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Future Prosperity of the Hawkes Bay Region

Part 1: Issues and Options.

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1. Executive Summary

1.1. Introduction

The communities of Hawkes Bay seek a prosperous future based on strong social and economic performance. The Councils of Hawkes Bay have sought advice on actions and steps that can be taken to add value to the region and its people in order to improve social and economic performance, within a framework of responsible stewardship and use of the region's natural resources.

This report is the first of two reports that have been commissioned to provide the advice sought by councils. This report addresses the situation and problem identification phase of the study. Having considered the context and historical performance of Hawkes Bay, it identifies a number of broad initiatives that could be pursued to improve prosperity.

This report is based on published official statistics, previous work that has been done for the councils on the performance and nature of Hawkes Bay, insights gleaned from interviews with almost 80 significant Hawkes Bay residents and stakeholders, and the experience and insights of the review team.

1.2. The Hawkes Bay

1.2.1. The People

Comprising an area of 1.42 million hectares, Hawkes Bay is home to 155,300 people, 87% of whom live in Napier and Hastings. The population of the region grew by 8,700 (5.9%) between 1996 and 2011. Over this period the populations of Napier and Hastings districts grew by 5.3% and 10.9% respectively, the population of Wairoa district fell by just under 2,000 and the population of Central Hawkes Bay remained virtually unchanged. The region experiences strong levels of out-migration amongst those aged under 25 and a net migration gain for people aged 30-34 and 55 and over. The region's population is rapidly aging.

Twenty-two per cent of the region's population are Maori, higher than the national figure of 15%. The Maori population of the region aged under 65 is forecast to increase by almost 20% in the period to 2031.

Overall the residents of Hawkes Bay enjoy an economic standard of living that is slightly higher than the national average level. Real GDP per capita for the total region is \$31,830. For New Zealand it is around \$31,010.

1.2.2. The Economy

In 2011 the estimated GDP of Hawkes Bay was \$6.640b in 2011 (3.4% of the New Zealand economy). The Hawkes Bay economy is underpinned by rural agricultural and horticultural production. Primary industries contribute 15% of GDP, processing and manufacturing contributions 17% and services makes up 68%. Major elements of the service sector are directly linked to the operation of the primary and manufacturing and processing sectors. This means the economic fortunes of the region are ultimately very dependent upon the farmers and horticulturalists of the region.

Hawkes Bay produces 4.6% of New Zealand's total GDP from pastoral farming and carries 13% of the country's beef cattle herd and 11% of the sheep flock. Dairy farming is a small component of Hawkes Bay primary production. Hawkes Bay has only 1.5% of the national

dairy herd. Hawkes Bay produces 15% of New Zealand's GDP from horticulture and almost half of GDP from growing pipfruit.

Hawkes Bay's primary production economy is underpinned by substantial natural resources. The warm climate, large areas of land suited to arable farming and large areas of land currently able to be irrigated support a substantial agri-business complex.

The region's overall economic performance is heavily influenced by commodity prices, exchange rates and climate. Hawkes Bay enjoyed very strong growth in regional GDP through 2002 to 2004 of 3.5% to 8% per annum. Regional GDP fell significantly in 2005 impacted by the rising value of the New Zealand dollar and falling world prices for horticultural products. Recovery through 2006 to 2008 was complicated by the persistently high value of the New Zealand dollar and the drought in 2007. Ironically the drought drove an initial stimulus to the local economy as stock were killed and processed. Regional GDP declined again from 2008 to 2011 reflecting falling world commodity prices for meat and wool, and the full impact of the 2007 drought with a much reduced sheep flock and beef herd. The full impact of the 2007 drought was a loss of \$326m over three years.

Across Hawkes Bay economy there is a relatively large proportion of low skilled and low paid jobs. Many jobs are seasonal as they are related to the production cycle of the primary industries.

There are 18,000 businesses in the Hawkes Bay, 62% of which are self-employed shareholders. Only 234 businesses employ more than 50 staff. Total employment in the region grew steadily through the period 2001 to 2005 to a peak of over 80,000. However, employment has declined by 4.1% since 2005.

The regional economy is very open and linked to complex international distribution and marketing systems. The overwhelming majority of farms and small businesses in the region are price-takers. The food and agricultural products that Hawkes Bay produces are not part of a single desk marketing framework such as Fonterra.

Tourism is a significant contributor to the regional economy. Direct visitor expenditure in the region is in the order of \$360m per annum and contributes about 5% of regional GDP. With 3.56m visitor nights per annum, tourism equates to having an additional resident population of just under 10,000 people – about the same as Havelock North.

1.2.3. Society

Most of those interviewed as part of this study spoke in glowing and enthusiastic terms about the quality of life and the life style that was part of living in Hawkes Bay. The good weather, warm (dry) summers, access to stunning outdoor and wilderness settings, opportunities for fishing and boating, and seasonal access to plentiful fruit and vegetables were all noted as major positive features of the region. A degree of optimism was reflected in a range of signature projects that have contributed to a sense of progress.

But it is not all rosy within Hawkes Bay. As with any community there is disparity within the population of Hawkes Bay, and parts of the community that face significant challenges. There are areas of significant deprivation, including Wairoa, Mahia, but also parts of Napier (Onekawa and Maraenui) and of Hastings (Flaxmere).

The indicators relating to educational achievement show a significant improvement in the levels of educational achievement overall within Hawkes Bay and for Maori school leavers in particular. There have also been dramatic lifts in the levels of Maori engagement in tertiary and trades education over recent years. However, overall levels of educational achievement in the region remain slightly below the national average.

1.2.4. Local Government

The region is administered by five local authorities. The five councils do not all do the same things. The major areas of activity and expenditure for Central Hawkes Bay District, Hastings District, Napier City and Wairoa District Councils are roading, water supply, wastewater, urban storm water, solid waste disposal, and building and subdivision control. Other than roading, these are largely urban services.

The Hawkes Bay Regional Council is focused on natural resources and environmental issues. The bulk of the regional council's activity is devoted to: water management; flood control; sediment control and land management issues in the headwaters of the rivers; land management practices by the primary sector and their environmental consequences; air quality; pest control and biosecurity. The most significant engagements by the regional council on urban issues relate to the location of urban growth, air quality, public transport and natural hazards.

The five councils have are of very different scales. Wairoa District is between one tenth and one-fifth of the size of Hastings District (depending on the measure used). Wairoa and Napier both have a policy of carrying little (or no) debt. Wairoa has no term debt and holds more than a year's worth of rates income (\$12.5m) as investments. Napier has progressively paid down term debt and by 2011 held term debt of only \$4m and current financial assets in excess of a year's worth of rates income (\$46.5m). Central Hawkes Bay and Hastings have used term debt to support physical works. The levels of debt held by these councils is modest in comparison to both their equity their annual rates revenue.

The regional council has a very strong balance sheet reflecting the value of its investments and its current assets. The regional council is actively working to ensure that its resources work harder for the benefit of the region.

Total local authority operating expenditure in the region in 2010/11 was \$243m. Total local authority operating expenditure increased by \$95m pa between 2003 and 2011, an increase of 64%. Roading accounts for 15% of the increase in operating expenditure, environmental protection accounts for 12% of the increase and wastewater 8%. Community development, economic development, governance, council support services and all other activities account for 41.2% of the increase in expenditure between 2003 and 2011.

According to the Statistics New Zealand figures, by June of last year the region's local authorities held net current assets in excess \$100m and net non-fixed assets in excess of \$180m. The fundamental questions that this raises is why are the local authorities accumulating cash and financial investments and whether these assets could be put to better use?

1.2.5. Central Government

It is easy to focus on local government as the most visible, and local part of the governance of the region. Central government has a considerably larger impact on the region.

The Hawkes Bay District Health Board received \$392.9m from the government in 2010/11. This alone is 57% greater than total local government operating expenditure. NZTA's strategy for the region for 2009 to 2012 planned total expenditure of \$214.1m (around \$70m pa). The Eastern Institute of Technology received \$36m of government funding in 2010-11. Estimated expenditure on primary and secondary school education within Hawkes Bay is in the order of \$178m per annum. In addition to these areas of expenditure the government

also funds substantial welfare payments and a wide range of other services.

Government Ministers, departments or agencies control decisions over many of the major shapers of the future of Hawkes Bay. One of the critical success factors for the future will be the region's ability to work with government to secure decisions that work in the best interests of Hawkes Bay.

1.2.6. Performance

Having reviewed the nature and historic performance of the Hawkes Bay the review team has reached the following conclusions:

- The region has a significant natural resource base including large areas of land suited to intensive agriculture or horticulture, and considerable flexibility in the production systems that can be used.
- Over the last decade the region has performed below average in the New Zealand context and given its resource base it could do significantly better.
- The Hawkes Bay economy is driven by primary production, but is home to those sectors of New Zealand's agri-business complex that have been amongst the poorest performers over the last decade.
- The region's economy is thin and vulnerable to external factors, including drought, global commodity prices, exchange rates and interest rates.
- The region's primary production is currently limited because of limits to the availability and security of supply of irrigation water.
- The region faces future challenges with a rapidly aging labour-force, high levels of unemployment, lower than average levels of educational achievement and a sizable group of the current labour force not effectively engaged in the formal economy.
- The region has social challenges and particular areas of deprivation and poverty that reflect historic and continuing high levels of unemployment and limited opportunities to find meaningful employment.
- The region has considerable public sector resources that can and should be put to better use to foster the development of the region.
- There are a range of concerns over the local government sector in the region, however, the most serious issues relate to the capability and capacity of Wairoa and Central Hawkes Bay District Councils to deal with the range and complexity of the issues that their communities face, and to contribute to the sorts of initiatives that are required in order to improve the performance of the region.

If all of the measures considered by the review team were weighted and combined into an overall progress indicator it would indicate a result in comparison to the other regions of New Zealand of slightly below average.

Translating the region's performance over the last decade into a report card for the region, the overall message would probably be **“has significant natural talent, but does not yet use it all effectively”** and **“could do better”**.

The region does face significant issues, but they are no more daunting or significant than those faced by most of provincial New Zealand. The region is blessed with significant natural resources and has a young and growing sector of its population that is capable of making a more substantial contribution in the future.

1.3. Economic issues and trends

Hawkes Bay's future performance is largely tied to the performance of the primary production sectors that drive the economy. The Ministry of Primary Industries (MPI) recently published a comprehensive outlook for New Zealand's primary industries. The MPI work highlights the connections between returns from New Zealand's primary industries and climatic conditions, the economic performance of the markets for New Zealand produce, global commodity prices, exchange rates, and interest rates.

In the short term MPI expect that commodity prices will stay at current levels or improve through 2013 and 2014. MPI expect meat and wool prices to firm and rise through to 2016. Although the total value of earnings by Hawkes Bay will be limited because of the considerable reduction in the sheep flock following the 2007 drought. MPI also forecast rising pipfruit prices (returning to levels of 2008), and significantly improved prices for both fresh and processed vegetables.

The greatest forecast increase in annual gross revenue is for dairy production. Revenue for almost all other sectors is expected to decline through 2013, and either decline or be fairly flat through 2014, before picking up in 2015 and 2016. By 2016 gross revenue from cattle is forecast to be \$2,524, up from \$2,186m in 2012. Gross revenue for sheep meat is expected to reach \$2,458 in 2016, up from \$2,249m in 2013, and gross revenue from wool is expected to be lower in 2016 than it was in 2012. Forecasts for fruit are more buoyant, with forecast increases in gross revenue of 7.4%, 8.9% and 17.8% from 2013 after an initial contraction in 2013.

These national level forecasts suggest that the region will continue to face challenging times in the short term. National gross revenue for all of the key sectors that underpin the Hawkes Bay economy is forecast to decline in 2013. Some of these will further contract through 2014 before beginning to recover.

The longer term the prospects for the regional economy are rosier. In a world where production becomes increasingly constrained by scarce water the productive capacity of New Zealand and Hawkes Bay will become more valuable. The challenge will be to navigate through the short to medium term challenges.

1.4. Social issues and trends

The key social issues and the levels of deprivation within the region are concentrated in a few suburbs, in a number of rural towns and small rural settlements. These social issues reflect the economic conditions within the region and historic changes in production and processing operations. The rationalisation, relocation or closure of freezing works has had a profound impact on communities like Wairoa.

Stakeholders talk about the challenges facing these struggling communities, about a "poverty of the spirit", a "lack of motivation", and the "normalisation" of crime, which are seen as important descriptors of social conditions. Add to these more measurable concerns like low education attainment levels, unemployment, crime statistics, increasing divergence between rich and poor and demographic trends and we have conditions that were described by some stakeholders as "a train-wreck" waiting to happen.

The social challenge for the Hawkes Bay is to ensure that the social issues caused by historic (and to some degree continuing) changes in the regional economy do not result in imbedded and inter-generational exclusion from the productive economy. Social cohesion depends upon the ability to participate in both the economy and more broadly in society.

Current high rates of youth unemployment and relatively low levels of educational achievement – particularly amongst Maori, represent both a waste of human potential and a major opportunity. The challenge is to see both the problem and the opportunity and to deliver changes that address both.

1.5. Economic constraints and Climate Change

The productivity of the fertile lowlands of the region is fundamentally limited by the availability of water. The natural pattern of westerly air systems that move across New Zealand produce dry East Coast conditions and the region is prone to summer droughts.

Current intensive land uses that depend upon irrigation rely on a mix of river water and drawing from the aquifers that underlie the plains. The amount of water that is available from these sources is either already fully allocated, or is close to being fully allocated. There are water quality issues in the region's rivers – particularly in very low flow summer conditions.

Climate change will significantly reduce the certainty of availability of water for irrigation. NIWA estimates that between now and 2030-40 average temperatures in the region will rise by around 1°C and that rainfall will decrease by around 5%. NIWA estimates that by 2080 what is now a 1 in 20 year drought will be twice as frequent. It will be increasingly difficult to sustain the extent of existing irrigation dependent intensive production without additional water, or changes to the way that water is used, or both.

Climate change trends that challenge Hawkes Bay will also make its products more valuable. As water becomes increasingly scarce across the world New Zealand will have a significant and increasing competitive advantage in the production of high protein foodstuffs. Of New Zealand's produce it is likely that the greatest increase in price premium will be from food crops. The Hawkes Bay is currently one of New Zealand's key centres of horticultural production and has land ideally suited to intensive horticulture and arable cropping – if sufficient irrigation water is available and there is certainty of supply.

1.6. Local Government issues and trends

New Zealand local government is experiencing considerable pressure to improve performance. Between 2003 to 2011 total rates charged by New Zealand local authorities increased in real terms from \$2,439.5 million to \$3661.0 million, an increase of 50.1% at a time when the economy grew by only 13% in real terms.

The costs of road maintenance (from the NZTA index) has increased since 2001 by 51%, whereas the CPI has measured a 36% increase in costs over the same period. Construction costs have also increased rapidly, meaning that all council capital works have become more expensive.

The current government is increasing the pressure for change on local authorities by progressing changes to the Local Government Act 2002. The changes will focus local authorities on meeting *“the current and future needs of the communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is cost-effective for households and businesses”*.

Local authorities are required to discharge very varied and important functions. Changes in policy and regulation have added to the cost and complexity of local government – not reduced it. Major changes to the Building Act framework, and changes to freshwater management are just two examples of these changes. The impacts of these changes fall disproportionately on small councils.

There are some real issues within local government in the Hawkes Bay. The most significant issues relate to the on-going capacity, capability and viability of the Wairoa and Central Hawkes Bay District Councils.

Serving a community of just 8,440 people in an area of 4,077 km² the Wairoa Council faces substantial challenges in delivering services and maintaining a large road network built in difficult terrain. Central Hawkes Bay District faces very similar challenges.

Over the last decade a number of New Zealand local authorities have explored the potential for shared services to reduce their cost structure and improve delivery. There has been very little progress of this nature between the Hawkes Bay councils.

1.7. Infrastructure

The infrastructure of the region is sound and can support growth. None of the stakeholders who were interviewed identified any fundamental infrastructural constraints that would inhibit the growth and development of the region. Most stakeholders noted the relatively high quality of regional infrastructure.

The region has a good road network that, by and large, is maintained to a high standard. The region's electricity networks are sound and other than some specific local issues associated with new business and industrial parks (which have been solved) no stakeholders identified electricity supply as a constraint on development. The main urban areas of the region have secure and effective water supplies and wastewater systems. The region also has a range of high quality sporting and cultural infrastructure that supports an emerging role in hosting events.

Probably the most significant infrastructure issue in the region is wastewater treatment in Central Hawkes Bay. It seems likely that Wairoa will also have some complex and challenging issues with its wastewater treatment facilities in the future.

1.8. Leadership

Almost all stakeholders interviewed appeared to agree that leadership is important and a real issue for the region.

A number of stakeholders noted the very significant role that the regional council is playing in exercising leadership to progress the water storage projects and transform primary production.

Stakeholders were critical of the overall mix of local political leadership and a framework of governance and behaviours by councils that were seen as delivering competition, where co-operation and shared vision was required. One of the common threads from stakeholders was a call for a united vision for the region's future and a strategy to achieve it.

Leadership within the Hawkes Bay is currently fragmented, and debate over local government amalgamation seems to have got in the way of effective collaboration.

Generally local government has quite limited abilities to directly influence or drive economic development. Local government has the most profound impact on community development through leadership. Effective and inspiring community leadership can make the difference between mobilising the community's resources and capabilities to achieve common goals, or muddling along.

1.9. Options for Increased Prosperity

Over the last decade Hawkes Bay has performed slightly below average for New Zealand. A business as usual approach by the people, businesses and institutions of Hawkes Bay is likely to continue to deliver future below average performance.

The region has the natural resource base to produce considerably more wealth than it is currently. The regional also has opportunities to deliver a step change in the performance of the economy and to deliver increased prosperity for its residents.

There is no set recipe for driving or encouraging change. Equally, there is no single silver bullet that will transform the fundamentals of an economy, or a community. Change will be the result of people, businesses, and groups making conscious decisions to invest, to take risks, to work differently, and to pursue new opportunities. Some of those decisions will be successful, others will not.

If there is one thing that above all else can make a difference, it is leadership and vision. Communities that are able to build a shared vision of the future, and the confidence to invest to make it happen, will drive change.

The Hawkes Bay will be more prosperous if it is able to:

- diversify and significantly deepen its economy;
- insulate itself to some degree from the cyclical nature of primary production;
- find ways to both produce more and add and capture greater value from what it produces;
- create and maintain a larger proportion of jobs with higher skills and higher remuneration;
- provide increased employment opportunities and greater depth in the labour market, and in particular increased opportunities for young people;
- provide clear pathways for success that provide an incentive for people to stay and build their future in the region;
- remove unnecessary barriers or impediments to making the changes that are necessary;
- address the poverty and disadvantage within the region;
- build communities that have pride, a real sense of inclusion, connection and achievement;
- help people to have a real stake in the future and contribute meaningfully to their community; and
- sustain the leadership that is necessary to harness the resources of the region and galvanise the actions of people, businesses and communities to work together for a better future.

The project team has identified a number of possible initiatives to improve the economic and social development of the region. Some of these initiatives reflect well-advanced thinking and planning from within the region. Others are more speculative, and indeed may not be achievable.

1.9.1. Water storage and increased intensive primary production

This is the single biggest opportunity for step change in the production of the region. The Ruataniwha Water Storage Project has the potential to increase the area of irrigated land

within the region by between 20,000ha and 30,000ha. The project is large and complex, and it is a significant investment costing around \$230m. The potential economic returns are very high (\$250m pa).

1.9.2. Maximising the value add from increased production

This is a substantial opportunity. The more Hawkes Bay produce that can be processed locally, and the greater the value that can be added to the produce before it leaves the region, the greater the value that can be captured within the Hawkes Bay economy. A ‘build it and they will come’ strategy will be successful. To some degree increased processing will happen as a natural market response. It’s possible that through a bigger, strategic approach to driving business across the region a better outcome could be achieved. It will be difficult to maximise the opportunity – but the value added by capturing the processing, or packaging for ‘fresh’ distribution of produce within the region should be worth more to the region than the value of the product at the farm gate.

1.9.3. Transforming the sale and distribution of produce

The largest components of the agriculture complex in the region are those that place the greatest pressure on farmers and growers as price takers. It may be possible change the way in which Hawkes Bay produce is taken to market, or to shift the production in Hawkes Bay to focus on a range of higher value, more niche products that provide greater scope to growers and farmers to manage distribution and marketing. It may also be possible to emulate the wine industry by securing a premium market position for some products based on a strong regional brand.

This initiative is more speculative than the water storage or regional processing strategies. It has the potential to deliver a high return, but has considerably more uncertainty and risk than some of the other initiatives identified. Pursuing this initiative would require a significant commitment from key growers / farmers within the region.

1.9.4. Skills, improving educational achievement and pathways to employment

Many of the initiatives identified in this report depend upon the ability to engage staff with the right skills at the right time. Increased primary production will require additional labour, and potentially additional seasonal labour. The availability of labour with the right skills will be an important element in any decision to invest in new plant and machinery. Levels of educational achievement within the region are low – particularly amongst school leavers. Despite high unemployment the region is likely to face a labour shortage.

This initiative is more speculative than the water storage or regional processing strategies, but substantially easier to deliver than a change in the distribution of produce. Education and training are substantially driven by government agencies. This makes alignment with a regional strategy possible. The cost of this initiative would be low to moderate and rely substantially on better targeting and alignment of existing expenditure. The likely return is high – both in terms of the economic outcomes of having more people in employment and in terms of the social outcomes of inclusiveness and engagement

1.9.5. Maori participation and economic performance

The future success of the regional economy depends in significant part upon the participation of Maori in the economy, and their economic performance being significantly enhanced.

The key to success for this sort of initiative will to a large extent be the success of the other initiatives and the ability within them to see and realise opportunities to drive increased participation and economic performance by Maori.

Specific initiatives that would be worthwhile investigating would be to the extent that public investment might remove barriers to the more productive use of Maori land, and how to foster relationships and engagement with iwi, and hapu to best secure benefits from any package of regional development initiatives.

One of the challenges of working to improve Maori participation is the need address inter-generational issues with poverty, dependency and deprivation. A long-term approach will be necessary, as will approaches that are designed to remove dependency and foster self-determination. Above all, increasing Maori participation and economic performance is not something that can be done to Maori. Ultimately, it is an outcome that Maori want and need to own themselves.

1.9.6. Transforming primary production – applied research and development

Hawkes Bay could benefit from applied research by establishing a new partnership with one or more of the CRIs to build a centre of excellence, or specific research capability, based around water management, the most efficient management and use of irrigation water on farm, and biotechnology designed to enhance production from the region. It may also be possible to work with the existing design, engineering and manufacturing businesses, EIT and a University to build a stronger cluster of agricultural engineering and bespoke manufacturing in the region

Neither of these initiatives would be particularly costly to implement, but both could deliver longer-term benefits that are quite high. A CRI partnership offers the potential to transform production. A design, and bespoke engineering and manufacturing cluster has the potential to take an existing strength and build it into a stronger earner for the region.

1.9.7. Tourism and the visitor industry

The region has the ingredients that are necessary to expand its visitor market. To be effective it will need to commit to a shared vision for the development of the sector, adequately resource the promotion of the region, commit to a long term, single-minded regional marketing and promotion strategy, integrate the iSites with regional marketing efforts, and work to develop some new product and experiences that will make the visitor experience richer and more aligned to the interests of holiday-makers.

This is a relatively low cost initiative that will offer quite immediate moderate to high returns. This initiative will also support any work to brand regional produce and take Hawkes Bay products more directly to consumers

1.9.8. Community development initiatives

There are a range of very cost-effective initiatives that the region's city and district councils could implement to support the development and empowerment of communities that suffer from considerable disadvantage. Community development initiatives include work to: improve pride and self worth; to enhance the physical environment in which people live; build social capital through increased ownership and participation in community activities; place people in jobs; and build stronger community engagement around schools. Community development initiatives require agencies to move from a deficit model of

engagement to an enabling and empowering model that supports individuals and communities to realise their potential. The dividends of these approaches in engagement, pride and inclusion can be substantial. The greatest challenge in implementing community development programmes is leadership.

1.9.9. Performance of Local Government

This paper identifies 6 options for improving the performance of local government:

- Shared Services;
- More Effective Collaboration and a Hawkes Bay Plan;
- Key investments;
- Increased Regional Role – Transfer of Responsibilities;
- Rural Amalgamation; and
- Regional Amalgamation.

These options vary in scale, complexity, costs and benefits. In comparison with the other development initiatives presented in this report the benefits and costs of the local government reform options range from being quite small to being moderate. All of the options presented would take between 3 and 5 years to deliver the full value of potential benefits. The possible longer-term financial returns that are possible are probably in the order of \$3m to \$25m per annum, depending on the option pursued. The costs of transition for the more complex amalgamation options, and for a significant shared services platform have not yet been identified but will be low to moderate in comparison to the costs for the other possible development initiatives.

1.9.10. Contribution and alignment of central government investments

The potential return from alignment of government resources on an agreed development plan for the Hawkes Bay is high. The cost of securing that is low – other than that to do so Hawkes Bay must be able to present to the government a single, united approach and the capacity and cohesion to engage with government in a meaningful way. That cohesion does not currently exist.

1.9.11. Retirement Destination

The region has the potential to increase local demand and attract capital by attracting the younger, wealthier, and active, recently retired population. The combination of lifestyle and the opportunity to become involved as active investors in the economy could, along with tourism, be the easiest way to increase demand within the region. This sort of initiative would be relatively low cost, but require innovative work with the private sector to package attractive opportunities. This sort of initiative would be challenging and there would be some risks with it. The potential benefits are moderate to high in comparison with other projects.

1.9.12. Harnessing regional assets – Unison and the Hawkes Bay Power Consumers' Trust

The Hawkes Bay Power Consumers' Trust owns Unison on behalf of consumers and distributes around \$7m per annum to consumers as a tax paid dividend. Unison is a key regional asset. In the longer-term energy consumers may be better off if some, or all, of the dividends generated by Unison were used to build up and improve the performance of other regional assets. Making the best use of the region's resources is an important part of any comprehensive regional development strategy. The direct cost of any different distribution of dividends would be to those consumers who currently receive \$100 a year from the Trust.

