast.

to grant management criteria and processes to be determined by NZTE and in accordance with this paper.

Enterprising Regions Fund

23 The August 2006 Cabinet paper confirmed the government's role in supporting regions to build economic development capability. Experience with the RPP confirms that regional economic development strategies ('strategies') are a key mechanism for achieving this. As such, funding for their ongoing development will be retained under refreshed policy. The existing RPP strategy and capability funding will be reconfigured to form the Enterprising Regions Fund. Through funding criteria and administration, the Enterprising Regions Fund will:

- encourage regions to take a medium to long-term approach to their economic development strategic planning by developing strategies that reflect the full range of opportunities and activities that will contribute to the achievement of their economic goals and priorities (not just those influenced by central and local government), with a clear implementation path against which progress can be monitored and reviewed;
- encourage regions to take a productivity based approach to improving the quality of the regional business environment to support the development, attraction and retention of globally competitive firms;
- ensure regions involve all relevant government and non-government stakeholders in the development and implementation of strategies and utilise any existing resources, skills and expertise that they can provide (for example, NZTE business assistance programmes, and Ministry of Social Development (MSD) and Department of Labour (DOL) labour market activities);
- reinforce appropriate regional governance structures for long-term regional economic development; and
- ensure strategies take into account and, where relevant, are consistent with, the government's broader national economic goals, strategies and priorities, and other relevant regional and local policies and processes (for example, LTCCPs, and regional transport, tourism and labour market strategies).

24 Funding will be available for regional (or joint regional) activities associated with the development, implementation and maintenance of strategies and the associated action plan, including: research, data collection, consultation, communication and monitoring; aligning strategies with other relevant regional decision-making processes and planning documents (including LTCCPs); and implementing projects identified in the strategies' action plan.⁶

⁶ It is useful to note that strategies will be, as they currently are, implemented by a range of players with funding obtained from a range of sources including local government, as well as other government agencies, or the private sector. These implementation projects can be more focused at the local, rather than the regional level.

- 25 It is proposed that \$0.75m be available per region, over three years (with the exception of the Chatham Islands, as discussed below). However, the amount of funding available for each region in any one financial year will be limited to 50% of the total to ensure sufficient funding remains available over the three year period. This will provide funding certainty for regions and enable more effective planning around strategy development and implementation. It also provides regions with flexibility to allocate funding between strategy development and implementation, provided these activities are consistent with the intent and objectives of the fund.
- 26 NZTE, through their regional presence, will continue to work proactively with regions over the development and implementation of strategies. They will also work closely with regions to manage the budgetary implications of flexible funding.
- 27 Funding will be granted by NZTE for projects that clearly align with the intent and objectives of the fund. Regions will be required to make a financial (cash) contribution equivalent to no less than 20% of the total cost of each project funded. In-kind contributions will not be considered as part of the financial contribution, but will be encouraged, and taken into account when assessing applications for funding. The funding will be subject to standard grant management processes to be determined by NZTE. MED and NZTE, in consultation with Treasury, will report to the Minister of Industry and Regional Development by 30 April 2007 on the detailed criteria and operation of the Enterprising Regions Fund.
- 28 It should be noted that under the current RPP funding arrangements, each of the 26 regions is able to apply for up to \$400,000 over 3 years (i.e. strategy and capability funding), with some larger, more complex regions able to apply for greater amounts. Under the proposals contained in this paper, some regions will be eligible for more funding than they currently are, while others will be eligible for less. Officials consider that the proposals contained in this paper will be sufficient to enable regions to respond to the government's refreshed approach and recognise the complexity inherent in moving to fewer, larger regions.