Depending on the investments made the longer-term return to consumers could be higher. The difficulty of this initiative will be in changing perceptions and expectations of the role and distributions of the Hawkes Bay Power Consumers' Trust.

1.9.13. Petroleum, Oil and Gas

Oil and gas exploration is a commercially risky, long-term venture. It is quite possible that there are significant commercially viable deposits of oil and gas within the region – and certainly within the East Coast Basin. Until exploration of the East Coast Basin takes place the actual scope and viability of oil and gas deposits will not be known.

1.10. Conclusions

The initiatives that are set out in this report are not mutually exclusive, many of them are complementary, or mutually dependent. Some of the initiatives will deliver considerably more benefit than others, and some will be far more difficult to implement than others. The scale of investment (both in effort and capital) required for each initiative is quite different, as is the time frame for securing potential benefits.

A development strategy for Hawkes Bay will need to include a range of initiatives intended to build a virtuous circle of change. Initiatives that reinforce each other and provide the climate for future success are important. It is also important to pursue initiatives that work on different timeframes. Short-term initiatives can build confidence and a track record of success as well as providing a more immediate return. Longer term, more transformational programmes will deliver the fundamental step-changes that are needed.

Only two of initiatives identified in this report are well developed – the Ruataniwha Water Storage Project and aspects of the Tourism initiative. All of the initiatives require considerable work to develop them to the point that they can be implemented. Some may prove to be infeasible, or on further evaluation will be discounted.

The Table 1.10 below presents an indicative evaluation of the 13 initiatives identified by the project team. There is a cluster of initiatives that form a critical core of a long-term development strategy.

Critical elements of a programme to lift the medium to long term performance of the Hawkes Bay are: Water storage and increased intensive primary production; Maximising the value add from increased production; Skills, improving educational achievement and pathways to employment, Maori participation and economic performance; and Contribution and alignment of central government investments.

In addition, the Tourism and the visitor industry initiative could be considered an integral part of the core programme, because it offers the opportunity to build momentum through short-term gains. The tourism initiative also has a synergy with any efforts to secure a premium position for produce associated with a regional brand.

Improving the performance of local government is also considered critical – not so much because of the potential for savings or efficiencies as because leadership and the resources of the local authorities are required as an enabler of the other critical initiatives.

The other initiatives all have potential but would need considerably more work to be confident of their potential.

Table 1.10 Indicative Evaluation of Possible Initiatives:

Initiative	Timeframe	Likely Cost	Degree of Difficulty	Likely Return	Importance
Water storage and increased intensive primary production	5+ years	\$250m	High	Very High	Critical
Maximising the value add from increased production	5+ years	High	High	High + Risk	Critical
Transforming the sale and distribution of produce	5+ years	High	Very High	Uncertain - High	High
Skills, improving educational achievement and pathways to employment	3-5 years	Low - Moderate	Moderate	High	Critical
Maori participation and economic performance	5+ - 20 years	Low	High	Very High	Critical
Transforming primary production – applied research and development	2-3 years	Low - Moderate	Moderate	Very High + Risk	Moderate
Tourism and the visitor industry	2-3 years	Low	Moderate	Moderate - High	High (short term gain)
Community development initiatives	2-5 years	Low - Moderate	Moderate	Moderate - High	High
Performance of local government	3-5 years	Moderate	Moderate - High	Moderate	Critical
Contribution and alignment of central government investments	Less than 2 years	Low	Moderate	High	Critical
Retirement destination	3-5 years	Low - Moderate	Moderate - High	Moderate - High	Moderate
Harnessing regional assets – the Hawkes Bay Power Consumers' Trust	Less than 1 year	Low	Moderate - High	Very High	High
Oil and Gas	5 – 20 years	High	Moderate + Risk	Uncertain – Very High	High

Looking across the future opportunities that the region has and the initiatives that it could pursue to improve its economic and social outcomes the project team has concluded that:

- There is no escaping the fundamental primary production base of the region's economy.
- There are major opportunities to significantly enhance the future prosperity of the region by increasing production through greater intensification of land use, increasing the value that is added to the region's produce by additional processing within the region and exploring ways of capturing greater value through the way in which produce is taken to market.
- The key to greater production is water management. Major water storage projects (like the Ruataniwha proposal) offer the single biggest opportunity to increase production and capture value within the region.
- There is considerable potential to increase the processing of primary produce within Hawkes Bay off the back of the changes in land use made possible by water storage projects.
- The impact of water storage will go beyond the area of land irrigated and, depending on the nature of land use changes in Ruataniwha, could change the viability and earning potential of land with abundant water in Wairoa.
- There are opportunities in tourism and possibly in attracting retirement age residents that could provide more immediate benefits to the region.
- To be successful and to maximise its opportunities, the region needs to adopt a strategic

approach that ensures that all of the necessary elements are in place.

- All of the opportunities depend upon significant private sector investment and building the confidence to invest will be critical.
- There is a significant role for government in contributing to the successful implementation of many of the initiatives that the region could pursue. Securing alignment with government on the vision for the region would be incredibly helpful.
- The region has considerable public sector resources that can and should be put to more productive use to foster the development of the region.
- There is scope for improving the efficiency and effectiveness of local government within the region, however, this is by no means a silver bullet and potential quantifiable savings from reform will be modest compared to the potential benefits of other initiatives.

Overall, the project team has concluded that across all of the issues and opportunities that the region faces the most important critical success factor is leadership and vision. The region has many skilled and capable people. It has access to capital and has a local authority sector that has immediate access to significant financial resources. What it does not have is a clear sense of vision, or the leadership to harness the resources of the region to make a difference. Leadership within the Hawkes Bay is currently fragmented, and debate over amalgamation seems to have got in the way of effective collaboration.

The one major exception to this is the critical role that the regional council is currently exercising in developing the Ruataniwha water storage project. This is the single biggest economic development opportunity currently available to the region.

It is obvious that within Hawkes Bay there are a wealth of talented people who are passionate about the region and its future. The local leadership challenge is to be able to harness and direct that energy into productive investment, creative industry and innovation that will lift the overall performance of the economy. It may be that for this leadership to emerge there needs to be local government reform within the region. However, given the central importance of water management it is vital that any reform of local government does not impede or compromise the delivery of the Ruataniwha and other water storage projects.

2. Introduction

The communities of Hawkes Bay seek a prosperous future based on strong social and economic performance. The Councils of Hawkes Bay have sought advice on actions and steps that can be taken to add value to the region and its people in order to improve social and economic performance, within a framework of responsible stewardship and use of the region's natural resources.

This report is the first of two reports that have been commissioned to provide the advice sought by councils. This report addresses the situation and problem identification phase of the study. Having considered the context and historical performance of Hawkes Bay, it identifies a number of broad initiatives that could be pursued to improve prosperity.

In undertaking this work the project team has adopted a very broad approach to prosperity, embracing both economic and social dimensions. In an economic sense improved prosperity in the Hawkes Bay includes (amongst other things): increased GDP, increased GDP per capita, reduced unemployment, a greater proportion of higher skilled and higher paying jobs, greater resilience to economic shocks, and a greater number and depth of employment opportunities. In a social sense improved prosperity should mean (amongst other things): lower levels of deprivation, reduction in poverty, improved health outcomes, reduced crime and an increased sense of safety and security, and greater levels engagement and participation in society and community life.

This report is based on published official statistics, previous work that has been done for the councils on the performance and nature of Hawkes Bay, insights gleaned from interviews with almost 60 significant Hawkes Bay residents and stakeholders, and the experience and insights of the review team. A list of the people interviewed is Attachment 1 of this report.

Following consideration of this report a number of the initiatives that have been identified in this report will be evaluated in more detail. The second project report will include the findings of the evaluation of those initiatives including analysis of the potential benefits, costs and adverse impacts of the identified initiatives.

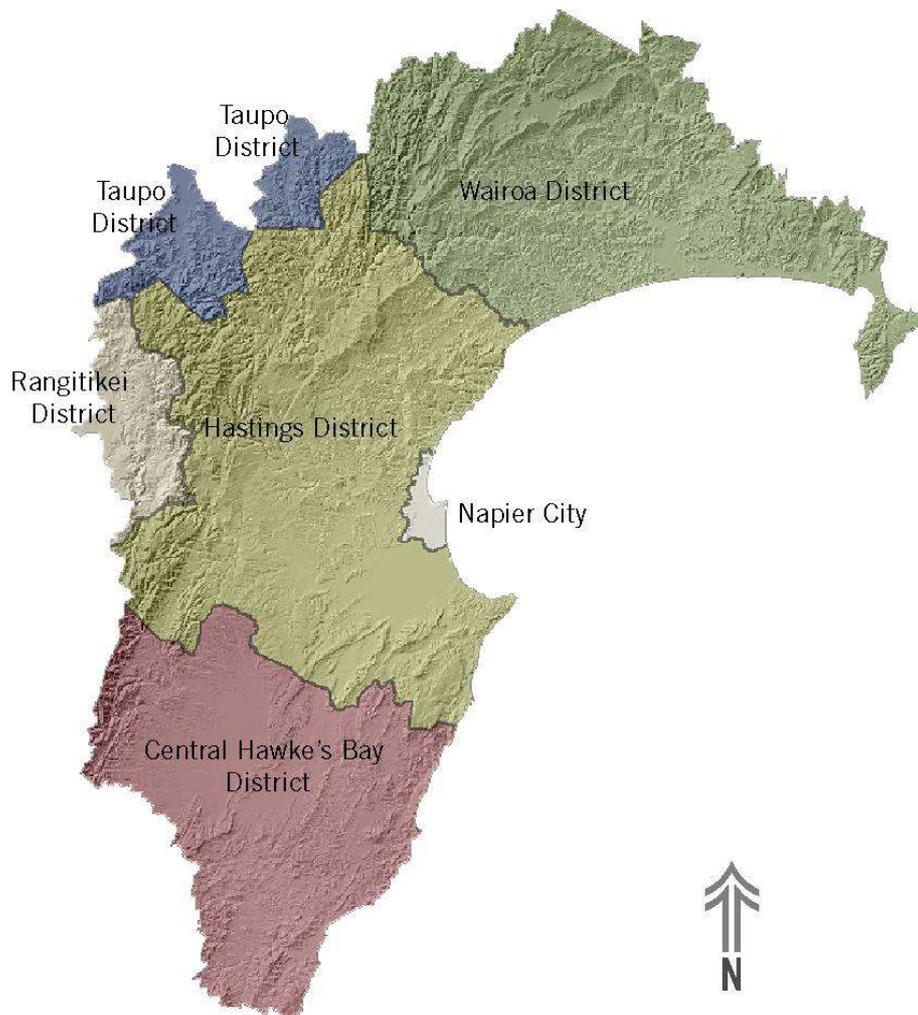
3. Hawkes Bay – The Region

The following sections provide a high level overview of the Hawkes Bay, its people, economy, governance and performance. These sections draw upon the fuller discussion of economic and social indicators that are presented in Attachment 3.

3.1. The Place

The Hawkes Bay region is illustrated in Figure 1. The region comprises an area of 1.42 million hectares. It is geographically diverse, comprising the foothills of major mountain ranges in the west, seven major river systems and extensive river plain areas, coastal hills and a 350km eastern coastline possessing a range of physical features. Other notable physical assets of the region include significant lake and wetland areas and iconic features such as Lake Waikaremoana, Mahia Peninsula, Cape Kidnappers and Te Mata Peak. The region's river plains provide significant areas of rich alluvial soils suitable for horticultural production. There are extensive water aquifer systems under the Heretaunga and Ruataniwha plains and these support intensive agriculture and horticultural production as well as the drinking water needs of the urban populations of Napier and Hastings. The region generally has a dry temperate climate with periods of drought and high rainfall. The region's diverse physical environment provides a wide range of recreational opportunities for the people of the Hawkes Bay.

Figure 1: Hawkes Bay



Source: Hawkes Bay Regional Council

3.2. The People

Hawkes Bay is home to 155,300 people. Eighty-seven per cent of the region's population live in Napier and Hastings. The region's population is rapidly aging. The median age is currently 39, up from 37.5 in 2006. The proportion of the population aged over 65 is projected to increase from the current level of 15.5% to 21% in 2022, with the median age of the total population rising to 41 years over the same period.

The population of the region grew by 8,700 (5.9%) between 1996 and 2011. This slow overall growth has been accompanied by significant relocation. The populations of Napier and Hastings districts have grown by 5.3% and 10.9% respectively. In marked contrast the population of Wairoa district fell by just under 2,000 over the same period to just 8,350 whilst the population of Central Hawkes Bay remained virtually unchanged. This pattern of low overall growth and relocation of population within the region is typical of much of provincial New Zealand.

The composition of demographic change within the region is further complicated by quite strong levels of out-migration amongst those aged under 25 and (to a lesser extent) those aged 40-54. Conversely there has been a net migration gain for people aged 30-34 and 55 and over.

In marked contrast to the very slowly increasing and aging European population the Maori population of the region is significantly younger and increasingly more rapidly. Twenty-two per cent of the region's population are Maori. This is significantly higher than the national figure of 15%. The Maori population of the region aged under 65 is forecast to increase by almost 20% in the period to 2031. The forecast rate of increase for Maori over 65 is 40% for the same period. This means the majority of the growth in the working age population of the region over the next twenty years will be from Maori. This is a major opportunity for the region. Unlike many other regions Hawkes Bay has within it a significant a population Maori who are younger and will entering the workforce over the next decade and beyond. This labour force provides opportunities that other regions will not have.

Within Hawkes Bay Maori are currently disproportionately represented in high levels of unemployment (14.4% compared to the overall rate of 6.5%), poorer levels of educational achievement and training (58% of Maori school leavers with NCEA level 2 or better, compared with 73% overall), and disproportionately high levels of social deprivation. The level of deprivation amongst some Maori households reflects inter-generational unemployment and historic levels of Maori unemployment that have been as high as 22% as recently as September 2009.

The region has moderately high levels of dependency on government welfare benefits. In 2011 almost 15,000 residents (10% of the population) were receiving a benefit, 20% more than in 2006. Seventeen per cent of the working-age population received a benefit in 2011 and a further 23,900 people are eligible for government superannuation. Accordingly, welfare payments or transfers are a significant element to the regional economy.

Overall the residents of the Hawkes Bay enjoy an economic standard of living that is slightly higher than the national average level. Real GDP per capita for the total region is \$31,830. For New Zealand it is around \$31,010. However, this statistic masks some inequality within the region. In 2006 around 21% of Hawkes Bay households lived on incomes below 60% of the median gross household income of 2001. The equivalent national figure using this Ministry of Social Development definition of "Low Incomes" is around 18%.

3.3. The Economy

The economy of Hawkes Bay had an estimated GDP of \$6.640b in 2011 (3.4% of the New Zealand economy). The Hawkes Bay economy is underpinned by rural agricultural and horticultural production. The direct contribution of primary industries to regional GDP is \$1.015b (15%). Processing and manufacturing makes a direct contribution of \$1.115b (17%) with Services contributing \$4.511b (68%). Major elements of the service sector, including much of transport, wholesaling, and business services are directly linked to the operation of the primary and manufacturing and processing sectors. These elements of the service sector contribute 33% of regional GDP. This means the economic fortunes of the region are ultimately very dependent upon the 3,000 farms that together have 907,000ha of land devoted to farming, and the significant number of horticulturalists in the region.

The GDP contribution of primary production in Hawkes Bay primarily comprises pastoral farming (30%) and horticulture (41%). The Hawkes Bay accounts for 4.6% of New Zealand's total GDP from pastoral farming, but the region carries 13% of the country's beef cattle herd and 11% of the sheep flock. Dairy farming is a small component of Hawkes Bay primary production, accounting for 15% of cattle in the region (only 1.5% of the national herd). Hawkes Bay produces 15% of New Zealand's GDP from horticulture (including both growing and processing) and accounts for almost half of GDP from growing pipfruit.

Hawkes Bay's primary production economy is underpinned by substantial natural resources. The warm climate, large areas of land suited to arable farming and large areas of land currently able to be irrigated have combined to support a substantial agri-business complex within the region. One of the key features of the region is the ability to undertake double cropping regimes that significantly enhance the production and earnings potential of cultivated land. The productive capacity of the region is reflected in its historic role in establishing the Watties group and leading the development of New Zealand vegetable and fruit processing.

Despite the region's tendency for drought, the availability of run of river water and considerable high quality ground water have supported substantial horticultural intensification and a wide variety of cropping and fruit growing. The expansion of the wine industry within the region has also benefited from the particular terrior of the region – and in particular from the peculiar characteristics of the Gimblett Gravels. The flexibility of the Heretaunga Plains and the soils of the Ruataniwha basin mean that the region is able to support a complex system of agriculture with considerable interdependence between the hill country sheep and beef farms and the ability of lowland farms to provide late season finishing of stock and animal feeds that add significant value to the region's livestock farming.

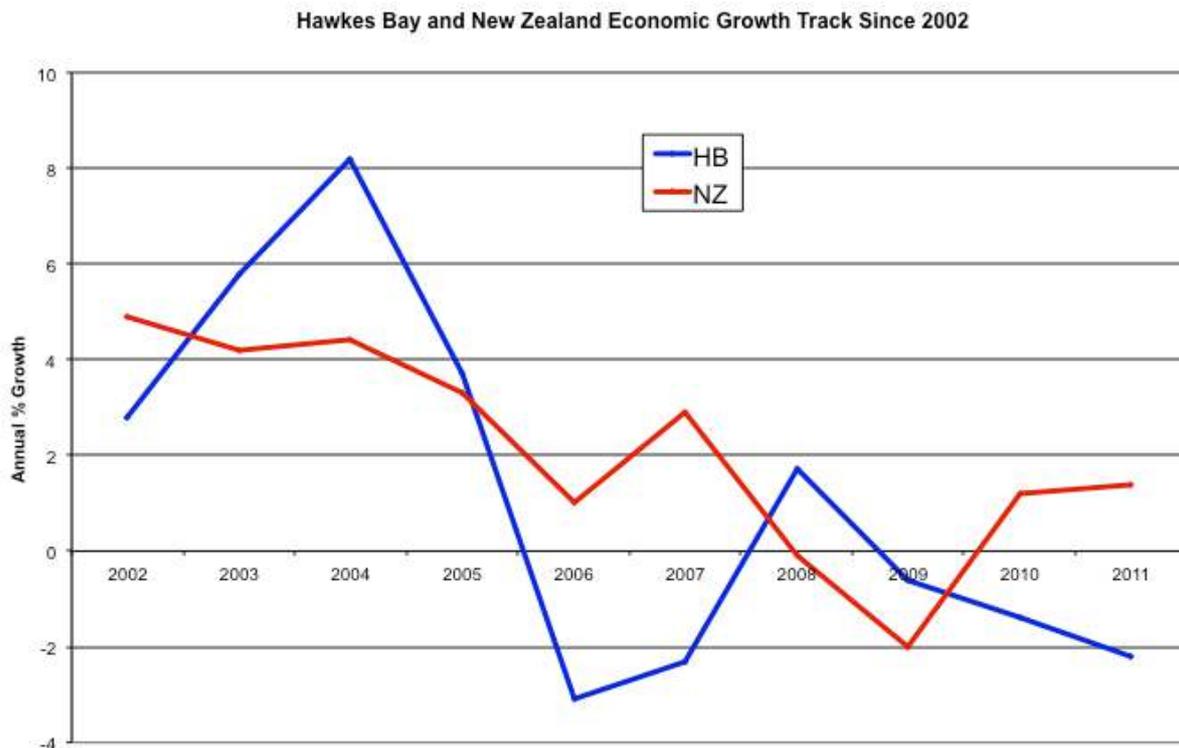
The major limiting factor in the productive capacity of the region's agriculture and horticulture is water. Periodic drought, the need to irrigate during warm dry summers, and the limited amount of water that is naturally available at that time currently limit the productive potential of the region.

Given the reliance of the region on primary agricultural and horticultural production the region's overall economic performance is heavily influenced by commodity prices, exchange rates and climate. Figure 2 shows the pattern of growth in GDP for both Hawkes Bay and New Zealand for the period 2002 to 2004. The combined effect of external international market conditions and drought is reflected in the economic performance of the region over recent years.

Hawkes Bay enjoyed very strong growth in regional GDP through the period of 2002 to 2004. During this period the region (and the country) enjoyed strong commodity prices, favourable exchange rates and good production seasons. Over this period the area of land being farmed increased to a peak of 1,085,900ha. The herd of beef cattle increased to a peak of 613,000 and the sheep flock peaked at 4.3m. Regional GDP fell significantly in the 2005, when any improvement in agricultural commodity prices was overwhelmed by the rising value of the New

Zealand dollar and world prices for horticultural products fell. The recovery through 2006 to 2008 was complicated by the persistently high value of the New Zealand dollar and the drought in 2007. Ironically the drought drove an initial stimulus to the local economy as stock were killed and processed. The decline from 2008 to 2011 was reinforced by falling world commodity prices for meat and wool, and the full impact of the 2007 drought being reflected in a far smaller sheep flock (3.6m down from a peak of 4.2m the previous year) and a much reduced beef cattle herd (438,000 down from 528,000 the previous year).

Figure 2: Economic Growth



Source: New Zealand Institute of Economic Research national and regional growth estimates

The rapid fall in stock numbers through 2007 is still reflected in the size of both the sheep flock and cattle herds today, with these respectively being 23% and 8% smaller than the 2006 levels. Indeed, in 2011 the beef herd in the region was 24% less than the 2004 peak level of 613,000. Reductions in the area of land farmed, the sheep flock and beef herd are also reflected in conversions of hill country sheep and beef farms into forestry. The production cycle for forestry means that the contribution to GDP from this land will be some time into the future.

As Figure 2 shows the overall performance of the Hawkes Bay has some marked differences from the performance of the national economy. The rapid growth in Hawkes Bay GDP up until 2004 was substantial at a time when the national economy was experiencing stable and historically high growth rates of more than 4% per annum. In 2005 Hawkes Bay experienced a rapid decline as growth in the rest of the economy slowed. The impact of the 2007 drought delivered an initial recovery that ran counter to the national trend, followed by decline since 2008. Hawkes Bay has not experienced the recovery to growth of the national economy since 2009.

A relatively large proportion of Hawkes Bay jobs are low skilled and lowly paid. Many jobs are seasonal as they are related to the production cycle of the primary industries. This contributes to a marked difference between national median earnings of \$35,500 and regional median earnings

of \$30,500. The pattern of seasonal employment produces challenges with labour shortages for some short periods, accompanied by overall relatively high levels of unemployment.

There are 18,000 businesses in the Hawkes Bay. Sixty-two per cent of these firms have no employees i.e. are self-employed shareholders. Only 234 businesses employ more than 50 staff. A significant number of these are in the service sector, including schools, the DHB, local authorities, EIT, and Unison.

Total employment in the region grew steadily through the period 2001 to 2005 to a peak of over 80,000. However, employment has declined by 4.1% since 2005. As with population there has been a centralisation of employment in Napier and Hastings. Employment in Napier has increased overall by 8.6% since 2001. In Hastings it has grown by 18.3%, but in Wairoa it has risen by only 2.9% and Central Hawkes Bay by 2.2%. The effects of declining or static population and limited employment opportunities in Wairoa and Central Hawkes Bay are significant challenges.

Historic patterns of land tenure reflect individual family ownership of farms. But there is a growing trend toward more a corporate agri-business approach to owning and operating farms, orchards and vineyards. Generally, the more corporate approach has higher levels of debt and greater investment in automation and other technology designed to increase productivity. Given that the average age of farmers in the region is 59, it is quite likely that there will be continued changes in the patterns of ownership and farm operation over the next decade. It is likely that it will become more and more difficult to enter the primary sector as an individual family farmer. However, more corporate approaches will open up opportunities for professional farm managers and other specialists that are currently more limited.

The regional economy is very open and linked to complex international distribution and marketing systems that deliver food to consumers in a many international markets. The overwhelming majority of the thousands of farms and small businesses in the region are price-takers, too small to influence the market and dependent upon complex international distribution systems to get their products to market. The food and agricultural products that Hawkes Bay produces are not part of a single desk marketing framework such as Fonterra. Few components of the processing and distribution system are owned or controlled by Hawkes Bay businesses.

Tourism is a significant contributor to the regional economy. Direct visitor expenditure in the region is in the order of \$360m and contributes about 5% of regional GDP. With 3.56m visitor nights per annum tourism equates to having an additional resident population of just under 10,000 people (broadly equivalent to the population of Havelock North). There are challenges with the coverage of official statistics for tourism, it would appear that visitation to Hawkes Bay (total visitor nights) has declined since mid 2008. Seventy per cent of visitor nights spent in the region are accommodated in private accommodation with friends and relatives. In the year ending Dec 2011 the number of visitor nights that domestic visitors spent in private accommodation declined by 1% on the previous year to 1.78m. International visitor nights spent in private accommodation grew by 5.7% to 713,000 over the same period, contributing to a total increase of just 0.8% in visitor nights in private accommodation.

Over recent years the Port of Napier has benefited from the rapid growth in the number of cruise ships operating on the New Zealand coast. Whilst cruise ship passengers do not tend to stay overnight their retail expenditure is noticeable and there are signs of repeat visitation.

In the national context of declining use of commercial accommodation (-1.4% between 2008 and 2011) Hawkes Bay has lost market share (a reduction of 5.8%). The reduction was most acute in motel accommodation, hotel use actually increased over the period. The loss of market share is more acute in the domestic travel market where domestic visitor use of commercial accommodation in Hawkes Bay declined by 9.6% since 2008, whereas nationally use of

commercial accommodation by domestic travellers grew by 1.1%.

Direct employment in the Trade, Hospitality and Tourism sector has declined since 2005 and is now at the same level as it was in 2000. Occupancy rates for commercial accommodation in Hawkes Bay sit at below 50% for hotels, motels, and backpackers. This level of occupancy is on a par with other regions and the national average.

The Port of Napier is an important part of the regional economy. International cargo volumes have risen sharply since 2009. There has also been a recent sharp rise in cruise ship visits to the Port, with cruise passengers through the port increasing by 30% to 93,000 in the last year. By volume the Port of Napier now handles almost 9% of total international seaport exports from New Zealand. Given that Hawkes Bay is somewhat distant from the main north-south transport axis of the North Island the connectivity provided by the port is vital to the region.

The Hawkes Bay airport is another key piece of economic infrastructure. The runway currently supports the largest turbo-prop aircraft operating domestic services and provides regular connections to Wellington, Auckland and less frequent flights to Christchurch.

Other significant individual enterprises in the region include: Unison, AFFCO, Silver Fern Farms, McCain Foods and Heinz-Watties. McCain Foods and Heinz Watties have major food processing businesses in the region and both have recently expanded the capacity of their plants. Indeed McCain Foods has transferred the vegetable processing capacity that it previously had in Tasmania to Hastings. This expansion resulted in the introduction of new crops to the region and a considerable increase in the size of the vegetable crop.

Through their purchasing and contracting strategies both Heinz-Watties and McCain Foods have a significant influence over the structure and performance of the horticultural sector. Both of these businesses are overseas controlled. The impact of their decisions on the region is profound, but those decisions are out of the hands of regional business or decision-makers. In the global scale of a business like McCain Foods the Hawkes Bay business is not large enough to command significant attention. AFFCO is based in Auckland and has a national focus through its network of plants. Silver Fern Farms is headquartered in Dunedin, but their North Island operations are run from Hastings and with three plants in the region they have a significant focus on the Hawkes Bay.

Unison is one of the larger utility companies in the country and through its ownership of electricity distribution networks in both Rotorua and Taupo has a significant business footprint (and earnings) outside the region. Unison is owned by the Hawkes Bay Power Consumers' Trust. It is a truly regional asset, decisions on its future are made by regional decision-makers and it provides dividends that are distributed to power consumers of around \$7m per annum.

There are a number of smaller sunrise industries within the region. A number of information technology businesses are also based in the region. There are a number of design and other creative industries and whilst these businesses tend to be of a small scale they provide a significant energy to the business community.

A number of the stakeholders interviewed as part of this work noted challenges in attracting the highly skilled workforce that they needed to be successful in the Hawkes Bay. In particular they noted the challenge of finding jobs for professional couples, given the limited depth of the overall employment market in the region.

3.4. Society

Most of those interviewed as part of this study spoke in glowing and enthusiastic terms about the quality of life and the life style that was part of living in Hawkes Bay. The good weather, warm

(dry) summers, access to stunning outdoor and wilderness settings, opportunities for fishing and boating, and seasonal access to plentiful fruit and vegetables were all noted as major positive features of the region. Sporting facilities were noted as a major attraction and as providing wonderful opportunities for young people to participate in organised sport. A number of stakeholders spoke of rich cultural and arts sectors, with strong participation in music and good audiences. Stakeholders also noted a core of very high quality schools and very good educational opportunities for young people. These aspects of the region are very important and reflect a high level of optimism for the future by key people within the community.

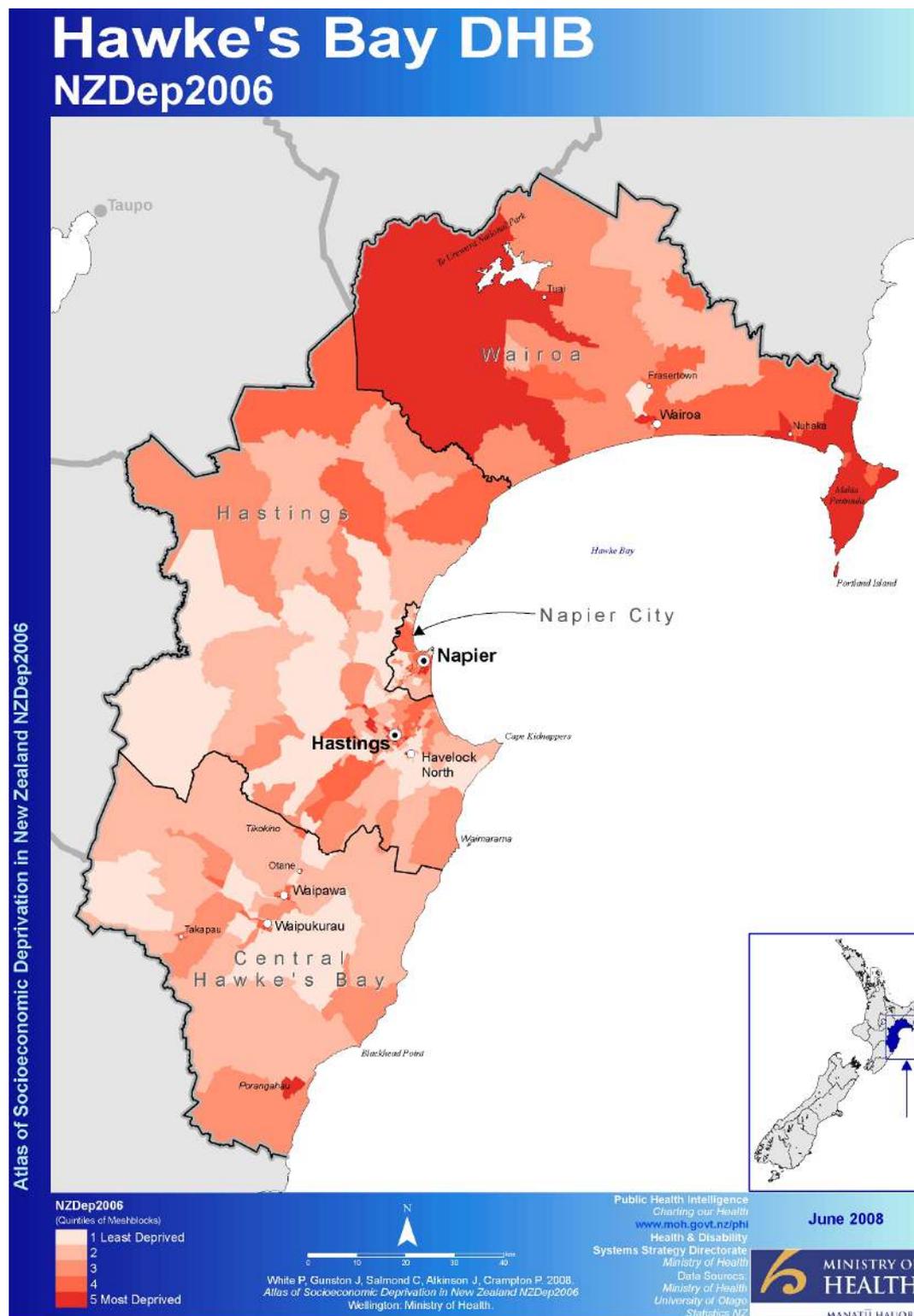
The level of optimism that the review team encountered also reflected a mix of milestone, or signature projects that reflect something of the success of the region – and its positive approach to the future. Signature projects noted by stakeholders included:

- Streetscape upgrading and new developments within the Central Business Districts of the different urban areas in the region, accompanied by new amenities.
- Public/municipal/heritage and private building upgrades e.g. Hastings Opera House and other heritage buildings in Hastings, Municipal Theatre/Museum-Art Gallery/Art Deco buildings in Napier and former railway station in Waipukurau.
- New and upgraded tourism amenities and attractions e.g. iSites, conference centres, wineries, hotels and other types of visitor accommodation, National Aquarium, Splash Planet aquatic centre, Farmer's Market, cycleway network, Arataki honey centre, CHB Settlers Museum in Waipawa, Cruise tourism and restaurant/café/food services.
- Iconic visitor events portfolio – Wairoa 'Lake to Lighthouse', Art Deco Weekend, Mission Concert, Horse of the Year, Ironman and 'Lamb Country' in Central Hawkes Bay.
- Major facility and services developments at the Port of Napier and upgraded facilities and services at the HB Airport.
- New and upgraded regional and local roads around the region, including the Napier-Hastings Expressway.
- New and upgraded sports facilities, including indoor sports and swimming facilities in Central HB and Wairoa; McLean Park, Centennial Hall, Park Island, Tareha Park and Pettigrew Green sports complexes in Napier; and Hastings Regional Sports Park.
- Upgraded HB Regional Hospital in Hastings and new/upgraded public and private hospital, health centres and medical centres throughout the region.
- New retirement village complexes and major new residential sub-divisions.
- New retail developments, including large-format outlets and retail complexes ('The Park' in Hastings).
- Upgraded and new local authority utility services (water and sewerage).
- New and upgraded broadband/Internet services in the region.
- Facility and service developments and upgrades at EIT major regional tertiary education provider.
- Industry developments in the region e.g. expansion/modernisation in food and timber processing, and growth of the wine industry and specialist manufacturing.

These positive developments are significant, however, it is not all rosy within Hawkes Bay. As with any community there is disparity within the population of Hawkes Bay, and parts of the community that face significant challenges.

The Ministry of Health publish a New Zealand wide Deprivation Index, based on Census of Population Data, after each Census of Population and Dwellings. The most recent was published in 2007 based on the 2006 Census. This is shown in Figure 3. The index is constructed from a range of social indicators as shown in Table 1.

Figure 3: Levels of Social Deprivation



Source: Ministry of Health

Table 1: Composition of the Deprivation Index

Dimension of Deprivation	Variable description (in order of decreasing weight)
Income	People aged 18-64 receiving a means tested benefit
Income	Low household income
Home ownership	People not living in own home
Support	People aged < 65 living in a single parent family
Employment	People aged 18-64 unemployed
Qualifications	People aged 18-64 without any qualifications
Living space	Overcrowded housing conditions
Communication	People with no access to a telephone
Transport	People with no access to a car

Areas of New Zealand (including Hawkes Bay) are categorised into 10 deciles of deprivation according to their score on these measures. The results for Hawkes Bay are shown in Figure 3 with the higher decile rated areas shown in darker red. While Wairoa and Mahia stand out at this scale, there are areas of Napier (Onekawa and Maraenui) and Hastings (Flaxmere) that also have decile ratings of 10.

In terms of risks and the determinants of public health it is pleasing to see that most of the indicators are moving in the right direction. Table 2 illustrates for the working age population of Hawkes Bay the progress that has been made over the period 2002/03 to 2006/07 with respect to a number of key health indicators. However, it seems ironic that in the region which produces 18% of New Zealand's GDP from horticulture and accounts for almost half of GDP from pipfruit, only 60% of the working age population has adequate fruit consumption, and only 68% have adequate vegetable consumption (down from 73% in 2002/03).

Table 2: Hawkes Bay Region Trends in Risk and Protective Health Determinants 2002/03-2006/07

Health Factors	% of Working Age Population	
	2002/03	2006/07
Adequate Fruit Consumption	47.6	59.9
Adequate Vegetable Consumption	72.8	68.1
Prevalence of Obesity	29.7	27.2
Undertake Regular Physical Activity	52.6	54.7
Currently Smoking	n.a.	25.1
Hazardous Drinking	23.3	21.2
Use Tobacco (Year 10 Students)	12.1	9.7
Prevalence of Ever Diagnosed Diabetes	4.9	3.8

Source: Ministry of Health National Health Surveys

The indicators relating to educational achievement show a significant improvement in the levels of educational achievement overall within Hawkes Bay and for Maori school leavers in particular. There have also been dramatic lifts in the levels of Maori engagement in tertiary and trades education over the last few years. However, overall levels of educational achievement remain slightly below the national average.

The societal challenges facing the region are reflected in the levels of crime dealt with by the Police. In the context of a progressive national long term decline in rates of offending most measures of reported crime Hawkes Bay presents a worse picture than the national average. Nationally the number of crimes per 10,000 population declined almost constantly from 1,279.7 in 1996 to 921.8 in 2011. Crime in the Eastern Police District (including Gisborne) fell from a

high of 1,482.8 per 10,000 people in 1997 to a low of 1,148.0 per 10,000 people in 2004 before rising again to 1,242.0 in 2011. The rise in crime rates mirrors the fall in regional GDP shown in Figure 2. In 2011 Hastings had a crime rate second only to Auckland at 1,197.3 per 10,000 people. The levels and trends with respect to violent crime are more concerning. Since 2001 the rate of violent crime in the region has increased from much the same level as the national average, to a rate of 151.7 per 10,000 people in Hastings and 135.1 per 10,000 people in Napier. These are both significantly higher than the national average of 96. Similarly, rates of sexual assault are 36% higher than the national average in Napier, and 25% higher in Hastings. In 2011 Napier and Hastings together accounted for 5% of acts intended to cause injury and 4.4% of sexual assaults nationally.

3.5. Local Governance

The region is administered by five local authorities: Wairoa District Council, Napier City Council, Hastings District Council, Central Hawkes Bay District Council, and the Hawkes Bay Regional Council. The area that the regional council administers includes small parts of both Taupo District and Rangitikei District. This section presents a summary of the combined circumstances of the region's local authorities. Attachment 2 provides a fuller presentation of the local governance of the region and the financial position the local authorities.

The five councils do not all do the same things. The scope and range of activities undertaken by Central Hawkes Bay District, Hastings District, Napier City and Wairoa District Councils are broadly similar – but both Napier and Hastings provide a more complex range of higher order services with respect to recreation, and arts and cultural activity. The major areas of activity and expenditure for these councils are roading, water supply, wastewater, urban storm water, solid waste disposal, and building and subdivision control. Other than roading, these are largely urban services focused on urban areas and rural townships.

In marked contrast the Hawkes Bay Regional Council is focused on natural resources and environmental issues. The bulk of the regional council's activity is devoted to: water management; flood control; sediment control and land management issues in the headwaters of the rivers; land management practices by the primary sector and their environmental consequences; air quality; pest control and biosecurity. The most significant engagements by the regional council on urban issues relate to the location of urban growth, air quality, public transport and natural hazards.

Each of the councils presents their financial information slightly differently (as indeed do most local authorities). In particular they provide different breakdowns of their revenue and expenditure by activity. The Statistics New Zealand Local Government Financial Statistics provide a standard definition for comparing the councils of the region. To achieve standard definitions and comparison Statistics New Zealand re-works the accounting information that is presented in local authority annual reports using their annual census of local authorities. Statistics New Zealand expresses the financial information in order to see the real economic impact of the income, expenditure and assets that are managed by local authorities. As a result there are differences between the numbers presented in local authority annual reports and the Statistics New Zealand numbers presented here. One of the most significant areas of difference is that Statistics New Zealand excludes all capital expenditure, and all grants etc. that support it from their definitions of operating income and operating expenditure.

The combined summary of the financial position of the local authorities is shown in Table 3. As it shows the five councils have are of very different scales. Serving a population of just 8,440 within an area of 4,077 km² and an annual operating expenditure of \$20m Wairoa District is between one tenth and one-fifth of the size of Hastings District (depending on the measure used).

Table 3: Financial Position of Hawkes Bay Local Authorities year ending June 2011

Local Authority Summary Statistics	Central Hawkes Bay District Council	Hastings District Council	Napier City Council	Wairoa District Council	Hawkes Bay Regional Council	Total
Population (2010)	13,500	75,100	57,600	8,440	154,800	154,800
Area (km ²)	3,332	5,226	522	4,077	14,138	14,138
Operating Revenue (\$000)	29,700	83,602	79,662	20,633	35,630	249,227
Operating Expenditure (\$000)	27,233	89,282	71,947	20,160	35,098	243,720
Rates (\$000)	15,121	57,867	43,799	9,415	13,583	139,785
Fixed Assets (\$000)	700,736	1,540,424	1,262,020	185,196	246,753	3,935,129
Total Equity (\$000)	704,083	1,472,620	1,326,032	204,177	409,150	4,116,062
Term & Current Debt (\$000)	11,446	58,434	4,036	0	11,352	85,268
Current Equity & Investments (\$000)	23,135	13,665	83,825	23,790	182,483	326,898
Mayors & Councillors	8	14	12	6	8	48
Councillor Rem. (\$000)	251	657	536	207	513	2,164
Staff Complement (2009)	40	368	441	38	179	1,066
Employee Costs (\$000)	3,171	24,775	24,652	2,706	12,416	67,720
Rates per Person (\$)	1,120	771	760	1,116	88	903
Rates per Km ² (\$)	4,538	11,073	83,858	2,309	961	9,887
Equity per Person (\$)	52,154	19,609	23,021	24,192	2,643	26,590
Current Equity / Person (\$)	51,906	20,512	21,910	21,943	1,594	25,421
Debt per Person (\$)	848	778	70	0	73	551
Ratio of Debt to Equity	0.02	0.04	0.00	0.00	0.03	0.02
Ratio of Debt to Rates	0.76	1.01	0.09	0.00	0.84	0.61

Source: Statistics New Zealand

The five Hawkes Bay councils are in quite different financial positions. Wairoa and Napier both have a policy of carrying little (or no) debt. Wairoa has no term debt and holds more than a year's worth of rates income (\$12.5m) as investments in local authority stocks and commercial bonds that are actively traded. Napier has progressively paid down term debt and by 2011 reached the point of holding only \$4m of term debt and current assets in excess of a year's worth of rates income (\$46.5m). In contrast, both Central Hawkes Bay and Hastings have used term debt to support physical works. Whilst the levels of debt held by these councils seem high in comparison to those that hold no debt, they are modest in comparison to the equity held by the councils, and in relation to their annual rates revenue. With a ratio of debt to annual rates revenue of 1.01 Hastings is well short of the ratios of 1.70 to over 2.00 that are held by a number of other district and city councils. The financial position of each council and how that has changed since 2000 is shown graphically in Attachment 2.

The regional council has a very strong balance sheet reflecting the value of its investments and its current assets. The high levels of current assets held by the regional council reflects conscious decisions to liquidate a number of investments in order to support the development of and investment in regional infrastructure that supports economic development. The regional council is now actively working to ensure that its resources work harder for the benefit of the region.

The largest area of local government expenditure is on roading and transport. Together these activities account for 23% of combined local authority operating expenditure. In total, the four

territorial authorities spend just under \$57m per annum maintaining the road network of the region. Water supply and wastewater together account for 12.5% of operating expenditure. Environmental protection accounts for 8.8%, recreation and sport 9%, property 5.4%, planning and regulation 5.3%, economic development 4.9%, governance 3.3% and council support services 14.7%. Community development work accounts for just 1.3% of combined council expenditure.

Total local authority operating expenditure increased by \$95m per annum between 2003 and 2011, an increase of 64%. Roading accounts for 15% of the increase in operating expenditure, environmental protection accounts for 12% of the increase and wastewater 8%. The group of activities that includes community development, economic development, governance, council support services and all other activities accounts for 41.2% of the increase in expenditure between 2003 and 2011.

A number of external factors have contributed to the increase in local authority expenditure, including new responsibilities under the Building Act, declining financial assistance rates for roads for both Napier and Hastings, new environmental obligations with respect to both air and water and broader public transport obligations for the regional council, the impact of national drinking water standards, the need to address wastewater issues, and increasing construction and maintenance costs.

The majority of local authority operating income comes from rates levied on properties. Across all local authorities rates provide 56% of operating revenue, but rates are a lower proportion of revenue in Wairoa and Central Hawkes Bay, who receive higher levels of financial assistance from NZTA than either Napier or Hastings.

In the period 1993 to 2011 there have been only six years (1994, 1995, 1996, 1998, 1999, and 2000) when the annual increase in rates income received by the combined councils been less than 3%. For other years the increase ranges between 4% and 7.5% per annum.

The rate of increase in the combined local authority rates in Hawkes Bay has been consistently higher than both the CPI and the New Zealand Transport Agency maintenance cost index. Beyond the sort of external drivers noted above it is unclear if the substantial increase in rates revenue has been reflected in commensurate increases or improvements in the nature and quality of the services that the local authorities provide.

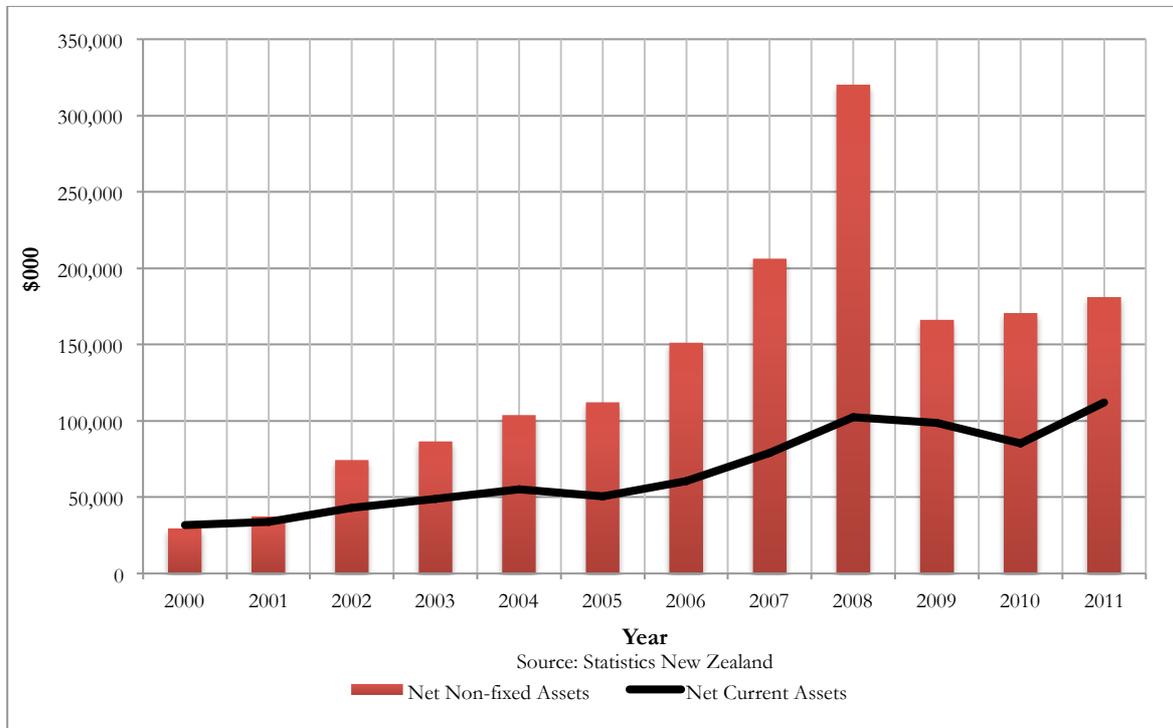
Whilst the financial position of each council is clearly different, the overall position of the councils is very favourable. In each year since 1993 net increases in term and current debt have been less than the value that is added to the fixed assets of the region's councils. Total local authority debt increased steadily through the period 1993 to 2011 to a total of \$68.5m in June last year, but this debt is focused in only two of the five councils.

Interestingly, the combined total current assets of the councils exceed total combined term and current liabilities. The reason for this unusual situation is that some of the region's councils have accumulated considerable non-fixed assets through the period 1993 to 2011. Net current assets (the difference between current assets and current liabilities) and net non-fixed assets (the difference between non-fixed assets and term debt) have both grown dramatically. Indeed according to the Statistics New Zealand figures (Figure 4), by June of last year the region's local authorities held net current assets in excess \$100m and net non-fixed assets in excess of \$180m. The fundamental questions that this picture raises is why are local authorities accumulating current and non-fixed assets and whether those resources could be put to far better use within the region? The region has a significant opportunity to better harness these assets and support infrastructure or services that will help to drive the development and prosperity of the region.

It is important to note that the regional council is actively planning to use the power of its balance sheet to drive and partly finance the development of the water storage projects planning

in the region. Napier City has deliberately paid down external term debt and intends to embark upon increased capital expenditure, in particular associated with Marine Parade. However, Wairoa District appears to retain the equivalent of around one year's total revenue as current assets and has done so for some time.

Figure 4: Hawkes Bay Local Authority Net Non-Fixed and Net Current Assets



Note: There is an anomaly in these figures with respect to the 2007 and 2008 Net Non-Fixed Assets. It appears that Statistics New Zealand changed the treatment of the Port of Napier during this period to include the value of the port in 2008, but to then exclude it again in 2009.

One of the most striking differences between existing councils relates to their different views of the role of local government in contributing to the well-being and prosperity of their community. Several councils appear to have adopted the view that the most important thing that they can do to support their community is to ensure that their services and activities are delivered at the least cost. Others seem to have adopted a far more engaging model of local government, seeking to use the role and assets of the local authority to foster future prosperity.

One of the other features of local governance in Hawkes Bay that is worthy of note is the variety of regional decision-making forums. Most stakeholders noted that the Regional Land Transport Committee was a generally successful forum for building a regional consensus on the development of the transport system. A few stakeholders noted areas of difference, in particular over the role that Marine Parade plays as both the centre of a visitor precinct and as a primary access to the Port of Napier. Some others noted a lack of traction in dealing with some of the particular strategic challenges of Wairoa. Differences of this nature are to be expected where decision-making requires a degree of give and take to reach a consensus, they are not necessarily fundamental failings.

Stakeholders also noted the success of the collaboration between the local authorities in developing the Heretaunga Plains Urban Development Strategy and the success of the regional council's Joint Planning Committee in anticipating the Treaty Settlements that will codify Maori participation in regional planning and providing a genuine framework Maori to engage in regional decisions. A number of stakeholders consider that this sort of collaborative approach to

decision-making offers a constructive way forward for the region.

On a less positive note a number of stakeholders noted considerable frustration at having to deal with multiple decision-makers. Organisations that work across each of the local authorities noted many differences in policies, rules and requirements that seemed illogical or unhelpful, and which were costly to their business operations. Others noted major challenges is securing funding for regional initiatives and the substantial cost to them of engaging with each council's planning and decision-making process. Others noted opportunities for savings or efficiencies in the delivery of council services through local government reform. Generally, those that held very strong views over the need for local government reform were quite sceptical about the usefulness and potential of collaborative decision-making between the existing councils.

It was obvious from the stakeholders interviewed as part of this study that there is a considerable constituency of support for local government reform within Hawkes Bay. What was far less clear was whether or not there was alignment or agreement on the sort of reform that would best provide for the future of the region.