Chatham Islands

- 29 At present the Chatham Islands are considered one of the regions under the RPP. The greater emphasis on location specific drivers to regional economic development under the refreshed approach means that it may not make sense for the Chatham Islands to merge with other regions, such as Otago or Christchurch. The small scale of the Chatham Islands alone, means that funding of \$0.75m over three years cannot be justified. However, the Chatham Islands do have some distinct issues, some of which are best addressed through a regional development approach. Also, it may make sense for them to work with other regions on specific projects. As such, it is proposed that, should the Chatham Islands be unable to merge with one of the 14 regions (or should this not be in their best interests), they be eligible for up to \$0.15m every three years for strategic capability development and working with other regions on specific projects, as appropriate. The same criteria and principles that apply to administration of the Enterprising Regions Fund will apply.

Regional Engagement

- 30 Under the RPP, the government, through NZTE, has supported regions in project management support and best practice advice, as well as providing a national and international perspective to regional development. This role for NZTE will continue under the refreshed approach to regional policy. However, the change in focus of regional policy (i.e. to improving the quality of the regional business environment to support the development, attraction and retention of globally competitive firms) will align more clearly with the firm, sector and international activities undertaken by NZTE, and therefore assist in their ability to undertake effective regional engagement.

Enterprising Partnerships

- 31 As well as building regional capability, the government has an interest in regional economic development because of the tendency for transformative economic activity to have a spatial or location specific component. In particular, the types of innovative and creative processes that grow globally competitive firms are often created as a result of the collaborative partnerships and networks that are established through the concentration of certain industries, and associated institutions, in certain locations. The government therefore has an interest in facilitating and building on these relationships.
- 32 Cabinet has agreed to make changes to the current MRI funding under the RPP [CAB Min (06) 31/4 refers]. I propose to reshape the MRI funding into a new fund to be called the Enterprising Partnerships Fund that makes funding available for initiatives that:
- further the creation or exploitation of regionally based⁷ collaborative partnerships and networks, and other regional institutions, that promote knowledge sharing, facilitate innovation processes and grow international connections;
 - involve and benefit multiple regional stakeholders (rather than focus on individual firms or sectors), with evidence of meaningful and useful collaboration required;
 - are commercially driven and have a strong commercial component, while building on areas of economic opportunity identified through a region's (or regions', where more than one region is involved) strategies and generating substantial economic benefits and opportunities for the region(s); and
 - align with the government's national economic goals and priorities, where these have been articulated, and are consistent with the government's broader economic, social and environmental goals and New Zealand law and international obligations.

⁷ Note that in this case, 'regionally based' does not refer to the 14 or so regional groupings discussed elsewhere in the paper, but rather the location specific elements of collaborative partnerships and networks.

- 33 In addition, initiatives to be funded should be financially self-sustainable at the completion of government support. Initiatives will also be based on partial funding, with participants in the project making a financial (cash) contribution equivalent to no less than 30% of the total cost of each project funded (i.e. the 30% is to exclude any in-kind contribution that may also be provided).
- 34 The Enterprising Partnerships Fund will be a contestable fund as previously agreed by Cabinet. This means that regions will not be assured of accessing funding for a significant regional project every three years as occurred under the RPP. Projects to be funded will be selected based on their merits relative to other projects, as well as their ability to contribute to both regional and national economic outcomes. It is expected that the new Enterprising Regions Fund and moving from 26 to about 14 regional groupings will grow all regions' capability with respect to accessing this fund. However, the operational criteria associated with the fund will need to ensure that larger regions do not have an undue advantage in accessing funding.
- 35 It is proposed that up to two funding rounds be held per year, with funding decisions made by Cabinet. To reflect the significant scale of the projects that this fund is targeting, the amount of funding per project will be limited only by the amount available in the fund. The decision to hold the second funding round of the year, and the amount of funding available in that round, will depend on the amount of funding remaining in the annual appropriation following Cabinet decisions in the first funding round. The total amount of funding available per year will vary subject to the other commitments outlined in this paper, and will be approximately \$9m in 2007/08, \$10.5m in 2008/09 and 2009/2010, and \$11.5m in 2010/11 and outyears.
- 36 In order to ensure consistency with the Crown Entities Act 2004, MED will be responsible for providing advice to Cabinet and making any funding payments. NZTE will have a role in communications regarding the fund, working with applicants to develop proposals, and jointly managing contracts with funding recipients with MED. The NZTE Board will also contribute to the advice to Cabinet on funding proposals that will be prepared by MED, in consultation with other departments. It is anticipated that the first funding round will be held before the end of 2007. MED and NZTE, in consultation with Treasury, will report to the Minister for Industry and Regional development by 18 May 2007 on the detailed criteria and operation of the fund.
- 37 The Enterprising Partnerships Fund is different from other government funds that facilitate large scale economic projects because it targets projects for which success is significantly influenced by the networks and relationships facilitated by geographical location. The fund also aims to develop and strengthen regional strategic capability, including ensuring linkages to regional strategies.
- 38 The process of preparing advice for Cabinet and the Cabinet decision making process will help to ensure alignment in funding decisions between this fund and other central government funds for economic development. However, the broader policy issue around the alignment of various government funding streams, and the transaction costs applicants face in accessing multiple funds, is the subject of further work by MED arising out of the review of business assistance programmes