3.6. Role of Central Government

It is easy to focus on local government as the most visible, and local part of the governance of the region. However, despite the fact that few government agencies have a substantive physical presence in the region, central government has a considerably larger impact on the region.

It is difficult to break down government expenditure by region because few government agencies report expenditure or activity by region.

In 2010/11 the Hawkes Bay DHB received \$392.9m from the government to support its operation. This alone is 57% greater than total local government operating expenditure. NZTA's strategy for the region for 2009 to 2012 anticipated a total expenditure of \$214.1m (around \$70m per annum). The Eastern Institute of Technology received \$36m of government funding in 2010-11. The Hawkes Bay is home to just under 4% of school age children in New Zealand. Using that as a proxy for the proportion of the education budget spent in the Hawkes Bay produces an estimate of expenditure on primary and secondary school education within Hawkes Bay in the order of \$178m per annum. Using the proportion of total New Zealand staff within the region as a proxy for the level of Police expenditure delivers an estimate of around \$61m per annum for the Eastern Police District (which includes Gisborne). In addition to these areas of expenditure the government also funds within the region a primary health organisation, a significant role by the Department of Conservation, the contribution to regional sport from Sports New Zealand, courts and the operation of the justice system, a prison, a significant Housing New Zealand presence in the region, and the substantial level of welfare payments discussed above. All told the level of central government expenditure in the region will be many times the size of local government.

Government Ministers, departments or agencies control decisions over many of the major shapers of the future of Hawkes Bay. Whether it is the future of the region's State Highways, or of the railway, or the future of schools and funding for tertiary education, or the future of health care and the ability of the region's people to access it, or relevant research and development that could benefit the region, or the framework of welfare and assistance to those in need, these key decisions rest with central government.

One of the critical elements of government engagement with the region is that as government departments and agencies centralised they progressively withdrew high-level positions and significant administration from the region. Even organisations, like NZTA, that have a regional structure manage Hawkes Bay as part of a large region with staff and decision-making based in Wellington. Probably the highest-ranking public servants still in the region are the Regional

Commissioner of Social Welfare, the District Police Commander, and the Chief Executive of the District Health Board.

Given the importance to the region of government decisions one of the critical success factors for its future will be its ability to work with government and to secure decisions that work in the best interests of Hawkes Bay. A continuing challenge for both the government and the region will be to get alignment between government agencies and between government agencies and local authorities to ensure that the total government effort delivers credible and coherent results.

3.7. Performance of the Region

Table 4 presents 28 measures of economic and social development and compares the performance of the Hawkes Bay over the period 2001-2011 with both the national trend, and with the performance of other regions. Most of the indicators show that the Hawkes Bay has made progress over the past decade. For 10 of the measures Hawkes Bay has performed better than the national trend. For the others the region generally performed slightly below average, and for some measures Hawkes Bay was amongst the poorest performing regions.

Having reviewed the nature and historic performance of the Hawkes Bay the review team has reached the following conclusions:

- The region has a significant natural resource base including large areas of land suited to intensive agriculture or horticulture, and considerable flexibility in the production systems that can be used.
- Over the last decade the region has performed below average in the New Zealand context and given its resource base it could do significantly better.
- The Hawkes Bay economy is driven by primary production, but is home to those sectors of New Zealand's agri-business complex that have been amongst the poorest performers over the last decade.
- The region's economy is thin and vulnerable to external factors, including drought, global commodity prices, exchange rates and interest rates.
- The region's primary production is currently limited because of limits to the availability and security of supply of irrigation water.
- The region faces future challenges with a rapidly aging labour-force, high levels of unemployment, lower than average levels of educational achievement and a sizable group of the current labour force not effectively engaged in the formal economy.
- The region has social challenges and particular areas of deprivation and poverty that reflect historic and continuing high levels of unemployment and limited opportunities to find meaningful employment.
- The region has considerable public sector resources that can and should be put to better use to foster the development of the region.
- There are a range of concerns over the local government sector in the region, however, the most serious issues relate to the capability and capacity of Wairoa and Central Hawkes Bay District Councils to deal with the range and complexity of the issues that their communities face, and to contribute to the sorts of initiatives that are required in order to improve the performance of the region.

Table 4: Hawkes Bay Social and Economic Development 2001-2011

Indicator	% Change		HB's Ranking out of 12-20 Regional Areas
	Hawkes Bay	New Zealand	
Total Population Growth	5.4	13.5	12/16
Total Household Growth	12.1	15.8	11/16
Male Life Expectancy ¹	4.1	4.8	11/16
Female Life Expectancy ¹	2.3	3.1	13/16
Enrolments in Early Childhood Education Services	32.1	27.3	6/16
Total School Enrolments	-3.0	4.0	9/16
School Leavers with Level 2 and Above Qualifications ²	15.1	25.8	13/16
School Leavers with No Formal Educational Achievement ²	-74.8	-71.8	12/16
Tertiary Education EFTS Students ³	25.6	20.1	11/20
Maori Tertiary Education EFTS Students ³	42.3	23.5	11/20
Education Attainment Level 1+ of Adult Population ⁴	+7.4 (% Points)	+2.9 (% Points)	2/16
Total Businesses	21.7	24.6	10/16
Total Employment Growth	14.9	17.7	12/16
Primary Sector Employment Growth	14.1	10.3	7/16
Manufacturing Sector Employment Growth	-16.1	-10.6	12/16
Services Sector Employment Growth	23.9	23.6	11/16
Increase in Unemployment ⁵	+22.2	+45.4	9/12
Increase in Unemployment Rate	+0.6 (% Points)	+1.1 (% Points)	7/12
Increase in Number of People Receiving Unemployment Benefit ⁶	+118.4	+54.6	12/16
Increase in Total Number of People Receiving All Income Tested Benefits ⁶	+20.0	+22.4	7/16
Nominal Increase in Median Weekly Personal Income	51.5	55.8	10/12
Nominal Increase in Median Weekly Earnings	34.2	40.2	10/12
Nominal Increase in Total Household Income	51.1	51.3	8/12
Reduction in Proportion of People Living in Households with Low Incomes ⁷	-8.7 (% Points)	-6.2 (% Points)	2/16
Increase in Nominal Value of Economic Activity/GDP ⁸	19.4	20.6	11/14
Total Port International Export Volumes	51.7	32.2	6/13
Visitors Staying in Commercial Accommodation	7.2	15.3	6/16
Visitor Nights Spent in Commercial Accommodation	17.6	19.6	6/16

Notes:

1. The monitoring period for this indicator is 1995-1997 to 2005-2007.
2. The monitoring period for this indicator is 2005-2010.
3. The monitoring period for this indicator is 2003-2010.
4. The monitoring period for this indicator is 2001-2009.
5. Based on Statistics NZ Household Labour-force Survey results.
6. The monitoring period for this indicator is 2006-2011.
7. The monitoring period for this indicator is 1996-2006.
8. National Bank data.

If all of the measures used in Table 4 were weighted and combined into an overall progress indicator it would probably indicate an **overall result in comparison to the other regions of New Zealand of slightly below average.**

Translating the region's performance of the last decade into a report card for the region, the overall message would probably be **“has significant natural talent, but does not yet use it all effectively”** and **“could do better”**.

The region does face significant issues, however, those issues are no more daunting or significant than those faced by most of provincial New Zealand. The region is blessed with significant natural resources and unlike many other regions of New Zealand actually has a young and growing sector of its population that is capable of making a more substantial contribution in the future.

4. Economic Issues and Trends

Given the current structure of the Hawkes Bay economy its future performance is largely tied to the performance of the primary production sectors that drive it. The Ministry of Primary Industries (MPI) recently published a comprehensive outlook for New Zealand's primary industries. The MPI work highlights the connections between returns from New Zealand's primary industries and climatic conditions, the economic performance of the markets for New Zealand produce, global commodity prices, exchange rates, and interest rates.

Forecasting is always a complex and difficult undertaking. The MPI outlook is heavily qualified by reference to the considerable uncertainty relating to the state of the global economy, and in particular the state of the sovereign debt crisis in Europe. MPI notes the potential for a further deterioration in economic conditions in Europe, but also notes that in response to previous poor performance of European markets there has been a long-term shift of New Zealand producers towards Asian markets.

Climatic conditions in the 2011/12 season were very favourable for pastoral production. MPI describes them as "the most favourable pastoral conditions in a decade". However, what was good for pastoral farming did not necessarily benefit all Hawkes Bay producers. MPI note that yields of fruit crops were lower than normal due to cool and wet conditions.

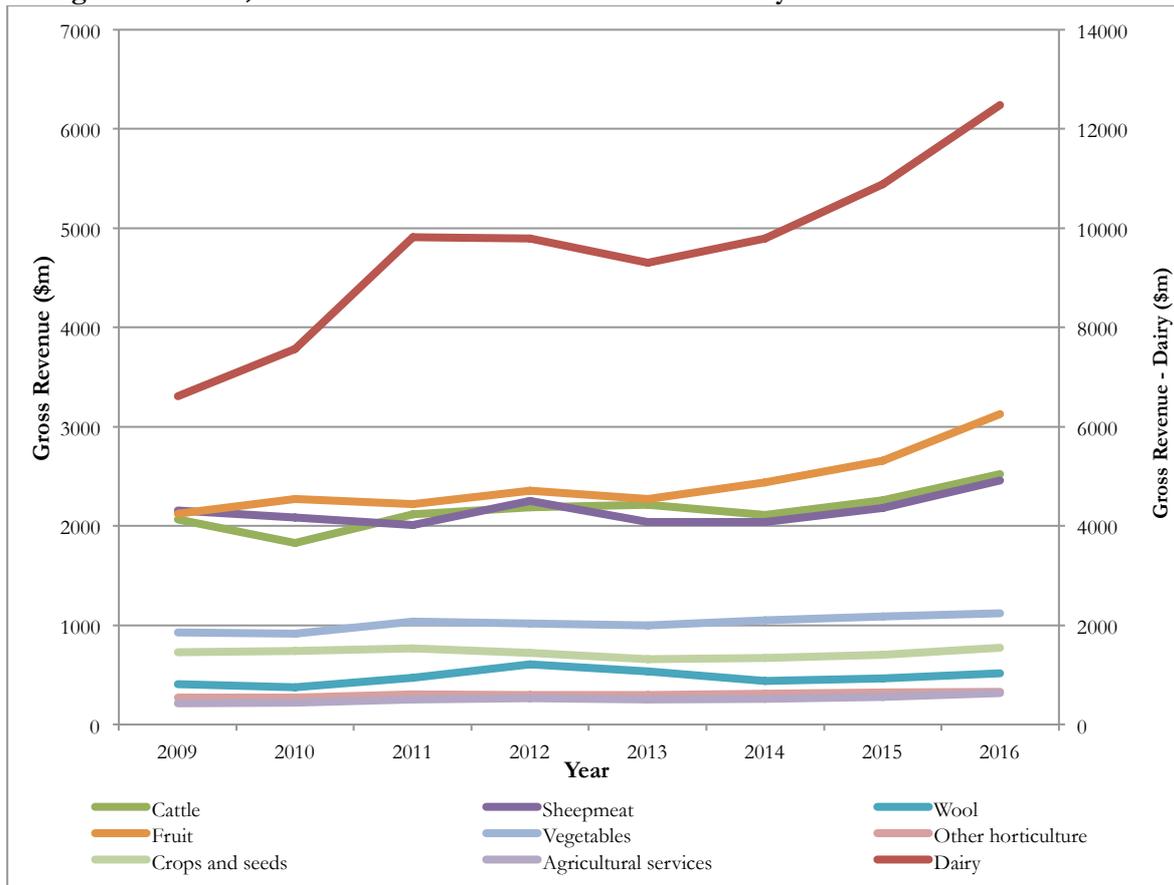
In the short term MPI expect that commodity prices will stay at current levels or improve through 2013 and 2014. MPI expect meat and wool prices to firm and rise through to 2016. Although the total value of earnings by Hawkes Bay will be limited because of the considerable reduction in the sheep flock following the 2007 drought. MPI also forecast rising pipfruit prices (returning to levels of 2008), and significantly improved prices for both fresh and processed vegetables.

The forecast increases in commodity prices are good news for primary producers – but the impact of those prices will depend substantially on the exchange rate. MPI present two markedly different exchange and interest rate scenarios – reflecting the considerable uncertainty that currently exists. The baseline assumption reflects a weakening New Zealand dollar, falling back to more historic levels. The alternative scenario sees the dollar remaining at its current very high levels through the period to 2016.

Figure 5 illustrates MPI's New Zealand baseline forecasts of gross agricultural revenue by sector to 2016. The greatest forecast increase in annual gross revenue is for dairy production. From a 2012 level of \$9,790m gross revenue from dairy is forecast to increase to \$12,470 in 2016. In marked contrast to the year on year increases in revenue expected for dairy, gross revenue for almost all other sectors is expected to decline through 2013, and either decline or be fairly flat through 2014, before picking up in 2015 and 2016. By 2016 gross revenue from cattle is forecast to be \$2,524, up from \$2,186m in 2012. Gross revenue for sheep meat is expected to reach \$2,458 in 2016, up from \$2,249m in 2013, and gross revenue from wool is expected to be lower in 2016 than it was in 2012. Forecasts for fruit are more buoyant, with forecast increases in gross revenue of 7.4%, 8.9% and 17.8% from 2013 after an initial contraction in 2013.

Given the relatively minor amount of dairy farming in Hawkes Bay these national level forecasts suggest that the region will continue to face quite challenging times in the short term. National gross revenue for all of the key sectors that underpin the Hawkes Bay economy is forecast to decline in 2013. Some of these will further contract through 2014 before beginning to recover. These forecasts reflect the MPI baseline forecast of exchange and interest rates. Under MPI's alternative forecast (with exchange rates remaining high) gross revenue from the sectors that drive the Hawkes Bay economy will fall in a very similar fashion to the baseline forecast. The important difference between the forecasts is that under the alternative gross revenue there is no recovery in gross revenue from those sectors through to 2016.

Figure 5: Actual, Estimated and Forecast Gross Revenue by Sector



Source: Ministry of Primary Industries Situation and Outlook for Primary Industries 2012
 Note: 2009 figures are actuals, 2010-2012 figures are estimates, and 2013-2016 figures are forecasts.

In the longer term the prospects for the regional economy are rosier than the immediate forecasts. As is discussed below, in a world that becomes increasingly constrained by scarce water the productive capacity of New Zealand and the Hawkes Bay will become more valuable. The challenge will be to navigate through the short to medium term challenges to reach that point.

In reality New Zealand’s agri-business sector is more complex than the sector-by-sector forecasts suggest. Few farms can be neatly classified within a single sector. The richness and interconnection of agri-business is complex. Within the Hawkes Bay there is a strong relationship between the hill country sheep farmers and lowland farmers who mix summer cropping with winter feed to finish lambs. Whilst dairy farming may be of limited scale in the region a number of farmers raise dairy cattle from calves, or produce supplementary feed to support more intensive dairy production elsewhere. This interconnectivity is likely to increase and it means that there will be opportunities for the Hawkes Bay from the projected increase in earnings from Dairy.

Despite the interconnections within the agri-business sector the prospects for Hawkes Bay could be very different if its primary production was focused in sectors that offer better prospects and a higher return. If the region was able to sustain and support a substantial conversion of land use to more intensive dairy farming its economic future in the short to medium term could look significantly brighter. The region has land that is highly suited to a range of farming regimes. It is possible that the provision of secure water for irrigation through the Ruataniwha water storage project could support a large expansion of dairy farming within the region. If that were to occur in the south of the region the economics of dairy farming around Wairoa (where the availability of water is not an issue) could be very different. There may well be a tipping point through the

potential developments in the south of the region that offer significant flow on opportunities to the landowners in the north.

The other major challenges that Hawkes Bay will face in the medium term are the labour force consequence of its aging population and increasing competition from other regions for skilled labour.

These are challenges that are typical of rural New Zealand, and reflect a far wider global issue of aging first world populations. With increasing life expectancy and birth rates for populations across Europe at, or below, replacement levels their populations are aging rapidly. As this happens there will be increasing global competition for skilled younger, skilled labour. Nationally this is reflected in strong outward migration to Australia. Regionally it is reflected in the movement of people out of Hawkes Bay to undertake tertiary study. Comparatively few of these people return to the region. The combined effect of these factors in Hawkes Bay over the medium to long term has the potential to result in a significant labour shortage and/or particular skills shortages.

The major opportunity for Hawkes Bay in response to this longer-term labour force challenge is in the region's young and more rapidly growing Maori population. These people tend to have strong cultural, family and spiritual connections to the region. Finding ways to develop the talent of the young people of the region, and securing pathways to employment for them will be important for the long-term success of the region.

5. Social Issues and Trends

Within the Hawkes Bay there are both relatively well-off and highly functioning communities with rich cultural expression and attractive life-styles, and communities that are struggling. Whilst the following discussion understandably focuses on the challenges it is important not to overlook the positive aspects of the region and its communities.

The key social issues and the levels of deprivation within the region are concentrated in a few suburbs, in a number of rural towns and small rural settlements. These social issues reflect the economic conditions within the region and historic changes in production and processing operations within the region. The rationalisation, relocation or closure of freezing works has had a profound impact on communities like Wairoa. The loss of jobs has resulted in the loss of population and the progressive loss of community and business services.

During the interviews for this study a number of stakeholders talked about the challenges facing these struggling communities. They talked about a “poverty of the spirit”, a “lack of motivation”, and the “normalisation” of crime, which are seen as important descriptors of social conditions. Add to these more measurable concerns like low education attainment levels, unemployment, crime statistics, increasing divergence between rich and poor and demographic trends and we have conditions that were described by some stakeholders as “a train-wreck” waiting to happen.

The social challenge for the Hawkes Bay is to ensure that the social issues caused by historic (and to some degree continuing) changes in the regional economy do not result in imbedded and inter-generational exclusion from the productive economy. Social cohesion depends upon inclusion and the ability to participate in both the economy and more broadly in society. New Zealand’s property-owning democracy is founded on the notion that through property ownership, jobs and a universal franchise citizens secure a personal and direct stake in the future of their community. If people have invested and can continue to invest in the future they have hope, opportunity and the ability to realise their dreams. Where people or communities feel disenfranchised, do not have the opportunity to secure meaningful employment, and do not have a personal stake in the future, social cohesion breaks down.

At the conclusion of Section 3.7 a report card summary of regional performance was noted as “has significant natural talent, but does not use it all effectively” and “could do better”. In a social context this can be seen in the high rates of youth unemployment and relatively low levels of educational achievement – particularly amongst Maori. The fact that these people do not have work represents both a waste of human potential and a major opportunity. The challenge is to see both the problem and the opportunity and to deliver changes that address the problem and enable the region to realise the opportunity.

A number of stakeholders hold the view that the region does well with the “ambulance at the bottom of the cliff” with any number of agencies available to help those in need. The view reflected to the study team was that what is needed is something more strategic or preventative and this usually involves economic development and employment opportunities and better links between education and work e.g. the Eastern Institute of Technology Trades Academy.

Within each of the communities with the highest level of deprivation there are talented and enthusiastic residents willing to assist with development opportunities and help to reverse the trends. There was a feeling amongst those interviewed that more could be achieved working with these community leaders and talented individuals to harness the capability of the communities. There was an equally strong view that better outcomes could be achieved through more integrated service delivery, more resources and greater consistency of approach.

A number of stakeholders noted that successive governments introduce new programmes and administration systems, which change the service providers and potentially confuse the people in

need of support. One example is the “In Home Family Support” programme run by one agency that was believed to be very successful but which was a casualty of budget reviews. This programme allowed social workers to spend 8 hours per week in a family home for 12 weeks, teaching basic parenting and household management skills that had been absent in the previous one or two generations. This kind of “breaking the cycle” of deprivation may be costly but is seen a number of stakeholders as the most effective way to change behaviours.

The delivery of social welfare is a fundamental central government responsibility. Local authorities are not called upon or equipped to undertake income re-distribution or direct welfare initiatives. All significant number of stakeholders stressed the importance of the alignment of government welfare and other services. The ability to deliver a seamless approach across housing, job seeking, financial assistance and training were noted as essential components of a successful response to the social issues facing parts of the region.

There are other structural issues that warrant attention. Not only is the Hawkes Bay economy based on the traditional low wage primary sectors of forestry, agriculture and fishing plus tourism, but all of these sectors of the economy have very strong seasonal trends in employment. Stakeholders noted both the family and financial stress that comes from the marked contrast between the times of the year when there is money and those when there is not. Casualization of the workforce is also reported to create uncertainty and insecurity that adds stress to the households. Seasonality of income is not just an issue for those who provide seasonal labour. Farmers and horticulturalists also face the challenges of seasonal income, along with the vagaries of the weather, exchange rates and prices for their produce.

Stakeholders noted the challenges of recruiting sufficient labour for the seasonal demands of harvest. The Pacific Migrant Labour scheme was cited by some as a major success, delivering keen workers who worked hard and delivered good service. Equally there was resentment and frustration among local Maori about the effort that employers would go to secure migrant labour (including transport and accommodation), which they were not prepared to offer locals. One stakeholder noted that the success of the Pacific Migrant Worker Scheme was dependent upon the ability to build each group of workers around the family and social structure of the home community. This ensured that the group was disciplined and governed by the norms and relationships of their homeland and the commitment that elders and village leaders had made to the success of the venture. This same approach could be successful in securing far stronger whanau-based approaches to seasonal work.

Social problems that exist in Hawkes Bay are disproportionately weighted towards the Maori population. Any solutions must take into account the cultural context in which this occurs. A number of stakeholders saw the resources that will become available with settlement of Treaty Claims as a major opportunity to improve the welfare and economic standing of Maori within the region. Without understating the significance of Treaty Settlements, and in particular the value of cultural redress for the mana of the people, the economic value of the likely Treaty Settlements in Hawkes Bay is unlikely to be sufficient to drive fundamental change in the welfare of Maori. The fact that many of the beneficiaries of the settlements live outside the region reinforces this point. The economic future of the iwi and hapu of the Hawkes Bay, and of their people, ultimately lies with the success and prosperity of the whole of the economy and in ensuring that Maori are able to contribute their particular skills and talents to economic success.

Although the focus of this paper has been on issues, problems and challenges, several people referred to the number of talented people from Hawkes Bay who might be encouraged to return in the right circumstances. Others talked of the talent and enthusiasm in many local youth, which offers a hope for the future. Certainly local talent will be a key factor in the economic recovery for Hawkes Bay and needs to be nurtured and developed. The need for good role models and mentoring services was mentioned several times.

A number of people referred to the opportunities in sport and recreation for making a real

difference. The “Iron Maori” event was mentioned as an example of a local initiative that has had a big impact on Maori health and wellbeing. The event itself has now become so successful that enrolment for the latest occasion was oversubscribed within 8 minutes of being available online. The event provides a catalyst for Whanau involvement in recreation, training and exercise.

The Hawkes Bay Regional Sports Trust (Sport Hawkes Bay) delivers sports programmes and services and support for events across the region and has community development as a central theme. Sport also appears to be a uniting theme for the region with the success of the Hawkes Bay rugby team and Hawkes Bay business sponsorship of the New Zealand Hockey team (the Black Sticks) helping to provide awareness and recognition for the regional brand. Sport and recreation supports healthy lifestyles and can inspire motivation and discipline that can translate to other spheres.

The arts also offer opportunities for different talents to develop and can be equally inspiring and motivating for those who take part. The region has a significant arts and cultural life and opportunities to develop this element of the life of the people of the region.

6. Environmental Constraints and Climate Change

There are a number of key environmental constraints that limit the size and performance of the region's primary production economy. The productivity of the fertile lowlands of the region is fundamentally limited by the availability of water. The region's high sunshine hours, and warm summer temperatures lend themselves to double cropping regimes and to intensive horticultural production. However, the natural pattern of westerly air systems that move across New Zealand produce dry East Coast conditions and the region is prone to summer droughts. The region also experiences major rainfall events and significant winter rains that mobilise considerable sediment in the hill country and flush the river systems of the plains.

Current intensive land uses that depend upon irrigation rely on a mix of river water and drawing from the aquifers that underlie the plains. They draw water through the summer period and their demand is greatest when the natural flow of the river systems is lowest. The amount of water that is available from these sources is either already fully allocated to use, or is close to being fully allocated. The combined effect of existing uses results in water quality issues in the region's rivers – particularly in very low flow summer conditions. This means that without additional water, or changes to the way that water is used, or both, it will not be possible to increase the intensive agriculture and horticultural activity in the region.

Compounding the emerging pressure on existing water use, the impact of climate change will significantly reduce the certainty of availability of water for irrigation. NIWA's work on the impact of climate change suggests that between now and 2030-40 average temperatures in the region will rise by around 1°C. Over the same period NIWA estimates that rainfall will decrease by around 5%. The reduction in rainfall will be accompanied by increased wind and when combined with increased temperatures will contribute to more rapid soil moisture losses than are currently experienced. NIWA estimates that the combined effect of these changes by 2080 will be that what is now a 1 in 20 year drought will be twice as frequent. Given the existing pressure on available water and the changes that are likely as a result of climate change, it will be increasingly difficult to sustain the extent of existing irrigation dependent intensive production without additional water, or changes to the way that water is used, or both.

The irony of the water challenge that the region faces is that the same trends in climate change that add complexity to the region will also make the products that it produces more valuable. As water becomes increasingly scarce across the world New Zealand will have a significant and increasing competitive advantage in the production of high protein foodstuffs. The products that New Zealand produces can expect to demand a price premium internationally. Within the range of products that New Zealand can produce it is likely that the greatest increase in price premium will be from food crops. The Hawkes Bay is currently one of New Zealand's key centres of horticultural production and has land ideally suited to intensive horticulture – if sufficient irrigation water is available and there is certainty of supply.

The discussion in Section 3.2 noted the impact of the 2007 drought on the regional economy. Work for the Ministry of Primary Industries estimated that the drought caused a reduction in the GDP produced by the regional sheep and beef sector of \$161m over three years (a 20% reduction) and a total region-wide GDP loss of \$326m over three years (15%). Even if changes to the way in which water is managed were able to maintain the existing pattern of land use but lessen the impact of drought the region would substantially better off.