[EXG Min (06) 3/7 refers]. The Enterprising Partnerships fund will be considered as part of that work.

Enhancing co-ordination

- 39 A key element of boosting the impact of regional economic development is recognising that many central government agencies contribute to regional economic development, and that it is not a role for NZTE alone. For example, MSD and DOL undertake a number of activities at the regional level, and funding decisions by agencies such as the Foundation for Research, Science and Technology (FRST) and the Tertiary Education Commission (TEC) can significantly shape the regional business environment.
- 40 Previous experience with the RPP and ongoing discussions with regional stakeholders suggests that improved coordination between central government agencies involved in regional economic development would be beneficial. I was asked to report back on ways to improve co-ordination through either a focus on priority regions or priority issues.

Priority Regions

- 41 In March 2006, Cabinet agreed that an internationally competitive city – Auckland – would be one of the five sub-themes of the government's economic transformation agenda [CAB Min (06) 7/22 refers]. A key reason for this is that international evidence highlights the important role that outward-facing, global cities play in leading a nation's economic development.
- 42 Many outcomes sought from the economic transformation agenda work on Auckland will be consistent with and complementary to regional policy outcomes. As such, I intend to ring fence \$1.0m per annum of the RPP appropriation for three years starting 2007/08 to fund activities that reinforce the linkages between Auckland's economic transformation and regional economic development.
- 43 The decisions regarding the allocation of this funding will be made by the Minister of Industry and Regional Development, with advice from the Government's Urban and Economic Development Office (GUEDO) in Auckland and NZTE. MED and NZTE will report to the Minister of Industry and Regional Development on the operation of this fund by 30 April 2007.
- 44 It should be noted that other regions have expressed concern at the government's focus on Auckland. At this stage, MED consider that there is a strong rationale for focusing on Auckland through the economic transformation agenda as outlined in paragraph 41 above. To simultaneously focus on additional regions to the same extent, at this time, risks diluting the impact of the economic transformation work, both in terms of signalling the desired outcomes and the potential diversion of resources.

Priority issues

- 45 Regions report mixed experiences in dealing with central government agencies at the regional level over the development of strategies and the pursuit of economic

opportunities more generally. Some of these experiences are extremely positive, but others are not so good. Many agencies have undertaken a lot of work to improve the level of coordination between themselves and other regional stakeholders and some useful models have been developed to facilitate this (for example, the Bay of Plenty Community Outcomes Working Group, which consists of local government and 17 government agencies).

- 46 However, the effectiveness of central government coordination at the regional level continues to vary for a range of reasons, including varying regional capability, the strength of regional governance arrangements, the level of regional cohesion and the personalities involved. As such, there is a need to determine whether there is more that can be achieved, while building on what is already in place. A key part of this will involve working with regional stakeholders, such as local government and EDAs, to determine their views. Three key pieces of further work are outlined below.