Within the Hawkes Bay the regional council is particularly focused on the issues of environmental management, rural land use and primary production, and how this is linked to the performance of the regional economy. A number of stakeholders favourably noted important work by the regional council in both traditional roles of soil conservation, hill country stabilisation, pest control and farm management practices and in more recent work on water management and the potential for water storage. The capabilities of the regional council in this area are an important regional asset.

7. Local Government – Issues and Trends

New Zealand local government is experiencing considerable pressure to improve performance. Since 2003 there has been sustained national media attention on the on-going rates increase councils have required. Over the period 2003 to 2011 total rates charged by New Zealand local authorities increased in real terms from \$2,439.5 million to \$3661.0 million, an increase of 50.1% at a time when the economy grew by only 13% in real terms.

Many local authorities have been struggling with historic underfunding of key infrastructure and with the challenge of the rapidly increasing costs of inputs. In particular the costs of road maintenance (from the NZTA index) have increased since 2001 by 51%, whereas the CPI has measured a 36% increase in costs over the same period. Construction costs have also increased rapidly, meaning that all council capital works have become more expensive.

The current government is increasing the pressure for change on local authorities by progressing changes to the Local Government Act 2002. The changes that the government has proposed will focus local authorities on a new purpose. Instead of being charged with promoting *“the social, economic, environmental and cultural well-being of communities, in the present and for the future”* local authorities will exist for the purpose of meeting *“the current and future needs of the communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is cost-effective for households and businesses”*.

The proposed changes define good quality local infrastructure, local public services, and performance of regulatory functions as “infrastructure, services, and performance that are –

- a) efficient; and
- b) effective; and
- c) appropriate to present and anticipated future circumstance.”

Whilst these changes do not of themselves change significantly the breadth and nature of the activities that local authorities may undertake, they do significantly change the way in which local authorities will be required to describe and justify the services that they deliver. They will need to be able to demonstrate to their communities the quality of their services and defend their approach from possible challenge.

The proposed legislation introduces a framework for potentially far greater intervention by government in councils that are not performing; provides for the ability to set by regulation maximum levels of increase in rates and other charges; and changes and streamlines the processes that are involved in considering and progressing possible local government amalgamation.

Despite the pressure for focus and removing complexity, local authorities are required by law to discharge very varied and important functions, and if anything, changes in policy and regulation over recent years have added to the cost and complexity of local government – not reduced it. Just two examples of this sort of change are the impact of changes to the Building Act framework, and changes to freshwater management.

Since the weather tight homes issue and the subsequent changes to the Building Act all local authorities have had to develop significantly different policies, procedures and processes relating to building control and their functions in consenting buildings and ensuring that they are built as intended to the required standard.

New government approaches to freshwater management have required regional councils to embark on a major, multi year process to establish water quality and water availability limits and allocations for each and every water body in the country.

The impacts of changes of this nature fall disproportionately on small councils. A council with only 40 staff will find it far more difficult to reallocate staff time and secure the necessary expertise to deal with change than a council with over 200 staff and a significant team of senior and experienced people.

The other major change within the local government sector has been the creation of the Auckland Council and its new, tailor made framework of local boards and major council controlled organisations. The journey to complete the full integration of the eight Auckland councils – including harmonising service standards, planning regulations, and realising the benefits from standardised business systems and processes still has some way to go. Mergers of the scale of the change in Auckland are substantial, costly and time-consuming. The productivity of Auckland Council staff through the amalgamation process and into the beginnings of the new council was adversely affected and significant on-going management attention is required to regain productivity and secure administrative benefits.

There are however some immediately obvious changes in Auckland that should be of note to the Hawkes Bay. The directly elected Mayor of Auckland is the undisputed leader of the council and the additional powers that were given to the mayor have made a significant difference in the ability of the mayor to drive and progress the business of the council and a single vision for Auckland. The position of the mayor as the leader and spokesperson for Auckland has helped to change the way in which the Auckland Council engages with government – and the way in which government engages with Auckland. There are regular and substantive meetings between the Prime Minister, senior Cabinet Ministers and the mayor and leaders of the Auckland Council. These Forums are similar in nature to the Central Government – Local Government Forums that have characterised the relationship between Local Government New Zealand and the government of the day since the first Helen Clark government. Cabinet has formally responded to the Auckland Spatial Plan, providing a very clear government response and perspective on the way in which the Council proposes to develop Auckland. This is hugely important because government decisions profoundly shape Auckland and government expenditure in Auckland is substantially larger than the expenditure of the Auckland Council. Through these and other mechanisms the new Auckland Council will continue to attract significant government attention and focus.

One of the challenges that small provincial councils have faced for a long time is how to engage effectively with government and get government attention on the particular issues facing their district. Successive governments have also struggled with this issue and have tended to want to work with regions (groups of councils) rather than with individual territorial authorities. Without diminishing the importance of local MPs (and in particular local Ministers) it is a challenge for individual territorial authorities, and even for regional groupings of councils to be heard by government.

There are good connections between some of the region's local authorities and the current government. The Hawkes Bay Regional Council is currently enjoying very good and high level working relationships with the government in relation to water storage and the development of the primary economy. As President of Local Government New Zealand the Mayor of Hastings is also in regular contact with the Prime Minister and senior Ministers. Having two local MPs serving as Cabinet Ministers also provides access to decision makers. However, the on-going challenge for the councils of the region will be how they can compete for the attention of government on the issues that are pressing to them and their communities.

When considering the wider issues within the local government sector it is clear that there are some real issues within local government in Hawkes Bay. The most significant issues relate to the on-going capacity, capability and viability of the Wairoa and Central Hawkes Bay District Councils.

Serving a community of just 8,440 people in an area of 4,077 km² the Wairoa Council faces

substantial challenges in delivering services and maintaining a large road network built in difficult terrain. The council must also retain the capability to perform all of the regulatory functions of the local authority. It has its own District Plan, its own by-laws and its own administrative and finance systems. In 2010/11 Wairoa District Council processed just 38 resource consents and in 2011/12 just 20 consents for new buildings.

Any consideration of the future of the Wairoa District Council must also consider the important role that the council's subsidiary Quality Roading and Services Ltd (QRS) plays in the community. In the context of the Wairoa economy, QRS and the council are significant employers and two of the few organisations in the district that require highly skilled professional staff. There is a critical mass issue associated with the retention of jobs like these within small rural communities. Loss of this sort of activity would spark a further downward spiral of loss of population and services.

Central Hawkes Bay District faces very similar challenges. With a slightly smaller area of jurisdiction, but a larger population and similar staffing, the limits to what can be achieved are very real. Central Hawkes Bay District Council also has its own District Plan, and its own by-laws and administrative and finance systems. In 2010/11 CHBDC processed just 80 resource consents and in 2011/12 70 consents for new buildings. Both Central Hawkes Bay and Wairoa have rates per person almost 50% higher than apply in either Napier or Hastings.

Looking ahead, if the water storage project initiative discussed in Section 11 progresses it will be critical that the range of decisions; resource, building and subdivision consents; and other infrastructure associated with increasing the area of intensive production in Central Hawkes Bay by between 20,000 and 30,000 ha are dealt with effectively. It is questionable whether the Central Hawkes Bay District Council could deal with land use change of this magnitude as it is currently resourced.

Over the last decade a number of New Zealand local authorities have explored the potential for shared services to reduce their cost structure and improve delivery. There are a number of examples of successful group procurement of inputs to council operations. There have been comparatively few examples of serious attempts by New Zealand local authorities to establish truly shared service delivery. There are however a number of councils that share building control, asset management and contact centre services. There have also been initiatives, like the one in the Wairarapa, to deliver a single District Plan under the RMA that applies to a group of local authorities. There has been very little progress of this nature between the Hawkes Bay councils.

8. Infrastructure

The consultants have not done a comprehensive assessment of regional infrastructure as part of this study. However, none of the stakeholders who were interviewed were able to identify fundamental infrastructure constraints that would inhibit the growth and development of the region. Indeed most stakeholders noted the relatively high quality of regional infrastructure.

The region has a good road network that, by and large, is maintained to a high standard. The State Highway network both within the region and in and out of the region is sound, but there are significant vulnerabilities in the connections through the Manawatu Gorge and through State Highway 37 to Rotorua. The rail connection to the south is an important component of the region's transport system and supports the location of Heinz-Watties' national distribution centre at Tomoana. The region's airport provides good connections to the rest of New Zealand, although a number of stakeholders complained about the cost of air travel into and out of the region. Despite this there appear to be a significant number of major business leaders who commute from the Hawkes Bay to work in Auckland and Wellington quite successfully. The transport system provides ample capacity and is not a constraint on the development of the region.

The Regional Land Transport Strategy identifies a number of strategic projects to improve the performance of the network and there appears to be a strong consensus around the sequencing and priority of those works. The region currently has access to around \$24m of R funds for transport that have not yet been allocated and this provides some opportunities. However, NZTA will be progressively reducing its contribution to local road maintenance. This will place considerable pressure on the two very rural authorities in the region where roading accounts for 46% (Wairoa) and 55% (Central Hawkes Bay) of their total expenditure.

The region's electricity networks are sound and other than some specific local issues associated with new business and industrial parks (which have been solved) no stakeholders identified electricity supply as a constraint on development.

The main urban areas of the region have secure and effective water supplies and wastewater systems. This infrastructure is adequate to deal with the likely population and demographic changes within the region for the medium term.

Probably the most significant infrastructure issue in the region is wastewater treatment in Central Hawkes Bay. It seems likely that Wairoa will also have some potential issues with its wastewater treatment facilities in the future. In both of these communities there are issues with aging treatment systems that do (or may) not meet modern standards and have a negative impact on the receiving environment. It is understandable that in both of these communities the level of investment required to up-grade and maintain acceptable levels of wastewater treatment will be challenging. However, the region is dependent upon high water quality to drive the primary production economy. The region cannot afford for poor wastewater treatment solutions to compromise the environmental qualities that it depends upon.

The region also has a range of high quality sporting and cultural infrastructure that supports an emerging role in hosting events.

In short, the infrastructure of the region is sound and can support growth. There are no obvious constraints or impediments to growth from the region's current infrastructure. However, as is discussed below there is a substantial opportunity to grow the regional economy through the development of new water storage infrastructure.

9. Leadership

The range of problems identified for Hawkes Bay is well understood by most people interviewed for this project. Across the range of stakeholders that were interviewed some were focussed on the day-to-day problems of their business or those in their care, while others are more focussed on the future. All appeared to agree that leadership is important and a real issue for the region.

The region is well represented in the National led government, with two Cabinet Ministers (Chris Tremain and Craig Foss) and in opposition with Labour Maori Affairs and Treaty Negotiations spokesperson Parekura Horomia. While appreciating this level of representation, some feel these high level jobs demand a national interest view and need to be supplemented by strong local leadership.

A number of stakeholders noted the very significant role that the regional council is playing in exercising leadership to progress the water storage projects and transform primary production. Key primary sector leaders (including national leaders) recognise that the regional council is undertaking a bold role, deliberately seeking to leverage all of its financial and regulatory capabilities to deliver a fundamental game changer for the Hawkes Bay economy. This effort was praised by the primary sector stakeholders that were interviewed. This role, and the significance of the proposed water storage, was far less visible to the urban professional stakeholders that were interviewed. There is also on-going debate over the merits of the proposed water storage project and a public investment of this scale warrants a high level of scrutiny.

Stakeholders were critical of the overall mix of local political leadership and a framework and behaviours that were seen as delivering competition, where co-operation and shared vision was required. One of the common threads from stakeholders was a call for a united vision for the region's future and a strategy to achieve it.

There is debate locally about the need for local government amalgamation and whether or not this is necessary for strong regional leadership. Naturally the proponents believe it is and the opponents feel there are other ways it can be achieved. Ultimately, the advantages of centralised control will need to be balanced against the principles of self-determination and strong local communities.

Leadership within the Hawkes Bay is currently fragmented, and debate over amalgamation seems to have got in the way of effective collaboration. However, in the debate about the structure of local government it will important to consider that generally local government has quite limited abilities to directly influence or drive economic development. As is discussed above local authority expenditure is substantially less than central government, and focused on infrastructure and enabling services, which in Hawkes Bay are sound and provide a strong platform for growth. Local authorities do not control business or individual investment decisions, but they can provide some of the context within which those decisions are made and the climate of local regulation that impacts to some degree on the cost and ease of doing business.

The way in which local government has the most profound impact on community development is through leadership. Effective and inspiring community leadership can make the difference between mobilising the community's resources and capabilities to achieve common goals, or muddling along.

It is obvious that within the Hawkes Bay there are a wealth of talented people who are passionate about the region and its future. The local leadership challenge is to be able to harness and direct that energy into productive investment, creative industry and innovation that will lift the overall performance of the economy.

10. Options for Increased Prosperity

Over the last decade Hawkes Bay has performed slightly below average for New Zealand. A business as usual approach by the people, businesses and institutions of Hawkes Bay is likely to deliver future prosperity on a par with current and recent past performance over the short to medium term. Over the medium to long term the region faces more significant challenges with respect to its labour force and climate change, which if not addressed will erode the economic base of the region.

However, the region has the natural resource base to produce considerably more wealth than it is currently. The regional also has a number of substantial opportunities to deliver a step change in the performance of the economy and to deliver increased prosperity for its residents. Despite the somewhat gloomy prospects of some of the primary sectors over the short term there is considerable reason to be quite optimistic about the medium to long-term future of the region.

There is no set recipe for driving or encouraging change. Equally, there is no single silver bullet that will transform the fundamentals of an economy or a community to deliver different outcomes. It is comparatively easy to identify things that could be done to improve economic and social outcomes. It is substantially more difficult to drive change at the scale of the regional economy. Economies and communities are complex, organic systems that reflect the decisions and actions of a large number of individuals, businesses and groups, both within the region and elsewhere. Change will be the result of these people and groups making conscious decisions to invest, to take risks, to work differently, and to pursue new opportunities. Some of those decisions will be successful, others will not. There will always also be significant groups that benefit from the status quo and will work to protect that.

If there is one thing that above all else can make a difference, it is leadership and vision. Communities that are able to build a shared vision of the future, and the confidence to invest to make it happen, will drive change. Leadership is not just about the role of the public sector and the recognised elected representatives of the community. Leadership within the business community and more broadly within society is critical. However, public sector leadership has a particular and important role in facilitating vision, and in harnessing the region's public resources to support the vision for the future.

The Hawkes Bay will be more prosperous if it is able to:

- diversify and significantly deepen its economy;
- insulate itself to some degree from the cyclical nature of primary production;
- find ways to both produce more and add and capture greater value from what it produces;
- create and maintain a larger proportion of jobs with higher skills and higher remuneration;
- provide increased employment opportunities and greater depth in the labour market, and in particular increased opportunities for young people;
- provide clear pathways for success that provide an incentive for people to stay and build their future in the region;
- remove unnecessary barriers or impediments to making the changes that are necessary;
- address the poverty and disadvantage within the region;
- build communities that have pride, a real sense of inclusion, connection and achievement;
- help people to have a real stake in the future and contribute meaningfully to their

community; and

- sustain the leadership that is necessary to harness the resources of the region and galvanise the actions of people, businesses and communities to work together for a better future.

The following sections explore a range of possible initiatives to improve the economic and social development of the region. Some of these initiatives reflect well-advanced thinking and planning from within the region. Others are more speculative, and indeed may not be achievable. Other than the water storage initiative all others would require further work to develop specific and implementable recommendations. The critical role of leadership in facilitating development is explored at the end of this section.

10.1. Water storage and increased intensive primary production

Within any primary production system one of the options to improve returns is to consider increases in production. In the short term there are always issues of the interplay between supply and demand within existing markets that mean that increased production need not result in increased profitability. However, in the longer term, provided the increased production is achievable at a competitive price, it will be possible to translate increased production of the right produce into increased wealth. This will be easier to achieve for produce for which demand is growing, or where competitors will struggle to deliver consistent quantity and quality of product.

The longer-term trends with respect to both climate change and the value of primary production are discussed earlier in this report. Fundamentally, in a world where water becomes increasingly scarce protein and the ability to produce protein will become more and more important. Equally, as extreme weather events become more frequent the ability to deliver certainty of production will be an important factor and will also contribute to a price premium.

One of Hawkes Bay's fundamental advantages is the very large area of lowlands that are ideally suited to arable production systems. Within the region around 45,000ha of land is currently irrigated. Much of this land is devoted to horticulture (including grape growing) and large-scale arable production. The productivity of this land depends upon a mix of river water and drawing water from the aquifers that underlie the plains. Generally irrigation water is drawn through the summer period and demand is greatest when the natural flow of the river systems is lowest. The amount of water that is available from these sources is either already over allocated (in the case of the Heretaunga and Ruataniwha plains), or either fully allocated or very close to being fully allocated. This means that without additional water, or changes to the way that water is used, or both, it will not be possible to increase the intensive agriculture and horticultural activity in the region.

The other major limitation to the current system of irrigation is the security of supply. Quite apart from the longer-term impact of climate change, or the need to address potential over allocation of water, current water users face restrictions on use, or critical shortages one year in five. The regional council has estimated that without augmentation of the water supply restrictions on taking water are likely to apply 1 year in 3 within the medium term.

Within the Ruataniwha basin around 6,000ha of land is currently irrigated. The Ruataniwha water storage project has the potential to increase the area of land that can be irrigated by between 20,000ha and 30,000ha (depending upon the water intensity of the land use adopted within the area of benefit. That is an increase in the total area of irrigated land in the region of between 44% and 66%. Not only does the Ruataniwha scheme have the potential to dramatically increase the area of land that can be irrigated, it will increase the security of supply for the area it serves from the current 1 in 5 year restriction to restrictions in only 1 year in 20.

The regional council is progressively working through a comprehensive set of studies into the impact of the water storage project. Current estimates are that the dam and related infrastructure (but excluding on-farm infrastructure) will cost in the order of \$230m. The current estimate of the impact of the dam is an increase in regional GDP of \$250m per annum. The regional council has made provision to take an \$80m equity stake in the Ruataniwha water storage project.

The government is committed to investments that will support the transformation of New Zealand's economy. It has allocated \$35m to a new Irrigation Acceleration Fund to support the development of water storage and irrigation schemes. Hawkes Bay has already received funding from this scheme to assist with the development of the Ruataniwha Water Storage Project. In addition the Government's election policy was to invest up to \$400m from the Future Investment Fund (created by the sale of shares in Crown Companies) into irrigation and water storage development. At this stage development work on the Ruataniwha water storage scheme is the most advanced large-scale water storage project in the country. It is likely that the project

will benefit from government investment.

To successfully deliver the project the regional council will need to navigate complex issues to secure the necessary consents and regulatory approvals. The council will also need to design the commercial framework for the project and secure the necessary financing. There are understandable concerns from some stakeholders over the potential environmental impacts of additional intensive land use. The scheme will need to work through a full assessment of environmental effects, however, it appears that through adopting an appropriate regime of regular river flushing, and maintaining more natural (higher) summer minimum flows the river can be healthier and sustain the planned substantial increase in intensive land use. The regional council has undertaken considerable scientific research on the characteristics of the water in Ruataniwha and concluded that with appropriate management and on-farm practices the catchment can sustain significant intensification, and substantially greater use of nitrogen without compromising water quality.

The actual impact of the project will be dependent upon the uptake of water – which will be driven by the cost of water delivered to the farm gate and the value that landowners can derive from the water and the increased certainty of supply. However, an increase of \$250m per annum amounts to 3.7% of current regional GDP – about 2.25 times the size of the region’s wine industry (including both growing and wine making).

The Ruataniwha project is the largest water storage opportunity that has been identified to date, but it is not the only one. The regional council is also investigating a smaller project in the involving the Ngaruroro River and Karamu Stream on the Heretaunga Plains. Water in these catchments is fully allocated and groundwater takes may be subject to minimum flow restrictions in the future. There is about 6000ha of land in the Ngaruroro catchment that could be irrigated if water was available. Feasibility and cost work related to the potential for water storage in the Ngaruroro Catchment is not as far advanced as the Ruataniwha scheme, but the regional council has provided \$3.3m for a full feasibility study and \$27m for a possible equity stake in the project. Current estimates of the possible cost of the Ngaruroro water storage scheme (for the dam and reticulation but excluding on-farm costs) are around \$85m.

The combined effects of the opportunities for land use intensification within Hawkes Bay are dramatic. If the Ruataniwha scheme, which if it proceeds will come first, is able to prompt both a substantial investment in dairy conversions and a substantial dual cropping regime which provides both dairy support and lamb finishing, it is feasible that the region will reach a the tipping point where additional land in the north and into Wairoa becomes viable for dairy farming. There is considerable land within Wairoa that could be used for more intense production than is currently undertaken either without irrigation, or with quite limited, site-specific irrigation. The development of this land would have a major beneficial economic impact on Wairoa – and could be the key to providing long-term sustainable returns to the owners of Maori land within the district.

Of all of the initiatives that the project team have seen, or developed, the single biggest opportunity to lift the performance of the Hawkes Bay economy is to transform primary production through the use of stored water. The Ruataniwha project is currently in good shape, but has a log way to go. The regional council will need to steer the project through the completion of the planning and consent phases. It will need to complete the business plan and be confident that the scheme can deliver water at the farm gate at a price that will ensure uptake by landowners. It will need to secure the necessary capital investment and work through the procurement and construction phase.

If it proceeds the Ruataniwha scheme will be the largest physical work undertaken within the region. The scheme could yet prove to be infeasible and there are a number of stages in the process where it could fall over.

The current progress of the project is dependent upon the core competencies and capacities of the regional council, including their expertise in river and hazards management, water management, land management practices, and the knowledge and understanding of the natural systems that will be impacted by the scheme.

Summary: Water storage and increased intensive primary production

This is the single biggest opportunity for step change in the production of the region. The Ruataniwha Water Storage Project has the potential to increase the area of irrigated land within the region by between 20,000ha and 30,000ha. The project is large and complex, and it is a significant investment costing around \$230m. The potential economic returns are very high (\$250m pa).

Timeframe:	5+ years
Cost:	\$250m
Degree of Difficulty:	High
Likely Return:	Very High

10.2. Maximising the value add from increased production

The Ruataniwha and Ngaruroro water storage projects have the potential to significantly increase the area of irrigated land that can support intensive production. As is discussed above it is likely that a mix of land uses will develop within the area that benefits from the water storage projects. The increased intensification has the potential to dramatically increase the GDP of the region. However, for the economic development of the region one of the key questions that follows is where and to what extent will the produce from the newly irrigated land be processed? Clearly, the more that can be processed locally, and the greater the value that can be added to the produce before it leaves the region, the greater the value of production that can be captured within the Hawkes Bay economy. It is likely that the range of land uses will be complex and seek to benefit from the ability to produce two crops per year from the irrigated land. There is also scope for interrelated activity – such as adding value to hill country sheep farming by finishing lambs. It is also possible that the newly irrigated land is attractive enough to drive the development of a substantial dairy herd in the region. Through a combination of irrigation water and cropping to deliver supplementary feed it is possible that a far larger area than the core of the water storage area could become attractive for dairy farming.

There will be a progressive market response to the water storage scheme that will result in increased processing activity within the Hawkes Bay. There is spare capacity and/or the ability to expand capacity at all of the major processing plants in the region. AFFCO, Silver Fern Farms, McCain Foods, and Heinz – Watties all have the ability to process considerably more product than they currently do within the region.

Beyond the scope of existing land uses and the existing players in the food processing business there is scope to look at how a broader change in the location and concentration of food processing activity could be achieved across the east coast and lower North Island, and possibly into the Waikato. It is possible that the additional production and expansion of existing plants in Hawkes Bay means that the region could reach a tipping point, where it makes economic sense to relocate processing capacity into Hawkes Bay. To achieve this it would be necessary to develop, or enhance existing logistics and transport infrastructure and services. Certainly, the availability of both the Port of Napier, the rail connection to the south, and the road connections through to the Manawatu and Taupo make it possible to operate from Hawkes Bay processing activities that draw on a larger catchment than just Hawkes Bay.

A ‘build it and they will come’ strategy will be successful. The market response to increased production in the Hawkes Bay will contribute to increased processing and greater value in the local economy. Clearly, any investment must be commercial and able to work effectively in the range of economic conditions that the region will face into the future. However, it is possible that the decisions made by a large number of small players, each of whom has partial information and is capital constrained, result in a market response to intensification that is sub-optimal. New investors to the region may struggle to secure sufficient supply to warrant a major new facility. Equally new investors may consider that the skills and labour force that they require are not available in the region, or that the vulnerability of the rail connection limits the certainty that they need to make a new logistics chain work.

It’s possible that through a bigger, strategic approach to driving business across the region a better outcome could be achieved. A combined Hawkes Bay approach could assist by working with the landowners to identify potential uses that would maximise returns to them – and the region. It could assist by co-ordinating training and other labour force initiatives to ensure that the skills that are necessary are available. It could work to identify potential investors and assist them with the process of securing the land, consents, and other supply arrangements necessary secure the best outcome for the region. Equally, a combined Hawkes Bay approach could provide support for research and incubator development of new businesses that support increased value add and downstream processing within the region.

Considerable work will be required to scope the size of this opportunity, but some of the ingredients for it already exist. Whilst Food Hawkes Bay has been focused on far smaller issues than this it could provide a vehicle for the relevant sectors to collaborate. Business Hawkes Bay could play a substantial role in identifying potential investors and working to assist in the investment process. The regional council has been active in establishing a pan sector cluster to ensure that the major stakeholders are aware of the opportunity and are focused on how they might take advantage of it. Other necessary ingredients will include:

- farm advisors who have expertise in irrigation systems and conversions and can work with landowners on the options that they will have;
- expertise in the design, construction, installation and operation of on-farm irrigation systems;
- expertise in logistics and the economics of food processing, and the sales and distribution systems for different products;
- expertise in skill and labour force requirements that can link to the provision of appropriate training; and
- a regulatory environment that supports investment in new processing capacity within the region.

There are clearly issues of private sector competition that will challenge the ability to develop and implement a combined Hawkes Bay strategy to maximise capture of the processing of Hawkes Bay produce. The difference between a ‘build-it and they will come strategy’ and a well-executed regional strategy could be substantial.