1 Communicating National Goals and Priorities

- 47 In August 2006, Cabinet agreed that government has a key role in communicating national level priorities to regions. This helps build the economic development capability of regions by ensuring that they have access to the best information for developing strategies and identifying and exploiting economic opportunities. It also helps ensure that regional activity is aligned with the achievement of national economic goals.
- 48 Some regional stakeholders have commented that it can be difficult to identify and access all of the relevant national information when preparing strategies. Therefore, MED, in consultation with relevant agencies, LGNZ and EDANZ will undertake further work to:
- a identify national level information about the government's economic goals, priorities and strategies most relevant to regional economic development; and
 - b determine and implement the most effective mechanism(s) for communicating this to regional stakeholders.
- 49 This will build on the work previously done by MED on best practice guidelines for strategies. MED will report to the Minister of Industry and Regional Development on the outcome of this work by 30 December 2007.

2 Stocktake of Current Activity

- 50 MED, in consultation with NZTE, DOL and MSD and other relevant agencies (such as LGNZ and EDANZ), will undertake a stocktake of current central government activity at the regional level to:
- a determine the range of existing activities undertaken by central government at the regional level that affect the regional business environment, including any funding and services provided;

- b assess how these activities align and whether there are any gaps, overlaps or inconsistencies that need to be addressed or managed;
 - c identify the mechanisms currently in place for enabling central government agencies to input into regional economic development processes, including the development of strategies, and if and how agencies coordinate their input; and
 - d identify what improvements can be made to enhance the coordination of central government input into regional economic development processes.
- 51 The stocktake will help to inform future policy development as well as providing useful information to regional stakeholders about the roles and responsibilities of different government agencies at the regional level, how these fit together and the resources offered. It will also incorporate one of the recommendations of the review of business assistance programmes, which requires MED to comprehensively map all local and regional provision of business assistance [EXG Min (06) 3/7 refers]. MED will report to the Minister of Industry and Regional Development on the outcome of this work by 30 December 2007.

3 Regional Coordination Models

- 52 There are currently a range of different models in place for coordinating central government input into regional economic development processes, including the development of strategies. The usefulness and effectiveness of these models vary in large part according to unique regional circumstances. However, officials consider that there is likely to be significant value in analysing the different models to determine what works and what doesn't work in different circumstances, as well as capturing some of the learnings and experiences from implementing and working with different models. Overseas experience and practice may also provide some valuable insights into what might work well in New Zealand.
- 53 MED, in consultation with relevant agencies, including LGNZ and EDANZ, will undertake a review of existing and potential models for coordinating central government input to regional economic development processes, with a view to making this information available to stakeholders as best practice advice. However, it is not the intention of this work to identify and impose any one model on all regions, as the appropriate model will vary on a region by region basis. This work will build on the stocktake of current activity outlined above. MED will report to the Minister of Industry and Regional Development on the outcome of this work by 30 December 2007.

Transition and Communications

- 54 The remainder of 2006/07 and 2007/08 will form the transition period for the changes. Regions will be able to access the RPP as per current arrangements until 30 June 2007. The RPP will be disestablished from 30 June 2007, and the new programme will come into effect on 1 July 2007. From 1 July 2007 until 30 June 2008, RPP regions will be able to access the funding to meet costs associated with the movement to 14 regions. In addition, those regions in a

position to will be able to access the Enterprising Regions Fund from 1 July 2007, provided that they have adequate governance arrangements in place⁸.

- 55 MED will continue to work with NZTE, government agencies involved in economic development activities, LGNZ and EDANZ to grow the understanding of the rationale for the policy and programme changes, what is expected from regions under the refreshed programme, and how the funding streams will operate.

FUNDING

- 56 All proposals outlined in this paper will be met from within the existing annual appropriation for the RPP and within existing MED and NZTE baselines. From 2007/08 and outyears the funding for the annual Regional Partnerships and Facilitation Other Expense to be Incurred by the Crown appropriation increases by \$15m to a total of \$17.756m to support both the development of business incubators and regional clusters, and grants to assist regional partnerships to identify, develop and implement sustainable economic growth strategies. As such, it is necessary to change the scope of the appropriation Regional Partnerships and Facilitation, Other Expenses to be Incurred by the Crown, shown in the Estimates to "Provision of advice and grants to support the development of business incubators and regional clusters, and to support regional partnerships to develop and implement sustainable economic growth strategies."
- 57 In addition, the Regional Partnerships Programme Fund under the appropriation Regional Partnerships and Facilitation, Other Expenses to be Incurred by the Crown will be disestablished and replaced with Transition Funding, Enterprising Regions Fund, Chatham Islands Funding, Auckland Regional Economic Transformation Fund and Enterprising Partnerships Fund. The impact of this change is fiscally neutral to the Crown.
- 58 Due to the proposal to grant RPP regions up to \$50,000 in 2007/08 to meet costs directly associated with the movement to 14 regions, and due to the funding flexibility given to regions over a three year period under the Enterprising Regions fund, the expenditure on refreshed regional programmes is expected to vary on a year by year basis, over a three year cycle. The table below sets out the impact on baseline funding.

Initiative	Approval	Admin	2006/07	2007/08	2008/09	2009/10	2010/11 & Outyears
<i>Existing Fund – No Change</i>							
Incubators and clusters ⁹	NZTE	NZTE	2.756	2.756	2.756	2.756	2.756

⁸ NZTE will determine what is an adequate governance arrangement based on the contents of this paper and the detailed operational criteria that will be reported to the Minister of Industry and Regional Development by 30 April 2007. As outlined above, there will be no set governance model that regions will be required to adopt. Rather, the appropriateness will largely be determined by level of regional representation and support, and the existence of an appropriate legal entity for funding purposes.

⁹ This refers to the existing funding for cluster and incubator programmes, which are not discussed in this paper, but have been included for completeness. No changes are proposed for these programmes.

Initiative	Approval	Admin	2006/07	2007/08	2008/09	2009/10	2010/11 & Outyears
<i>Existing Fund – Disestablished</i>							
Regional Partnerships Programme	NZTE	NZTE	-	15.000	15.000	15.000	15.000
Existing Baseline			2.756	17.756	17.756	17.756	17.756
<i>New Funds - Established</i>							
Transition funding (\$50,000 for 2007/08 only)	NZTE	NZTE	-	1.300	-	-	-
Enterprising Regions Fund (up to \$750,000 over three years)	NZTE	NZTE	-	3.375	3.938	3.187	3.375
Chatham Islands funding (up to \$150,000 over three years)	NZTE	NZTE	-	0.075	0.038	0.037	0.075
Auckland Regional Economic Transformation Fund	Minister of Industry and Regional Development	MED/ NZTE	-	1.000	1.000	1.000	-
Enterprising Partnerships Fund	Cabinet	MED/ NZTE	-	9.250	10.450	10.450	11.450
Total – New Funds				15.000	15.426	14.674	14.900
Total – Existing and New Funds			2.756	17.756	18.182	17.430	17.656
Rephasing Required to Baseline	Change to Existing		-	-	0.426	(0.326)	(0.100)

CONSULTATION

59 The Treasury, New Zealand Trade and Enterprise (NZTE), Department of Internal Affairs, Ministry of Social Development, Department of Labour, Ministry of Tourism, Te Puni Kokiri, Ministry of Transport, and Local Government New Zealand (LGNZ) have been consulted on this paper. Discussions on key issues have also been held with the Economic Development Association of New Zealand (EDANZ).

FISCAL IMPLICATIONS

60 The proposals outlined in this paper are fiscally neutral as a result of being met from within the existing appropriation baseline.