Summary: Maximising the value add from increased production

This is a substantial opportunity. The more Hawkes Bay produce that can be processed locally, and the greater the value that can be added to the produce before it leaves the region, the greater the value that can be captured within the Hawkes Bay economy. A ‘build it and they will come’ strategy will be successful. To some degree increased processing will happen as a natural market response. It’s possible that through a bigger, strategic approach to driving business across the region a better outcome could be achieved. It will be difficult to maximise the opportunity – but the value added by capturing the processing, or packaging for ‘fresh’ distribution of produce within the region should be worth more to the region than the value of the product at the farm gate.

Timeframe:	5+ years
Cost:	Low (to build the case for investment) High / Very High to build new plant depending on the scale
Degree of Difficulty:	High
Likely Return:	High

10.3. Transforming the sale and distribution of produce

In undertaking the first stage of this study the reviewers were struck by the complexity of the production systems and inter-linkages within the primary sector. They were also reminded of the considerable difference between the more corporate and global business approach that is possible within the single-desk seller model of the dairy industry and the way in which the pip-fruit, horticulture and sheep and beef industries work.

Whilst there are always questions over the efficiency and incentives for performance that apply to a organisation like Fonterra, it is clear that its structure is able to deliver to its farmers considerably more control over the value creation in the logistics and production of products than is available to sheep and beef farmers, or to growers working under annual contracts to vegetable processors or supermarket chains.

The mix of primary products grown in the Hawkes Bay is distinctive. Importantly, the largest components of the agriculture complex in the region are those that place the greatest pressure on farmers and growers as price takers.

Global brands like McCain Foods and Heinz have exacting requirements for product quality, certainty of supply and need to keep expensive processing plants active. It is natural that they seek to secure contracted supply on terms and conditions that suit them, and that the natural local monopolies that come through the location of processing facilities mean that farmers must either accept the prices that they are offered, or grow something else.

It has also been in the interests of supermarkets to take control of the production and distribution system that support their retail operations. In doing this the supermarkets have taken on increased risk, but they have also been able to secure greater certainty of supply, greater control over product quality, and to capture the valued added in each stage of the process.

The net effect of the global trends toward supply chain integration is significant for the farmer or grower at the beginning of the production chain.

The areas of production where these trends have not been so evident in the past are in very high value, niche products that command a high premium and are scarce. Recent initiatives to produce and distribute marbled beef are a good example. A number of wine producers have also been very effective at controlling the distribution of their finished product direct to supermarket shelves internationally. The wine industry has also been successful in securing value through the development and use of regional brands. The Gimlet Gravels are successfully associated with quality wines and particular flavours and accordingly can command a market premium.

There have been a number of attempts to re-establish single desk seller regimes in New Zealand agriculture beyond the dairy industry. All have failed. It may not be possible to work in the face of the global pressures for supply chain management. However, in the longer term, in a world where water and protein are more constrained, there may well be opportunities to shift the balance of power in the distribution chain more in favour of farmers and growers.

It may be possible to shift the production in Hawkes Bay to focus on a range of higher value, more niche products that provide greater scope to growers and farmers to manage distribution and marketing. It may also be possible to emulate the wine industry by securing a premium market position for some products based on a strong regional brand.

There is thinking currently going on within the region over the potential to secure greater market premium through the delivery of 'fresh' produce direct to market. To do this on a large scale from Hawkes Bay would require very effective distribution and logistics systems. But this warrants further consideration.

It is very challenging to change the distribution and marketing of agricultural produce in order to secure greater value. However, there are a number of possible strategies that could produce greater value for the region. To be successful in any of these approaches there would need to be a collective and collaborative approach to building increased market value.

Summary: Transforming the sale and distribution of produce

The largest components of the agriculture complex in the region are those that place the greatest pressure on farmers and growers as price takers. It may be possible change the way in which Hawkes Bay produce is taken to market, or to shift the production in Hawkes Bay to focus on a range of higher value, more niche products that provide greater scope to growers and farmers to manage distribution and marketing. It may also be possible to emulate the wine industry by securing a premium market position for some products based on a strong regional brand.

This initiative is more speculative than the water storage or regional processing strategies. It has the potential to deliver a high return, but has considerably more uncertainty and risk than some of the other initiatives identified. Pursuing this initiative would require a significant commitment from key growers / farmers within the region.

Timeframe:	5+ years
Cost:	Low (to build the case) High / Very High for implementation depending on the scale of change sought
Degree of Difficulty:	Very High
Likely Return:	Uncertain / High

10.4. Skills, improving educational achievement and pathways to employment

Ironically, at a time when there is relatively high unemployment, one of the longer term challenges that the region will face is a labour shortage – and in particular a skilled labour shortage. Given the relatively rapid aging of the population, the high average age of farmers and other professionals, the relatively low skills of a large group of school leavers, high levels of deep-seated unemployment and the continued outmigration of young people seeking higher qualifications, the region faces a potential tipping point where it does not have, and cannot attract the labour that it needs to thrive.

Equally, the current high levels of unemployment, and in particular Maori unemployment, are giving rise to significant underclass of people who are not effectively engaged in the economy.

Through the interviews with stakeholders a number of people raised the historic debate over the possible university, lamenting the loss of young people from the region and the loss of jobs, investment and income that go with a university. It is clear that New Zealand does not need another university, and Hawkes Bay will not be able to secure one. If anything there is increasing pressure on the current tertiary education sector to rationalise the number and location of institutions and deliver more with less.

In EIT the region has a very able institution, focused on developing students and equipping them with the skills and qualifications that they will need to find employment. EIT has a strong sense of connection to the needs to the industries in the region. EIT is also very focused on building learning pathways to ensure that those with poor literacy and numeracy skills can progress to further education. EIT's recent work to enhance skill development and provide a bridge from secondary school to work, or further trade training is significant. The first intake of the new Trades Academy was substantially over-subscribed. The partnership between EIT and the 14 secondary schools taking part in the Trade Academy programme is an import initiative.

Looking ahead, a number of the initiatives that have been identified in this report depend upon the ability to engage staff with the right skills at the right time. Increased primary production will require additional labour, and potentially additional seasonal labour. One of the challenges of bringing each of the possible elements in the development of the region together will be timing. The availability of labour with the right skills will be an important element in any decision to invest in new plant and machinery. The availability of new jobs will be a significant motivator to embark on new training. If training results in people entering the labour force before new jobs have been created it would significantly undermine the credibility of the training programme and could jeopardise the strategy.

The key to success with this initiative will be to focus training on the labour force requirements and opportunities of the other initiatives that are adopted. If the region is able to reinforce the interdependence of the initiatives that it pursues it can establish a virtual spiral of development.

There are the beginnings of this work within the region. The EIT Trade Academy is one. The Hastings District Council work on labour force capability development is another. The regional council's memorandum of understanding with Massey University is another relevant initiative – aiming to bring closer engagement between the University and the region. However, these are small-scale initiatives and are not joined up. To be really effective any initiative will need to include the schools of the region as well as EIT. Equally it will need to include the relevant central government agencies to ensure alignment with Work and Income and Ministry of Business, Innovation and Employment efforts to place people in jobs and foster economic development. The business community must be involved to identify opportunities and secure pathways to employment. Lastly, to effectively realise the opportunity represented by the region's young and growing Maori population, training and labour force development will need to have an appropriate cultural context and work effectively with whanau and hapu to maximise impact and effectiveness.

Summary: Skills, improving educational achievement and pathways to employment

Many of the initiatives identified in this report depend upon the ability to engage staff with the right skills at the right time. Increased primary production will require additional labour, and potentially additional seasonal labour. The availability of labour with the right skills will be an important element in any decision to invest in new plant and machinery. Levels of educational achievement within the region are low – particularly amongst school leavers. Despite high unemployment the region is likely to face a labour shortage.

This initiative is more speculative than the water storage or regional processing strategies, but substantially easier to deliver than a change in the distribution of produce. Education and training are substantially driven by government agencies. This makes alignment with a regional strategy possible. The cost of this initiative would be low to moderate and rely substantially on better targeting and alignment of existing expenditure. The likely return is high – both in terms of the economic outcomes of having more people in employment and in terms of the social outcomes of inclusiveness and engagement.

Timeframe:	3-5 years
Cost:	Low - Moderate
Degree of Difficulty:	Moderate
Likely Return:	High

10.5. Maori participation and economic performance

As is noted elsewhere in this report Maori constitute a significant part of the regional population. Maori are also disproportionately represented in the measures of deprivation and unemployment. The future success of the regional economy depends in significant part upon the participation of Maori in the economy, and their economic performance being significantly enhanced.

A number of stakeholders commented on the potential for Treaty Settlements to become significant investors in the region. Nationally, the size of the settlements, and the commercial models of Ngai Tahu and Tainui have enabled those iwi to become significant investors in the New Zealand economy. Treaty Settlements within the Hawkes Bay have yet to be completed. Legislation supporting the settlement of Ngati Pahauwera claims was enacted this year. Maungaharuru Tangitu Hapu have reached agreement in principle with the Crown on a settlement. Mana Ahuriri, Ngati Hineuru and Ngai Tuhoe are working towards agreement in principle and Te Tira o Whakaeimi o Te Wairoa, Te Toi Kura o Waikaremoana, and He Toa Takitini have secured mandate and are ready to commence negotiations.

It is important to note that the settlements in the Hawkes Bay are likely to be of modest size. From discussion with some Ngati Kahungunu representatives it appears likely that the total value of Treaty Settlements in Hawkes Bay will be less than the total annual expenditure of the local authorities. Ngati Kahungunu is the third largest iwi accounting for 12% of the Maori population nationally. Providing meaningful benefits to a population of this size, with a quite modest settlement will be challenging.

Ngati Kahungunu have a clear 25 year vision for the development and welfare of their people. Self-determination is a strong theme of that vision. Other hallmarks include:

- an economic focus on kaimoana, organic and GE free farming and horticulture, tourism and hospitality, and research and development;
- cultural strength reflected in festivals, a Whare wananga, teaching history in schools, use of Te reo, sports and a cultural centre;
- environmental protection to preserve and protect the air, water and lands and resources for their mokopuna;
- a strong, vibrant and healthy population; and
- a strong and visible identity and brand.

In achieving this vision Ngati Kahungunu fully understand that it is essential for their people to find their way in the mainstream economy. Equally, any resources from a Treaty Settlement do not replace, or remove the obligations of the government to provide for the welfare, education and safety needs of its citizens. Indeed, the effective delivery of these services are essential components of initiatives to improve skills and educational achievement and increased participation in the economy.

Within parts of the region, and in Wairoa in particular, there are significant areas of Maori-owned land. This land has the potential to be quite productive and provide a significant and on-going income for its owners. For a community like Wairoa the impact of productive use of this land could be the turning point for the township.

Given that it is in the region's interest for the Maori of the region to become significant performers in the regional economy there is scope for public agencies and private businesses to work with iwi, hapu and whanau to achieve mutually beneficial outcomes. Key elements of this sort of collaboration are likely to include whanau based service delivery, specific training and development, and work to align public investment to support iwi and hapu investment where

appropriate. For instance, a community development initiative in Wairoa could well focus on how to best upgrade public infrastructure in ways that assist with the more productive use of Maori land.

Summary: Maori participation and economic performance

The future success of the regional economy depends in significant part upon the participation of Maori in the economy, and their economic performance being significantly enhanced.

The key to success for this sort of initiative will to a large extent be the success of the other initiatives and the ability through them to realise opportunities to drive increased participation and economic performance by Maori.

Specific initiatives that would be worthwhile investigating would be to the extent that public investment might remove barriers to the more productive use of Maori land, and how to foster relationships and engagement with iwi, and hapu to best secure benefits from any package of regional development initiatives.

One of the challenges of working to improve Maori participation is the need address inter-generational issues with poverty, dependency and deprivation. A long-term approach will be necessary, as will approaches that are designed to remove dependency and foster self-determination. Above all, increasing Maori participation and economic performance is not something that can be done to Maori. Ultimately, it is an outcome that Maori want and need to own themselves.

Timeframe:	5+ years to a generation
Cost:	Low
Degree of Difficulty:	High
Likely Return:	Very High

10.6. Transforming primary production – applied research and development

Increasing the primary production of the region is possible through both increasing the area under cultivation, and by increasing the area that can be irrigated. Beyond the impact of these initiatives it may well be possible to increase production through the development and application of improved cultivation and farming practice, new cultivars, and new technology.

Through Crown Research Institutes (CRIs) the government makes a significant investment in on-going basic and applied research to improve the productivity of agricultural systems. However, unlike other regions that have a major CRI presence, Hawkes Bay does not benefit as much as it could from the immediacy of research activity, or from a targeted programme of research focused specifically on the region.

Hawkes Bay could accelerate its ability to benefit from applied research by establishing a new partnership with one or more of the CRIs. Given the national significance of the proposed Ruataniwha water storage project it may be possible to work with a CRI to build a centre of excellence, or specific research capability, based around water management, the most efficient management and use of irrigation water on farm, and biotechnology designed to enhance production from the region. To make such a partnership work the region would need to secure funding for region specific research and get CRI personnel based in the region. Research jobs of this nature would add to the depth and richness of the labour force and could greatly assist technology transfer and early adoption of improved practice by landowners.

The current research base of the regional council and the work that has gone into the water storage project could be significant contributions to the establishment of a CRI partnership.

A number of the key stakeholders that were consulted as part of this study noted the considerable strength of the region in the bespoke design, engineering and manufacturing of agricultural and processing machinery. Whilst it would be overstating the structure of this sector in the region to call it an industry cluster there is clear strength and capability in this area. In addition to the potential to build a relationship with a CRI focused on applied research for primary production it may also be possible to work with the existing design, engineering and manufacturing businesses to build a stronger cluster of businesses. Through the trade training and applied engineering strengths of EIT and possibly partnerships with a University that can bring expertise in design, computing and process control technology and with the Icehouse (or equivalent) to help to incubate and grow new businesses, it may be possible to establish a far more significant agricultural engineering and bespoke manufacturing cluster in the region.

Both of these initiatives would contribute to building a critical mass of jobs with higher skill levels that will add richness and depth to the labour force in the region.

Summary: Transforming primary production – applied research and development

Hawkes Bay could benefit from applied research by establishing a new partnership with one or more of the CRIs to build a centre of excellence, or specific research capability, based around water management, the most efficient management and use of irrigation water on farm, and biotechnology designed to enhance production from the region. It may also be possible to work with the existing design, engineering and manufacturing businesses, EIT and a University to build a stronger cluster of agricultural engineering and bespoke manufacturing in the region.

Neither of these initiatives would be particularly costly to implement, but both could deliver longer-term benefits that are quite high. A CRI partnership offers the potential to transform production. A design, and bespoke engineering and manufacturing cluster has the potential to take an existing strength and build it into a stronger earner for the region.

Timeframe:	2-3 years
Cost:	Low to Moderate
Degree of Difficulty:	Moderate
Likely Return:	Very High – but research is uncertain

10.7. Tourism and the visitor industry

The number of nights that visitors spend in the region is equivalent to an additional normally resident population of just under 10,000 people. This is broadly equivalent to the population of Havelock North.

Whilst the front-line jobs in the visitor industry are typically low paid (cleaners, waiters and bar staff etc.) the visitor industry supports a wide range of consumption that directly benefits retailers including petrol stations, supermarkets, restaurants and bars, vineyards. The visitor industry also supports a far wider group of service workers and business professionals. Supply chain beneficiaries of the visitor industry include: wholesale businesses, commercial laundries, bakers, butchers, food processing, electricity supply, etc.

In the context of a region with very low population growth one of the easiest ways to sustain and grow local demand will be to attract visitors. Between 2000 and 2008 Hawkes Bay was able to increase visitor nights by more than 50%. A range of factors have contributed to this but significant contributors have been event tourism (including the Mission Concert and sports events) and the expansion and attraction of the wine industry. Since 2008 visitation (visitor nights) to the region has declined, but cruise ship related day visits have grown rapidly.

In many respects tourism is a fashion business. To maintain and grow market share the tourism product and offerings of a region must remain on trend, fashionable and attractive. Publicly owned facilities contribute significantly to the range of visitor attractions in the region. For a range of reasons some of the key public tourism attractions in the region have been closed or undergoing work. Key tourism sector personnel consider that some regional attractions are a bit tired and no longer offer a visitor experience that is attractive for the target markets of the region. Both of these factors will have contributed to the challenges faced by the visitor industry.

Another major factor in the ability of a destination to compete for market share is its visibility to consumers. Hawkes Bay now has a stable and well-regarded regional tourism organisation but over the last few years there have been a succession of organisations charged with marketing the region with major discontinuities between them. Building and maintaining the sort of marketing presence that will be required to put Hawkes Bay back on the map and for it to be considered a fashionable destination will require a commitment to sustained and long term marketing and promotion and continuity of consumer messaging.

In addition to the institutional changes surrounding tourism promotion Hawkes Bay has also lost share of voice in its ability to purchase and drive relevant advertising and promotional activity. Hawkes Bay Tourism currently receives \$850,000pa from the Hawkes Bay Regional Council and a small amount of additional funding from tourism operators. In addition to this funding Napier City Council separately funds promotional work through the Art Deco Trust and the “Time of Your Life” campaign designed to attract new residents.

From a 2010 survey of funding for regional tourism organisations it is apparent that Hawkes Bay Tourism’s budget is understandably well short of the multi-million dollar funding for Positively Wellington Tourism, Christchurch and Canterbury and Auckland. However, its budget is also less than a number of regions that are competitors, including: Queenstown, Dunedin, Southland, Bay of Plenty, Taupo, Rotorua, Manawatu, Nelson-Tasman, and Northland. If Hawkes Bay is to compete effectively for market share and grow its visitor industry it will need to increase its share of voice in the market place and make a long-term commitment to a single region-wide promotional strategy that recognises the range of interests and activities that there are in the region.

In order to maximise the impact of marketing and promotion activity it is critical that information about the range, nature and availability of Hawkes Bay tourism product is readily available to consumers. iSite offices are a key element in the distribution of local product

information and in selling products to visitors once they are in the region. In many regions the regional tourism organisation manages the iSites to ensure that there is seamless presentation of regional information and product across all marketing channels. iSites in other regions also have obligations to present information and product from Hawkes Bay. There would be merit in Hawkes Bay Tourism taking over management of the region's iSites to maximise the impact of regional marketing and up sell product as much as possible.

The review team consider that the most significant opportunities to enhance the tourism product range within the region relate to the domestic holiday market, events, the meetings and conference market, and the potential for enhanced great walk or other guided experiences that offer an authentic Maori cultural experience associated with the stunning beauty and setting of Lake Waikaremoana and Te Urewera National Park.

The Mission Concert has demonstrated the attraction of the region and the particular outdoor concert and experience that Mission Estate has offered. There are opportunities to build around that event to increase the length of stay of visitors to the concert. There is also an opportunity for other (probably smaller) outdoor music events that attract strong domestic visitation. The region has also made significant progress in attracting and hosting domestic sports tournaments. This is a significant market that offers a variety of quite manageable events through out the year. The region has sufficient sports infrastructure to be a cost effective and attractive destination for this activity and could do more to host national championships, etc. Lastly, there is a considerable national market in the small to medium sized meetings and conference market. The mix of wine tours and fine dining experiences that the region offers are particularly attractive for corporate travel and entertainment and can provide useful adjuncts to conferences. The prime limitations to developing this market will be the availability, quality and size of good hotel accommodation, and the size of available conference facilities.

Summary: Tourism and the visitor industry

The region has the ingredients that are necessary to expand its visitor market. To be effective it will need to commit to a shared vision for the development of the sector, adequately resource the promotion of the region, commit to a long term, single-minded regional marketing and promotion strategy, integrate the iSites with regional marketing efforts, and work to develop some new product and experiences that will make the visitor experience richer and more aligned to the interests of holiday-makers.

This is a relatively low cost initiative that will offer quite immediate moderate to high returns. This initiative will also support any work to brand regional produce and take Hawkes Bay products more directly to consumers

Timeframe:	2-3 years
Cost:	Low
Degree of Difficulty:	Moderate
Likely Return:	Moderate /High

10.8. Community development initiatives

In order to address both the economic performance of the region and the social issues that it faces it is important that initiatives do not focus solely on wealth creation. The experience to date within the region is that the drivers of economic performance are not necessarily delivering benefits to all. The trickle down of economic benefits has been slow, or non-existent for some. For some communities the impact of falling GDP has been rapid and substantial. The particular geographic clusters of disadvantage and the specific groups of people that are dealing with inter-generational unemployment and disengagement from the productive economy suggest that a range of specific community development initiatives will also be important.

Adopting a community development focus requires all of the agencies that work with and for a community to work together, at a community scale to align their efforts and work toward specific goals and transformations. Key elements of community development approaches include work to improve pride and self worth, work to enhance the physical environment in which people live to foster pride and engagement, initiatives to build social capital through increased ownership and participation in community activities, actively working to place people in jobs, building stronger community engagement around schools to foster on-going learning and skill development, moving from a deficit model of engagement to an enabling and empowering model that supports individuals and communities to realise their potential. Aligning government agencies (in particular MSD, Work and Income, the District Health Board, Housing New Zealand, and the Police) with each other and with local authority activities are essential elements in a community development model. However, a community development approach is not about government “fixing a problem” it is about empowering people and the community to realise their potential. Success is therefore equally dependent upon leadership from within the community and their determination to make a difference.

Visible evidence of a strong community development model includes: zero tolerance for graffiti and vandalism and a graffiti free urban streetscape; zero tolerance for litter and waste; mainstreet programmes designed to lift the street appeal and friendliness of shopping areas; street planting and maintenance of public spaces that show that people care about the place and its people; engaging people and groups to adopt and care for key parts of their streetscape and community facilities; support for the development of specific local events and festivals that build a sense of community and encourage vibrancy; and institutional responses that support and reinforce community initiatives.

Community development approaches have been successfully implemented in a number of jurisdictions. The New York no broken windows approach has been well documented. Within New Zealand there has been substantial focus on crime prevention through urban design. Prior to amalgamation Manukau City Council demonstrated the significant benefits of co-ordinating whole of government approaches to social problems and community development. The Tamaki initiative in Auckland is a particular application of a multi agency approach to addressing considerable and widespread issues within a community development framework.

A number of stakeholders noted the particularly poor quality of significant parts of the Housing New Zealand portfolio in the region. Poor housing is a major contributor to poor health outcomes and poor learning outcomes for children. There may well be opportunities to address this by adopting an integrated approach similar to the Auckland Tamaki initiative. Whilst many stakeholders noted the levels of deprivation in both Wairoa and Flaxmere these are not the only communities that are struggling. There is significant deprivation in parts of Napier City, and also in a number of the smaller rural townships within the region.

Most community development initiatives are undertaken on very modest budgets. The critical success factor is leadership. Leadership is required to ensure that all of the public agencies are engaged and have committed to the approach. Leadership and vision is required to identify and engage with the leaders within the community and provide the scope for them to be effective

contributors. Leadership is required to provide licence to public agencies to develop new responses to problems and to realign resources to where they will make the biggest difference.

Within the local government framework of New Zealand community development initiatives are most sensibly delivered by city and district councils. The Mayor is normally a key figure in acting as the champion of the initiative and securing alignment of government agencies frequently requires the significant attention of the Chief Executive. In keeping with the concept of empowering communities to chart their own future it is also proper that where they exist Community Boards play a significant role.

Summary: Community development initiatives

There are a range of very cost-effective initiatives that the region's city and district councils could implement to support the development and empowerment of communities that suffer from considerable disadvantage. Community development initiatives include work to: improve pride and self worth; to enhance the physical environment in which people live; build social capital through increased ownership and participation in community activities; place people in jobs; and build stronger community engagement around schools. Community development initiatives require agencies to move from a deficit model of engagement to an enabling and empowering model that supports individuals and communities to realise their potential. The dividends of these approaches in engagement, pride and inclusion can be substantial. The greatest challenge in implementing community development programmes is leadership.

Timeframe:	2-5 years
Cost:	Low for facilitation Moderate for infrastructure and operating costs
Degree of Difficulty:	Moderate
Likely Return:	Moderate /High

10.9. Performance of local government

A large number of the stakeholders that the project team engaged with raised questions over the structure and performance of local government within the region. The main themes of their comments related to the apparent fragmentation of decision-making, the cost to the community of engaging with multiple councils, inexplicable differences in regulatory frameworks between the councils, conflicting views on the need for and the location of regional infrastructure, the potential for administrative efficiencies and savings through increased scale, and a lack of leadership.

To put it in context, public administration in Hawkes Bay accounts for just 3% of regional GDP. The combined total direct annual operating expenditure of the five local authorities is \$243.7m. Whilst the impact of the sector is disproportionate because of its regulatory role it is important to remember that central government expenditure in the region is considerably larger (\$392.9m on health alone). The importance of securing alignment of government expenditure with regional strategy is discussed elsewhere.

Few of the initiatives discussed in this report require significant investment from local authorities. Indeed most of the initiatives require major investment from the private sector. The key role of local government in assisting the region to implement the range of initiatives discussed here will be through transformational leadership. The significance of leadership is discussed further below, but the litmus test relating to the performance of local authorities must be as much (or more) about leadership as it is about functional and administrative efficiency.

There is an active debate within the region over the potential for local government reorganisation or amalgamation. Most of that debate has concentrated on Napier and Hastings and the regional council. This is understandable because these are the largest councils. Napier and Hastings administer the areas of the region that have grown, there is a regional history of tension between the leadership of these two communities, and they are home to the overwhelming majority of the population of the region. However, the two councils that face the most significant long-term challenges are Wairoa and Central Hawkes Bay.

Looking ahead the issue that few of the stakeholders were focused on was the challenge of the cost structure of local government over the long term. As noted in Section 3.5 the combined rates take of the five Hawkes Bay councils increased from \$92.8m to \$139.8m (50%) between 2003 and 2011. These increases were consistently above both the CPI and the NZTA Maintenance Index. Over this same period the regional economy grew by 9.5%, unemployment increased 48% (Hawkes Bay and Gisborne combined) and the rate of unemployment increased from 5.4% to 7.3%. The combined effect of the councils' long term plans is to increase rates revenue across the region by on average 3.7% per annum over the next decade. This is higher than the BERL Local Government Cost Index that is used to inflate costs over the period (3.2% per annum on average). All councils are planning rates increases of more than 4% in one or more of the next three years. It must be questionable if the community can sustain on-going public sector cost increases faster than both the growth of the domestic economy and nominal wages. The region will need to address the underlying cost structures of its local authorities.

There are a number of ways in which the performance and contribution of local government to the development of the region could be enhanced. These options are discussed below.

10.9.1. Shared Services

McGredy Winder & Co has previously provided advice to the Hawkes Bay Regional Council relating to opportunities for shared services. Without repeating that advice here, there is considerable scope for shared services within local government. The greatest opportunities relate to back-office activities, and the service delivery functions that councils have in

common. The greatest areas of common service provision are in the services provided by the region's four territorial authorities.

To implement shared systems councils must adopt an agreed framework for a shared systems platform, including the standards, operating philosophy, enterprise architecture and the protocols necessary for foundation information systems. There is potential for many councils to operate the same core systems, including financial management, document management, asset management, GIS and rating. The opportunity for cloud based computing solutions also make possible the rationalisation of the hardware and teams currently devoted to the separate systems operated by each council.

In addition to core business enterprise systems local authorities use a number of significant "applications" that support the specific functions of local authorities. Some council applications are substantial systems in their own right, with their own potential for significant savings and their own potential development path from shared systems to service integration. Standardising applications will deliver direct benefits in each area of council operation. Examples of the "applications" where there are potential benefits from shared systems include: library systems, land and building information systems, consents systems, environmental health systems, and animal control systems.

The range of services that can deliver benefits from joint or integrated delivery includes: the back-office functions associated with finance and treasury, GIS analytical and data maintenance functions, the collection and maintenance of rating and valuation data, all aspects of the rating process (including property valuation, producing and distributing invoices, collecting payments and operating multiple channels for payment, and debt collection), payroll services, HR services, mail and archive services, contact centre services, legal services, CCTV monitoring, traffic management, building consents, environmental health, and resource consent processing.

Securing the potential benefits of shared services is difficult and requires the adoption of common management practice, common and standard business processes and systems, and ways of ensuring that the competing needs of the authorities sharing the service are all met effectively.

Even if the existing councils simply adopted the business processes and systems of one council and extended that approach across all of the others a shared service will require specific investment to scope, tailor and implement, and there will be costs associated with the transition from existing systems or services to new ones. The size of those costs will vary depending upon the service under consideration. If the councils of the region wished to pursue a shared service agenda then considerable work would be required to scope the specific services and the cost and benefits of adopting a shared service approach.

There have been relatively few published assessments of the benefits that have been secured through shared services. However, it appears that for back-office related services savings of between 3% and 9% per annum are possible if there is a real commitment to driving change. The combined council support expenditure of the councils is \$35.7m per annum. Potential savings from back office shared services across all councils could therefore be in the range of \$1m to \$3.2m per annum.

It would not be possible to achieve the same potential level of savings through shared services in areas of council service delivery (like roading) where the overwhelming majority of the expenditure is with external contractors. In these areas there may be savings through increased scale of purchasing and better co-ordination of work to minimise the downtime of contractors.

Total local authority annual operating expenditure is \$243.7m. Assuming that it was possible to achieve savings in the order of 3% to 5% across all council operations the maximum potential impact of a complete shared services approach would be between \$7m and \$12m per annum. That is equivalent to between 5% and 8% of total rates.

The opportunity for shared services has existed for many years. For many reasons little progress has been made to deliver significant shared services within the region. The incentives for collaboration are weak and for it to be successful organisations need to be willing to cede some of their independence and sovereignty. It is unlikely that the region could secure the potential benefits of shared services without a major and enduring commitment from both political leaders and Chief Executives.

10.9.2. More Effective Collaboration and a Hawkes Bay Plan

A second possible area for working to improve the delivery and impact of local authorities within the region would be to focus on a stronger collaborative approach to local governance. The cornerstone of this option would be to enhance co-ordination of regional strategy and policy and to ensure that a Hawkes Bay vision and plan is translated into both the regulations and the activities of the existing councils. One of the key requirements of this approach would be to ensure that council regulatory frameworks are responsive to development opportunities.

There are a number of collaborative frameworks already within the region. The Regional Land Transport Committee, the regional council's new Joint Committee, the collaborative development of the Heretaunga Plains Urban Development Strategy are all noted earlier in this report. There is considerable scope to broaden the areas in which the current councils collaborate.

This report sets out a range of initiatives that the region could pursue to lift the economic and social prosperity of the region. The initiatives provide a sense of what could be included in a comprehensive regional development strategy that could be drawn together in the Hawkes Bay equivalent of the Auckland Plan. Securing agreement and alignment of council efforts to implement a jointly agreed plan for the region would be significant step toward achieving the benefits of scale in local government without the cost of transition to new institutional arrangements.

To be effective any agreed Hawkes Bay Plan would need to be translated into relevant regional and district policy statements, plans and rules under the Resource Management Act. The other logical step would be to focus efforts on ensuring that the councils have the capability, capacity and approach that is necessary to ensure that they can respond to development opportunities. In other areas this sort of approach has involved the development of specialist teams and facilitators or "account managers" that can ensure that everything that can be done to get timely decisions in relation to agreed strategic priorities is done.

The benefit of this approach is that it focuses the combined efforts of the local authorities on the key strategic issues that will make a difference for the region. This sort of approach is low cost, but the benefits that it can deliver will be limited to the ability of the councils to reach a meaningful agreement on strategically important initiatives and then actually implement what is agreed.

The experience of this sort of collaboration in New Zealand is mixed. In the western Bay of Plenty this sort of collaboration through the Smart-Growth Initiative has a substantial track record of success. In marked contrast collaborative efforts of this sort in Auckland prior to amalgamation produced eloquent strategies that were seldom implemented by all of the

participating councils.

In the absence of any broader reorganisation or reform of local authorities this option provides the greatest opportunity for the local authorities of the region to provide leadership and progress a truly regional development agenda.

10.9.3. Key investments

The councils of the region collectively enjoy quite strong balance sheets. The regional council in particular has substantial assets and is now working to use the strength of its balance sheet to drive projects that will enhance the economic performance of the region. The sort of investment planned by the regional should provide substantial long-term returns to the region – both through increased production and through a direct return on the investment.

Other councils within the region have healthy balance sheets. Wairoa has no term debt and around one year's worth of operating income held as current assets. Napier City has progressively paid down its external debt and also holds substantial current assets. Even Hastings District (which holds the highest level of debt of all of the councils) has quite modest levels of debt in relation to other New Zealand local authorities.

It would be possible for the councils of the region to make more active use of the resources that they have at their disposal. There are valid reasons that have delayed Napier City from making planned upgrades to key parts of its visitor infrastructure. However, planned upgrades and enhancements to Marine Parade and related attractions would be an important component of a more aggressive regional tourism strategy.

Another key area where the territorial authorities could usefully deploy resources is in the area of community development. As is discussed in Section 10.8 local authority engagement in broad community development initiatives in the communities with the greatest levels of deprivation could be an important component of a regional development strategy.

10.9.4. Increased Regional Role – Transfer of Responsibilities

As identified in Section 8 the most pressing infrastructure issues in the region relate to the wastewater networks and treatment facilities of Central Hawkes Bay and (in the future) Wairoa. One way of addressing these challenges would be to provide for a transfer of responsibilities from territorial authorities to the regional council. With the agreement of both parties there would be no legislative impediment to the transfer, for instance, of wastewater networks and wastewater treatment from either or both of Central Hawkes Bay and Wairoa to the regional council.

The advantages of such a transfer would be that it: aligns within one organisation greater responsibility for water management; provides a mechanism to spread or equalise the costs of providing wastewater over a larger constituency (including those who benefit from improved water quality); provides the ability to use the strength of the regional council's balance sheet to support much needed infrastructure; and enables one organisation to deal with the environmental consequences of managing the impacts of the major sources of nitrogen within significant river systems.

There is a rationale for this sort of transfer of responsibilities where there is scope to build on, or establish, a critical mass of professional skills and capabilities. The regional council is the centre of expertise related to water management and treatment. The same rationale could be extended to other forms of infrastructure – but the arguments for the regional

council taking on the responsibility would be weaker.

One of the benefits of this approach is that it has relatively little cost and can be achieved relatively rapidly within the existing framework of the Local Government Act without recourse to any external decision-making body.

10.9.5. Rural Amalgamation

One of the major concerns that stakeholders identified with respect to the performance of local authorities and possible local government reform was the potential for the rural voice of the region to get lost. A number of stakeholders cautioned strongly against changes that would diminish the strong rural focus of the regional council. Their caution was simple, they noted that despite its very large rural area, Hastings was in their eyes an urban authority, dominated by an urban population, where urban issues dominated politics and where it is difficult to remain connected to the primary economy that supports the region.

One way to drive improved local authority outcomes and ensure that there is a strong focus on rural issues would be to amalgamate the regional council with Wairoa and Central Hawkes Bay Districts to create a council that was a unitary authority in those rural districts but continued to perform the role of a regional council elsewhere in the region.

A possible amalgamation of this nature has not previously been contemplated in New Zealand, but there would be no statutory impediment to reform of this nature. The advantages of this approach would be that it provides a strong rural focus for the region that can focus on both the region's major environmental issues and on the primary economy that supports the region. It would address the areas of greatest weakness in capability and capacity amongst the local authorities and provide a platform for leadership.

This option has the same sorts of benefits and risks as discussed in Section 10.9.6 relating to a complete regional amalgamation. However, because it is a smaller change this option would not deliver the scale of benefits that would be possible through a substantial region-wide shared services approach, or a regional amalgamation. The risks and costs associated with this option are also commensurately smaller than for a complete regional amalgamation. This approach would not deliver the quantum change in leadership that would be possible through the creation of a single Hawkes Bay Council.

10.9.6. Regional Amalgamation

A large number of stakeholders advocated for the amalgamation of local authorities. Interestingly, the focus of this discussion was Napier City, Hastings District and the regional council. One of the very strong conclusions that the project team has come to is that the region is far bigger than just Napier and Hastings. Central Hawkes Bay and Wairoa are an integral part of the regional economy. Whilst Wairoa may (with some justification) consider itself to be less closely linked to the region than Central Hawkes Bay, in a functional sense it is part of the Hawkes Bay economy. Local government reform that does not include the two small rural councils fails to address some of the most significant local government issues facing the region.

The advantages of the establishment of a single Hawkes Bay Council would be that it: establishes a single voice and a focus of leadership for the region; provides the platform for a deeper and more manageable relationship with government and a means to align government expenditure with agreed regional priorities; provides the greatest scope to address the cost structure and performance of local government; provides the greatest scope to attract and retain highly skilled professionals; and maximises the scope to use the considerable,

combined financial strength of the local authorities.

The disadvantages or challenges of amalgamation on this scale are: the cost of transition and harmonising business systems and processes; the risks associated with the loss of key staff and institutional knowledge; the potential for major service disruption during the change process; the potential loss of focus on rural issues; and the time and effort that is required to secure the benefits of change and the possible opportunity cost that that imposes on the region through inability to concurrently address other issues.

In the context of the Hawkes Bay one significant risk from an amalgamation process of this scale would be that the level of management time and engagement in transition detracts from, or compromises the delivery of the Ruataniwha water storage project. The benefits to the region from the water storage project probably eclipse the potential hard measurable savings from amalgamation by a factor of 10.

Any merger is challenging. It requires on-going effort to secure benefits and to ensure that the new organisation is not simply the product of the highest cost and lowest productivity approaches of the original organisations. Having said that, an amalgamation of the five Hawkes Bay Councils would be of a different scale than the Auckland amalgamation. The combined staffing of the current councils is in the order of 1,000 and total annual operating expenditure is around \$250m. At this level a single Hawkes Bay Council would be larger than the current Hamilton or Dunedin City Councils, but it would be smaller than Wellington City Council and the previous North Shore and Waitakere Cities.

10.9.7. Considerations

The Local Government Act and the Amendment Bill currently being considered by Parliament establishes a framework for considering possible local government reform. At its core the Act requires changes to enhance effective local governance. Cost effectiveness is only one of the factors that will need to be considered in evaluating potential local government reform in Hawkes Bay. Other significant issues will be the balancing of the cost and time taken to implement change, the net benefits that can be delivered, the scope for effective representation (and in particular effective rural representation), and the scale and scope that would be created and its ability to help to deliver improved prosperity.

Above all the review team consider that there are two key considerations for Hawkes Bay. The first is that anything that undermines or compromises the delivery of the Ruataniwha water storage scheme would be a major loss for the region. The second is that any change must first and foremost provide the framework for effective regional leadership that ensures that the sort of development initiatives discussed in this paper are possible.

Summary: Performance of Local Government

This paper identifies 6 options for improving the performance of local government:

- Shared Services;
- More Effective Collaboration and a Hawkes Bay Plan;
- Key investments;
- Increased Regional Role – Transfer of Responsibilities;
- Rural Amalgamation; and
- Regional Amalgamation.

These options vary in scale, complexity, costs and benefits. In comparison with the other development initiatives presented in this report the benefits and costs of the local government reform options range from being quite small to being moderate. All of the options presented would take between 3 and 5 years to deliver the full value of potential benefits. The possible longer-term financial returns that are possible are probably in the order of \$3m to \$25m per annum, depending on the option pursued. The costs of transition for the more complex amalgamation options, and for a significant shared services platform have not yet been identified but will be moderate in comparison to the costs for the other possible development initiatives.

- Timeframe: 3-5 years
- Cost: Moderate (for transition)
- Degree of Difficulty: Moderate / High
- Likely Return: Moderate

10.10. Contribution and alignment of central government investments

As is identified above, central government expenditure is both substantially greater than that of local government, and focused on activities that are key for the long-term social and economic well being of the community. Health, education, welfare, transport and justice and law enforcement are critical elements of the community. Being able to align this expenditure and effort with the efforts and investments of the community and individuals has the potential to significantly increase the impact of both government and local authority expenditure.

The opportunity for a community development approach focused on areas of particular need is one way in which the region can work with government agencies to increase the effectiveness of their joint initiatives. However, there is a higher-level opportunity to make the most of possible government commitments to the region. As is noted in section 10.1, the government is quite likely to use some of its new Future Investments Fund to invest in the proposed Ruataniwha water storage scheme. That investment provides the opportunity for a broader, strategic engagement with the government on the economic and social development of the region and ways to mutually support better outcomes. Government agencies could play a helpful and supportive role in developing and contributing to the implementation of many of the initiatives identified in this report. In particular, government funding will be required to implement the training and labour force development initiatives needed to address the labour force requirements of the region.

Following the local government reforms in Auckland there has been a significant and meaningful engagement between government and the Auckland Council over the vision for Auckland – the Auckland Plan. Government officials have been actively engaged in the process of developing the Auckland Plan and government has formally responded to the Plan. The government has agreed to most aspects of the plan. There are areas of difference that are significant relating to the balance of urban intensification and green-fields development and the balance of investments that are to be made in key transport infrastructure. However, in almost all other respects there is a high level of agreement on the strategy for developing Auckland. This is the first time that there has been such high level agreement on the vision for Auckland. If this agreement on vision can be translated into investment the difference on the ground will be very visible.

The water storage project, and the region's focus on economic development provide a strong platform to engage with government to get an agreed Hawkes Bay Plan – that provides the framework for both central and local government investment and programmes and greater certainty to investors. The regional council is currently working with the government very effectively on the core of the water storage project and ways to increase primary production. This relationship is important but the breadth of opportunities for aligning government activity is greater than the areas in which the regional council has responsibilities.

There are two critical factors for this approach to be successful. Government must have the will and the capacity to engage with Hawkes Bay, and the region must have the capacity and cohesion to engage with government in a meaningful way.

To support its engagement with Auckland government maintains a core Auckland policy capability that includes people from many core departments. This hub of policy expertise is the most significant government policy capability outside of Wellington. There is no equivalent capacity in any other region, however the Ministry of Primary Industries is focused on the potential for water storage and could provide the core of an engagement with the region. The other major government department that would need to engage in any joint work on the future of Hawkes Bay is the Ministry of Business, Innovation and Employment (MBIE). MBIE could be very important to the development of the possible initiatives relating to training, applied research and development, maximising the value add from increased production, and transforming the sale and distribution of produce.

The region's ability to engage meaningfully with government will either be a product of the region's local authorities working together to present a single, united approach – or the product of a more dramatic amalgamation of local leadership.

Summary: Contribution and alignment of central government investments

The potential return from alignment of government resources on an agreed development plan for the Hawkes Bay is high. The cost of securing that it low – other than that to do so Hawkes Bay must be able to present to the government a single, united approach and the capacity and cohesion to engage with government in a meaningful way. That cohesion does not currently exist.

Timeframe: Less than 2 years

Cost: Low

Degree of Difficulty: Moderate

Likely Return: High

10.11. Retirement destination

The Hawkes Bay is attractive as a retirement destination. It has a great climate, quality health care, is easily accessible and has already proven its ability to attract and retain retirement age people. As New Zealand's population ages there will be continuing demand for quality retirement living and opportunities to attract people with capital into the region. The next generation of retired New Zealanders will be quite different from those who have gone before. They will be considerably more active and engaged, they will tend to be wealthier, and they will have a long life expectancy in retirement. This means that they will be seeking considerable opportunities to be active and engaged in a wide range of activities – including productive contributions to the community and the economy.

The region will be more attractive to people with historic or family connections to the area than to those with no connection to it. Without overstating it, residents who move to Hawkes Bay to begin retirement will bring with them capital and energy to contribute to the region.

Historically Napier has worked to attract migrants of working age to their city. This strategy appears to have had mixed success. A possible and valid strategy for the region would be to seek to actively attract those approaching retirement. To achieve this the region would need to focus on a range of services, activities and opportunities that would be attractive to the active, wealthy and energetic population who are looking for the opportunity to break from work – but will still be seeking an active lifestyle, and opportunities to be engaged in interesting ventures and/or community activities.

Lifestyle opportunities associated with meaningful rural production – or with shareholdings in rural production or regional assets (like the dam) may be significant ingredients in being able to put together an attractive package for those nearing retirement age. The opportunity to invest in productive activity and enjoy a great lifestyle will appeal to a segment of the urban population that are seeking to have completely new experiences in retirement. The mix of primary production and other activities in the Hawkes Bay could be packaged to deliver a variant on the golf course village or aviation park concepts that has been used elsewhere to support lifestyle development.

It will be important to demonstrate the range of support, health care and other residential care options that will be available as people age and become more dependent on assistance. This may require innovative work with those businesses currently providing retirement homes to consider new forms of product that would appeal to the younger, wealthier, and active, recently retired population.

Whilst this strategy may appear counter-intuitive given the demographic challenges that the region faces this, and tourism, would be comparatively easy ways to grow local demand and increase the breadth of job opportunities within the region. Attracting people with capital reduces the need for the region to generate wealth itself. Given the time that it will take to realise the benefits of some of the more structural options identified in this report this approach offers the prospect of some more rapid changes. This approach also works to reinforce an existing trend. It is always easier to increase and reinforce an existing trend than to attempt to move against the trend.

Summary: Retirement Destination

The region has the potential to increase local demand and attract capital by attracting the younger, wealthier, and active, recently retired population. The combination of lifestyle and the opportunity to become involved as active investors in the economy could, along with tourism, be the easiest way to increase demand within the region. This sort of initiative would be relatively low cost, but require innovative work with the private sector to package attractive opportunities. This sort of initiative would be challenging and there would be some risks with it. The potential benefits are moderate to high in comparison with other projects.

Timeframe:	3-5 years
Cost:	Low / Moderate
Degree of Difficulty:	Moderate / High
Likely Return:	Moderate / High

10.12. Harnessing regional assets – the Hawkes Bay Power Consumers’ Trust

Unison is a major company within the region. It owns, designs, manages and operates the electricity network that serves the Hawkes Bay, Taupo and Rotorua regions. The network spans over 9,000km and supplies over 108,000 connected customers with approximately 1,678 GWh of electricity per annum. Unison maintains and operates the Central Hawkes Bay lines network on behalf of Centralines Ltd.

Unison is one of the larger electricity distribution businesses in New Zealand. It employs 130 staff. For the year ended 31 March 2011 Unison delivered EBIDA of \$62.4m and a net profit after tax of \$18.5m. On equity of \$289m the after tax profit marks a 6.4% return on shareholders funds. For the year ended 31 March 2011 Unison paid a dividend of \$8.76m to its sole shareholder the Hawkes Bay Power Consumers’ Trust. After expenses the Trust distributed \$7.349m to power consumers within the supply area of the previous Hawkes Bay Electric Power Board. The tax paid dividend equates to \$100 per customer.

The Hawkes Bay Power Consumers’ Trust was established in 1993 and operates under a Trust Deed. The Trustees are elected every three years and hold all of the shares in Unison. Under the terms of the Trust Deed the Trustees hold the shares in Unison “upon trust for the benefit of consumers”. The Trustees have a range of obligations to regularly consider the ownership of the shares, the distribution of income from the shares, and as appropriate the distribution of the shares themselves. At each occasion since 1993 when the Trustees have been required to consider the disposal of shares in Unison they have decided to retain them in the ownership of the Trust.

When distributing income the Trustees must choose to distribute it “to or for or otherwise howsoever for the benefit of Consumers or such one or more of them to the exclusion of others or other of them in such manner and in such shares and proportions as the Trustees in their absolute discretion may consider proper.”

The Trust will exist until 2073 when it must distribute the shares and any income from the shares that it has retained “to or for or otherwise the same for the benefit of the Consumers in such manner and in such shares as the Trustees shall in their absolute and final discretion consider fair and equitable.”

The work of the Trust and Unison has created a substantial regional asset. It is a major contributor to the regional economy and has substantial business interests outside the region. Decisions by successive Trustees to retain the public ownership of Unison have created significant benefits for the people of the region. The local ownership of Unison ensures that the economic benefits of its activities are retained locally.

Given the opportunity to make other regional assets work harder in the interests of the region, and the opportunity to develop new regional assets that will expand the regional economy, the obvious question is whether assets of the Trust could work harder for the benefit of the region. It may well be that the region, and ultimately the power consumers, would be better off if some, or all, of the dividends that Unison pays were devoted, for a period of time, to building up and improving the performance of other regional assets.

For example, based on an equity valuation the Crown interest in the Hawkes Bay Airport would be worth about the same as one year’s distribution to consumers. The Crown will, in the long term, be a poor partner in the airport. It will have little interest in actively pursuing the development of the company and has no incentive to work to build the market share of travel to the Hawkes Bay at the expense of other regions – where the Crown also has an ownership interest.

Alternatively, annual distributions of \$7m would be sufficient to finance a large ownership stake in any regional water storage project. If the Trust was able to support the regional ownership of the proposed Ruataniwha dam it could ensure that the long-term benefits of this investment are secured for the people of the region – its consumers.

Summary: Harnessing regional assets – Unison and the Hawkes Bay Power Consumers' Trust

The Hawkes Bay Power Consumers' Trust owns Unison on behalf of consumers and distributes around \$7m per annum to consumers as a tax paid dividend. Unison is a key regional asset. In the longer-term energy consumers may be better off if some, or all, of the dividends generated by Unison were used to build up and improve the performance of other regional assets. Making the best use of the region's resources is an important part of any comprehensive regional development strategy. The direct cost of any different distribution of dividends would be to those consumers who currently receive \$100 a year from the Trust. Depending on the investments made the longer-term return to consumers could be higher. The difficulty of this initiative will be in changing perceptions and expectations of the role and distributions of the Hawkes Bay Power Consumers' Trust.

Timeframe:	Less than 12 months
Cost:	Low money cost – more changing community expectations
Degree of Difficulty:	Moderate / High
Likely Return:	Very High

10.13. Petroleum, Oil and Gas

A number of stakeholders noted the potential significance of oil and gas reserves in the Hawkes Bay associated with the Eastern Basin. Stakeholders also noted the current debate over the use of hydraulic fracturing to extract shale oil and gas. Recent efforts to undertake further prospecting within the region have prompted a public debate over the merits and potential risks of exploration and extraction of petroleum, oil and gas within the region.

The Hawkes Bay forms part of the East Coast Basin. This area comprises 120,000km², both on-shore and off-shore, extending from the north eastern tip of the South Island, up the east coast of the north island including the area to the east of the ranges from Wellington, through the Wairarapa, through the Hawkes Bay and Gisborne and north east out into the Pacific Ocean. The basin also extends to the southeast into the Pacific Ocean along its entire length. There have been 40 wells drilled in this East Coast Basin since the 1870s. Most of these wells have had shows of oil and gas. A drilling campaign by Westech in the 1990s discovered a sub-commercial high-pressure gas field in fractured limestone at Kauhauroa. Other offshore drilling by BP, Shell, Aquitaine and Todd Energy in the 1970s, and by an Amoco-led consortium in the 1990s showed promise.

The Ministry of Business, Innovation and Employment, New Zealand Petroleum and Minerals Group consider that the East Coast Basin contains New Zealand's most promising shale oil sources. They also advise that the Waipawa Black Shale and Whangai formations within the basin compare favourably with the Bakken and Barnett shales of North America. Whilst the East Coast Basin is geologically complex the New Zealand Petroleum and Minerals Group consider that it has the potential for large-scale petroleum accumulations of conventional oil and gas. Off shore, the East Coast Basin is also part of New Zealand's most economically promising gas hydrate area – the Hikurangi Margin. Initial estimates of the gas within the Hikurangi Margin are around 20 trillion cubic feet. To put that in context the Maui Gas Field has to date produced 3,334.1 billion cubic feet of gas.

The local economic benefits of a petroleum industry can be significant. Venture Taranaki estimated in 2009 that the Taranaki oil and gas industry (the only commercial production area in New Zealand) generated 5,090 direct and indirect fulltime-equivalent jobs.