HUMAN RIGHTS AND LEGISLATIVE IMPLICATIONS

61 There are no human rights or legislative implications arising from this paper.

REGULATORY IMPACT AND COMPLIANCE COST STATEMENT

62 A Regulatory Impact or Compliance Cost statement is not required.

PUBLICITY

63 The Minister of Industry and Regional Development will release a media statement announcing final decisions on refreshed regional policy, as soon as practical. The Cabinet paper will be made available on the Ministry of Economic Development (MED) website. In addition, MED and NZTE will write to key regional stakeholders advising them of the government's decisions and the process for transitioning to the new arrangements.

RECOMMENDATIONS

64 It is recommended that the Committee:

- 1 **Note** that in August 2006 Cabinet agreed that officials would report back on the changes required to give effect to the refreshed approach to regional economic development policy [CAB Min (06) 31/4 refers];
- 2 **Note** that the overarching goal of refreshed regional policy is to improve the quality of the regional business environment to support the development, attraction and retention of globally competitive firms;
- 3 **Agree** that, in order to facilitate the transition from 26 to about 14 regions, NZTE be given flexibility in 2007/08 only to offer existing RPP regions up to \$0.05m to meet one-off costs directly caused by the aggregation of RPP regions and establishing the associated governance structures;
- 4 **Agree** that the strategy and capability funding under the existing RPP be replaced with the Enterprising Regions Fund, and that regions (excluding the Chatham Islands) be eligible for up to \$0.75m over three years from 1 July 2007 (limited to 50% of the total amount in any one year);
- 5 **Agree** that funding under the Enterprising Regions Fund will be for specified projects associated with the development and implementation of regional economic development strategies, and that align with the objectives of the fund;
- 6 **Agree** that the objectives of the Enterprising Regions Fund are to:
 - 6.1 Encourage regions to take a medium to long-term approach to their economic development strategic planning by developing strategies that reflect the full range of opportunities and activities that will contribute to the achievement of their economic goals and priorities (not just those influenced by central and local government), with a clear implementation path against which progress can be monitored and reviewed;

- 6.2 Encourage regions to take a productivity based approach to improving the quality of the regional business environment to support the development, attraction and retention of globally competitive firms;
 - 6.3 Ensure regions involve all relevant government and non-government stakeholders in the development and implementation of strategies and utilise any existing resources, skills and expertise that they can provide (for example, NZTE business assistance programmes and MSD and DOL labour market activities);
 - 6.4 Reinforce appropriate regional governance structures for long-term regional economic development; and
 - 6.5 Ensure strategies take into account and, where relevant, are consistent with, the government's broader national economic goals, strategies and priorities, and other relevant regional and local policies and processes (for example, LTCCPs, and regional transport, tourism and labour market strategies);
- 7 **Agree** that, should the Chatham Islands be unable to join one of the other regional groupings (or it is not in their best interests to do so), they be eligible for up to \$0.15m every three years from 1 July 2007 for strategic capability development and working with other regions on specific projects, as appropriate;
 - 8 **Agree** that, for 2007/08, 2008/09 and 2009/10, \$1.0m per year be ring fenced for funding projects that contribute to both the Auckland economic transformation agenda and regional development outcomes, with funding decisions made by the Minister of Industry and Regional Development;
 - 9 **Agree** that the MRI component of the RPP be reshaped into a new fund to be called the Enterprising Partnerships Fund that makes funding available for initiatives that:
 - 9.1 Further the creation or exploitation of regionally based collaborative partnerships and networks, and other regional institutions, that promote knowledge sharing, facilitate innovation processes and grow international connections;
 - 9.2 Involve and benefit multiple regional stakeholders (rather than focus on individual firms or sectors), with evidence of meaningful and useful collaboration required;
 - 9.3 Are commercially driven and have a strong commercial component, while building on areas of economic opportunity identified through a region's (or regions', where more than one region is involved) strategies and generating substantial economic benefits and opportunities for the region(s); and
 - 9.4 Align with the government's national economic goals and priorities, where these have been articulated, and are consistent with the

government's broader economic, social and environmental goals and New Zealand law and international obligations; and

- 10 **Agree** that the amount of funding available for individual initiatives under the Enterprising Partnerships Fund be limited only by the annual appropriation for the fund;
- 11 **Agree** that the Enterprising Partnerships Fund have up to two funding rounds per year, with Cabinet making final decisions, and that the amount of funding be approximately \$9m in 2007/08, \$10.5m in 2008/09 and 2009/2010, and \$11.5m in 2010/11 and outyears;
- 12 **Agree** that, for the Enterprising Partnerships Fund, the decision to hold the second funding round of the year, and the amount of funding available in that round, will depend on the amount of funding remaining in the annual appropriation following Cabinet decisions in the first funding round;
- 13 **Agree** that approval for funding outlined in recommendations 4-8 be subject to a regional financial (cash) contribution equivalent to no less than 20% of the cost of each project to be funded;
- 14 **Agree** that approval for funding outlined in recommendations 9-12 be subject to a regional financial (cash) contribution equivalent to no less than 30% of the cost of each activity to be funded;
- 15 **Agree** that MED and NZTE in consultation with Treasury will report back to the Minister for Industry and Regional Development on the detailed criteria and operation of the funding outlined in recommendations 3-8 by 30 April 2007 and by 18 May 2007 for funding outlined in recommendations 9-12;
- 16 **Note** that MED, in consultation with relevant departments, LGNZ and EDANZ, will undertake further work and report to the Minister of Industry and Regional Development by 30 December 2007 on:
 - 16.1 a stocktake of current government activity at the regional level that impacts on the regional business environment, assess how these activities align and identify any opportunities for improving co-ordination;
 - 16.2 undertake a review of existing and potential models for coordinating central government input to regional economic development processes, with a view to making this information available to stakeholders as best practice advice; and
 - 16.3 identify national level information about the government's economic goals, priorities and strategies most relevant to regional economic development, and determine and implement the most effective mechanism(s) for communicating this to regional stakeholders;
- 17 **Note** that from 2007/08 and outyears the funding for the annual Regional Partnerships and Facilitation Other Expense to be Incurred by the Crown

appropriation increases by \$15m to a total of \$17.756m to support both the development of business incubators and regional clusters, and grants to assist regional partnerships to identify, develop and implement sustainable economic growth strategies;

- 18 **Note** that the Regional Partnerships Fund is being disestablished and replaced with Transition Funding, Enterprising Regions Fund, Chatham Islands Funding, Auckland Regional Economic Transformation Fund and Enterprising Partnerships Fund, and that a change in the scope of the appropriation Regional Partnerships and Facilitation, Other Expenses to be Incurred by the Crown, is required to give effect to this replacement;
- 19 **Approve** the following changes to appropriations to reflect the refreshed regional economic development policy with a corresponding impact on the operating balance:

Vote Economic, Industry and Regional Development Minister for Industry and Regional Development	\$m – increase/(decrease)					
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12 & Outyears
Other Expense to be Incurred by the Crown:						
Regional Partnerships and Facilitation	-	-	0.426	(0.326)	(0.100)	-
Total Operating	-	-	0.426	(0.326)	(0.100)	-

- 20 **Agree** that the scope of the appropriation Regional Partnerships and Facilitation, Other Expenses to be Incurred by the Crown, shown in the Estimates be amended to “Provision of advice and grants to support the development of business incubators and regional clusters, and to support regional partnerships to develop and implement sustainable economic growth strategies”;
- 21 **Note** that MED is scheduled to complete an evaluation of the effectiveness of the Regional Partnerships Programme and that this will be reported to Cabinet by June 2007;
- 22 **Agree** that MED, in conjunction with NZTE and the Treasury, evaluate the Enterprising Regions Fund and the Enterprising Partnerships Fund and their contribution to regional economic development and report back to Cabinet by June 2010; and
- 23 **Agree** to the release of this Cabinet paper on the MED website.

Hon Trevor Mallard
Minister for Industry and Regional Development