Obviously, the extent of actual commercially viable oil and gas reserves within Hawkes Bay can only be determined by a programme of prospecting and exploration. There are currently two live on-shore exploration permits – one around Wairoa and one covering an area of 2,565km² running to between Dannevirke, Waipukurau and the sea. Two other permits for on-shore exploration have been applied for. Together they cover just under 4,000km² running to the east of the ranges from the south of Dannevirke to the north of Napier.

It appears that as a result of vocal concerns over the possible effects of hydraulic fracturing on-shore exploration within the region may have been abandoned for the time being. The potential impact of hydraulic fracturing is now the subject of national inquiry. Without pre-judging that inquiry it seems that without further exploration the region would have little idea what resource there actually is, whether or not hydraulic fracturing would be required to extract it, and if so what the possible impacts may be. The New Zealand Petroleum and Minerals Group assessment of the East Coast Basin notes significant potential for conventional oil and gas deposits that would not require the use of hydraulic fracturing techniques. Equally, the potential impact of any oil and gas extraction will depend upon the specific nature of the geological structure involved and the particular extraction method to be used. Without understanding the nature of the resource it will be difficult to determine whether potential risks can be effectively managed, and whether, with the required risk management approach, the extraction of the resource is commercially viable.

It takes many years to progress from exploration to the commercial development of a deposit.

The Maui Gas Field was discovered in 1969. Full production from the Maui A platform did not commence until a decade later, in 1979. It is possible that there are no currently commercially viable oil and gas deposits within the region. However, it is more likely that within the region there are significant deposits and that utilising them could add a whole new industry to the economy of the region. Without further exploration the region will never know.

In addition to 'promising' on-shore potential the region also abuts the 'promising' offshore areas of the East Coast Basin. The two ports that are most conveniently located to service offshore exploration and production within the East Coast Basin are Napier and Wellington. There would seem to be significant opportunities for the Port of Napier associated with both exploration and in the long-term possible production.

Summary: Petroleum, Oil and Gas

Oil and gas exploration is a commercially risky, long-term venture. It is quite possible that there are significant commercially viable deposits of oil and gas within the region – and certainly within the East Coast Basin. Until exploration of the East Coast Basin takes place the actual scope and viability of oil and gas deposits will not be known.

Timeframe:	5 – 20 years
Cost:	High
Degree of Difficulty:	Moderate / High
Likely Return:	Uncertain but could be Very High

11. Conclusions

The initiatives that are set out in Section 11 are not mutually exclusive, indeed many of them are complementary, or mutually dependent. Some of the initiatives will deliver considerably more benefit than others, and some will be far more difficult to implement than others. The scale of investment (both in effort and capital) required for each initiative is quite different, as is the time frame for securing potential benefits.

In considering a strategy for the development of the Hawkes Bay it is important that a range of initiatives are pursued in an effort to build a virtuous circle of change. Initiatives that reinforce each other and provide the climate for future success are important. It is also important to pursue a range of initiatives that are working on different timeframes. Short-term initiatives can build confidence and a track record of success as well as providing a more immediate return. These need to be implemented along side the longer term, more transformational programmes that will deliver the fundamental step-changes that are needed in the longer term.

Across the range of initiatives identified in this report only two are well developed – the Ruataniwha Water Storage Project and aspects of the Tourism initiative. All of the initiatives will require considerable work to develop them to the point that they can be implemented. Some may prove to be infeasible, or on further evaluation will be discounted.

Table 5 presents an indicative evaluation of the 13 initiatives identified by the project team. There is a cluster of initiatives that form a critical core of a long-term development strategy.

Table 5: Indicative Evaluation of Possible Initiatives

Initiative	Timeframe	Likely Cost	Degree of Difficulty	Likely Return	Importance
Water storage and increased intensive primary production	5+ years	\$250m	High	Very High	Critical
Maximising the value add from increased production	5+ years	High	High	High + Risk	Critical
Transforming the sale and distribution of produce	5+ years	High	Very High	Uncertain - High	High
Skills, improving educational achievement and pathways to employment	3-5 years	Low - Moderate	Moderate	High	Critical
Maori participation and economic performance	5+ - 20 years	Low	High	Very High	Critical
Transforming primary production – applied research and development	2-3 years	Low - Moderate	Moderate	Very High + Risk	Moderate
Tourism and the visitor industry	2-3 years	Low	Moderate	Moderate - High	High (short term gain)
Community development initiatives	2-5 years	Low - Moderate	Moderate	Moderate - High	High
Performance of local government	3-5 years	Moderate	Moderate - High	Moderate	Critical
Contribution and alignment of central government investments	Less than 2 years	Low	Moderate	High	Critical
Retirement destination	3-5 years	Low - Moderate	Moderate - High	Moderate - High	Moderate
Harnessing regional assets – the Hawkes Bay Power Consumers' Trust	Less than 1 year	Low	Moderate - High	Very High	High
Oil and Gas	5 – 20 years	High	Moderate + Risk	Uncertain – Very High	High

Critical elements of a programme to lift the medium to long term performance of the Hawkes Bay are: Water storage and increased intensive primary production; Maximising the value add from increased production; Skills, improving educational achievement and pathways to employment, Maori participation and economic performance; and Contribution and alignment of central government investments.

In addition the Tourism and the visitor industry initiative could be considered an integral part of the core programme, because it offers the opportunity to build momentum through short-term gains. The tourism initiative also has a synergy with any efforts to secure a premium position for produce associated with a regional brand.

Improving the performance of local government is also considered critical – but not so much because of the potential for savings or efficiencies as because leadership and the resources of the local authorities are required as an enabler of the other critical initiatives.

The other initiatives all have potential but would need considerably more work to be confident of their potential.

Looking across the future opportunities that the region has and the initiatives that it could pursue to improve its economic and social outcomes the project team has concluded that:

- There is no escaping the fundamental primary production base of the region's economy.
- There are major opportunities to significantly enhance the future prosperity of the region by increasing production through greater intensification of land use, increasing the value that is added to the region's produce by additional processing within the region and exploring ways of capturing greater value through the way in which produce is taken to market.
- The key to greater production is water management. Major water storage projects (like the Ruataniwha proposal) offer the single biggest opportunity to increase production and capture value within the region.
- There is considerable potential to increase the processing of primary produce within Hawkes Bay off the back of the changes in land use made possible by water storage projects.
- The impact of water storage will go beyond the area of land irrigated and, depending on the nature of land use changes in Ruataniwha could change the viability and earning potential of land with abundant water in Wairoa.
- There are opportunities in tourism and possibly in attracting retirement age residents that could provide more immediate benefits to the region.
- To be successful and to maximise the opportunities that the region has, the region needs to adopt a strategic approach that ensures that all of the necessary elements are in place.
- All of the opportunities depend upon significant private sector investment and building the confidence to invest will be critical.
- There is a significant role for government in contributing to the successful implementation of many of the initiatives that the region could pursue. Securing alignment with government on the vision for the region would be incredibly helpful.
- There is scope for improving the efficiency and effectiveness of local government within the region, however, this is by no means a silver bullet and potential quantifiable savings will be modest compared to the potential benefits of a number of other initiatives.

Overall, the project team has concluded that across all of the issues and opportunities that the

region faces the most important critical success factor is leadership and vision. The region has many skilled and capable people. It has access to capital and has a local authority sector that has immediate access to significant financial resources. What it does not have is a clear sense of vision, or the leadership to harness the resources of the region to make a difference. Leadership within the Hawkes Bay is currently fragmented, and debate over amalgamation seems to have got in the way of effective collaboration.

The one major exception to this is the critical role that the regional council is currently exercising in developing the Ruataniwha water storage project. This is the single biggest economic development opportunity currently available to the region. However, it is a complex and challenging project and it will require all of the resources and capability of the regional council to successfully deliver it.

Generally local government has quite limited abilities to directly influence or drive economic development. However, effective and inspiring community leadership can make the difference between mobilising the community's resources and capabilities to achieve common goals, or muddling along.

It is obvious that within Hawkes Bay there are a wealth of talented people who are passionate about the region and its future. The local leadership challenge is to be able to harness and direct that energy into productive investment, creative industry and innovation that will lift the overall performance of the economy. It may be that for this leadership to emerge there needs to be local government reform within the region. However, given the central importance of water management it is vital that any reform local government does not impede or compromise the ability to deliver the Ruataniwha and other water storage projects.

Attachment 1: People Interviewed by the Project Team

The following people were interviewed as part of this stage of the project.

Mayor Barbara Arnott	Brian Simpson
Mayor Lawrence Yule	Dean Tucker
Mayor Peter Butler	Mike Pollock
Mayor Les Probert	Denise Eaglesome
Chairman Fenton Wilson	Liz Greenslade
Hon. Craig Foss	Mike Flynn
Hon. Chris Tremain	Michael Bassett-Foss
Andrew Newman	Dennis Munro
Ross McLeod	Tania Kerr
Peter Freeman	Nick Story
John Freeman	Claire Vogtherr
Neil Taylor	John Palairt
Kevin Atkinson	Annie Dundas
Murray Douglas	Claire Hague
Bruce Willis	Fleur Wainohu
Sam Robinson	Alayna Watene
Neville Smith	Royden Day
Lindsay Scott	Kathy Egan
Audrey Robin	John Newland
Debbie Hewitt	Bill Dalton
Roger Maaka	Ross Bramwell
Campbell Chard	Kathy Furlong
Peter Holley	Colin Stone
Tom Belford	Ross Brown
Damon Harvey	Ngahiwi Tomoana
Simon Tremain	Meka Whitari
Andrew Wares	Phil King
Brian Martin	P Butler (Wairoa)
Peter Nash	Mike Mohi
Tracie Te Huia and others from the DHB Public Health Unit	

Attachment 2: The Hawkes Bay Local Authorities

1. Introduction

The region is administered by five local authorities: Wairoa District Council, Napier City Council, Hastings District Council, Central Hawkes Bay District Council, and the Hawkes Bay Regional Council. The area that the regional council administers includes small parts of both Taupo District and Rangitikei District.

Each of the councils presents their financial information differently. In particular they provide different breakdowns of their revenue and expenditure by activity. Statistics New Zealand Local Government Financial Statistics provide a standard definition for comparing the councils of the region. To achieve standard definitions and comparison Statistics New Zealand re-works the accounting information that is presented in local authority using their annual census of local authorities. Statistics New Zealand expresses the financial information in order to see the real economic impact of the income, expenditure and assets that are managed by local authorities. As a result there are differences between the numbers presented in local authority annual reports and the Statistics New Zealand numbers presented here. One of the most significant areas of difference is that Statistics New Zealand excludes all capital expenditure, and all grants etc. that support it from their definitions of operating income and operating expenditure. The following discussion on the local authorities of Hawkes Bay is based on the recently released Statistics New Zealand Local Authority Financial Statistics to the year ending June 2011.

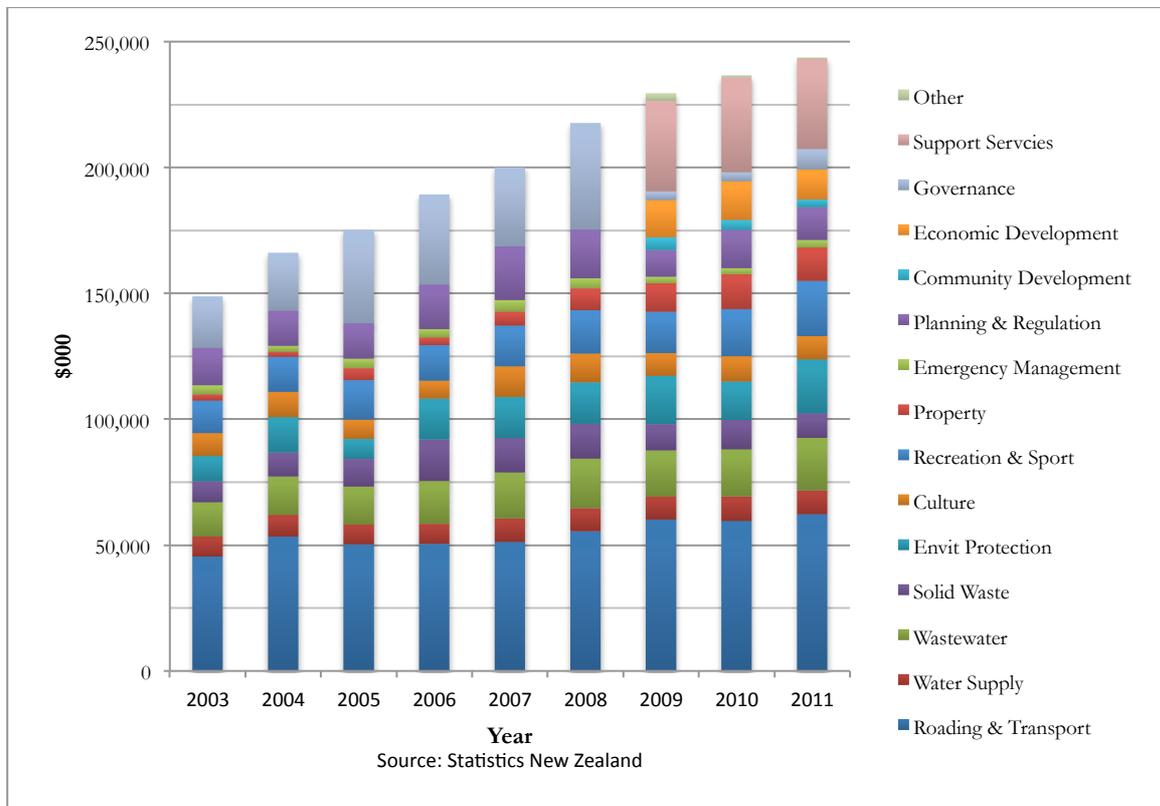
As Figure 3.1 shows the largest area of local government expenditure is on roading and transport. This combines the roading expenditure of the territorial authorities with the public transport expenditure of the regional council and accounts for 23% of local authority expenditure. In total the four territorial authorities spend just under \$57m pa maintaining the road network of the region. Water supply and wastewater together account for 12.5% of operating expenditure. Environmental protection accounts for 8.8%, recreation and sport 9%, property 5.4%, planning and regulation 5.3%, economic development 4.9%, governance 3.3% and council support services 14.7%. Community development work accounts for just 1.3% of combined council expenditure.

Total local authority operating expenditure increased by \$95m pa between 2003 and 2011, an increase of 64%. Roading accounts for 15% of the increase in operating expenditure, environmental protection accounts for 12% of the increase and wastewater 8%. Changes in the way in which Statistics New Zealand defined activities in 2009 makes further analysis difficult, however, 54% of the increase in council expenditure over the period 2003 to 2011 relates to the activities that were until 2009 called “governance” and after 2009 were split out into community development, economic development, governance, council support services and all other activities. This group of activities accounts for 41.2% of the increase in expenditure between 2003 and 2011.

Figure 3.2 shows the composition and amount of Hawkes Bay local authority operating income from 1993 to 2011. The majority of local authority operating income comes from rates levied on properties. Over the period 1993 to 2011 rates has remained a consistent proportion of local authority income. Overall, rates provide 56% of local authority revenue, but rates are a lower proportion of revenue in Wairoa and Central Hawkes Bay, who receive higher levels of financial assistance from NZTA than either Napier or Hastings. The rate of growth in non-rates income has been faster than for rates, except for income from grants and subsidies, which has fallen as a proportion of operating revenue. This is because councils generally only receive grants or subsidies from NZTA for roading or public transport services. Since the growth in council expenditure has not been in these areas of activity grants have become a lower proportion of

total operating income. Reflecting the very strong growth in investments, the fastest growing contributor to local authority operating income has been dividends.

Figure 3.1: Hawkes Bay Local Government Operating Expenditure by Activity



Note: Prior to 2009 Governance is likely to have included governance, community development, economic development, council support services and all other activities. Statistics New Zealand introduced the new activity measures in 2009.

Figure 3.3 demonstrates the on going, and considerable year on year increases in rates income for the Hawkes Bay councils. In only six years since 1993 (1994, 1995, 1996, 1998, 1999, and 2000) has the annual in rates income been less than 3% more than the previous year. For other years the increase ranges between 4% and 7.5% per annum. Since 1993 the increase in total rates charged within the Hawkes Bay has been consistently higher than the rate of price increases as measured by the Consumers Price Index. Many of the inputs to local government costs reflect rather different factors than the general consumers price index. The NZTA Maintenance Index is regarded by some as providing a fairer reflection of the way in which local government costs change. With a couple of exceptions the increase in rates has since 2000 also been higher than the increase in maintenance costs as expressed by the NZTA Maintenance Cost Index.

Figure 3.4 shows the combined financial position for the Hawkes Bay local authorities. Whilst the financial position of each council is clearly different, the overall position of the councils is very favourable. In each year net increases in term and current debt is significantly less than the value that is added to the fixed assets of the councils. Total local authority debt increased steadily through the period but this is focused in only two of the five councils, and total current assets exceed total term and current liabilities.

Figure 3.2: Hawkes Bay Local Authority Operating Income by Source

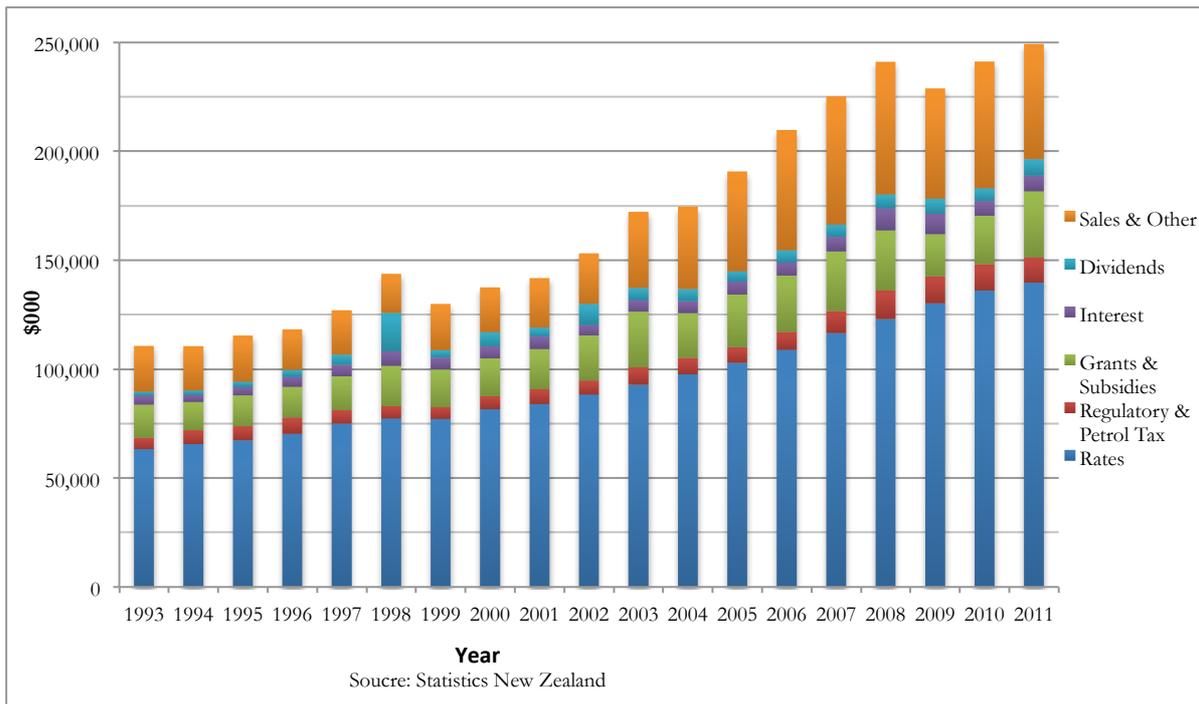


Figure 3.3: Hawkes Bay Local Authority Rates Increases – 1993-2011

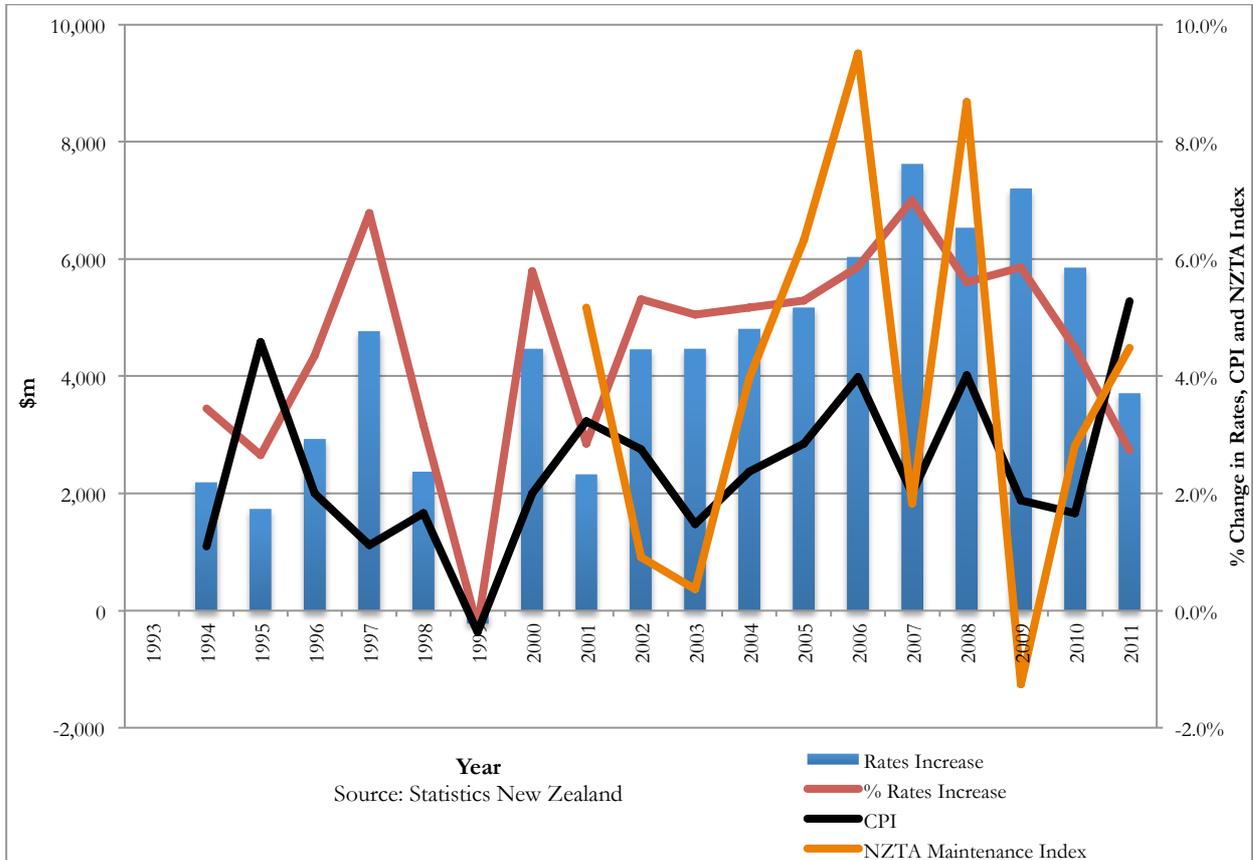
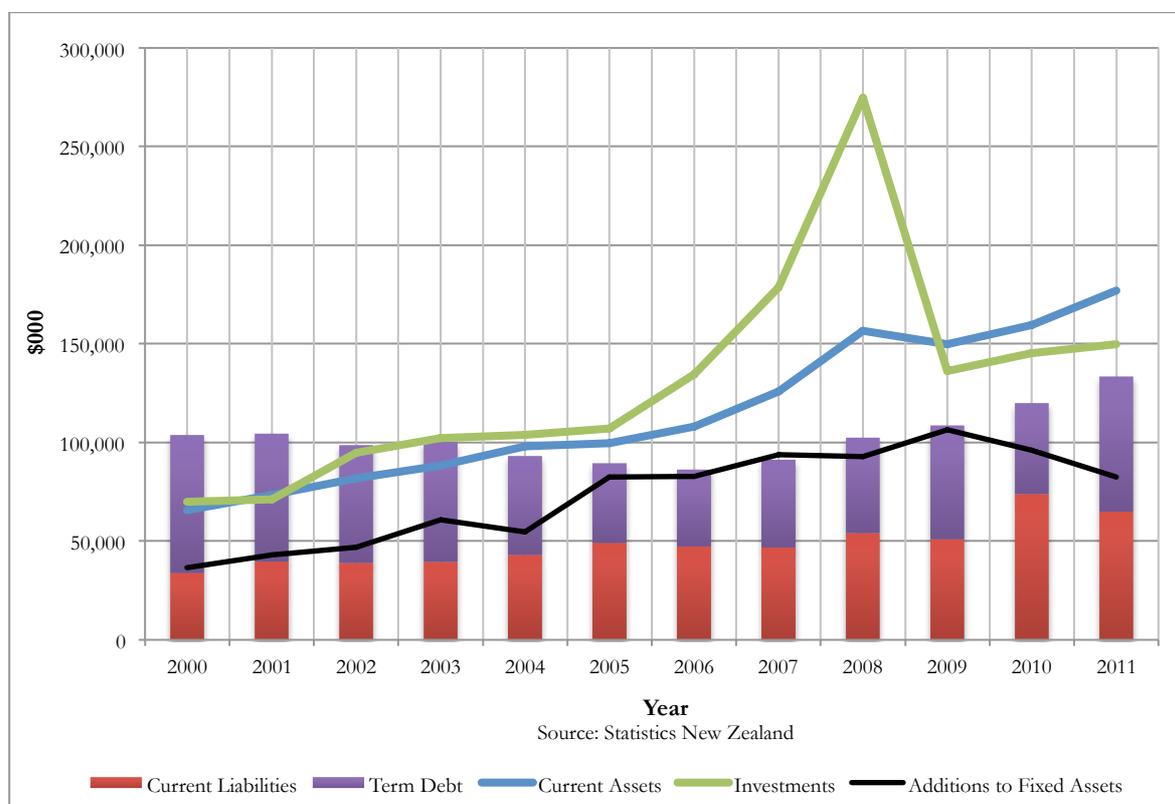


Figure 3.5 shows the substantial accumulation of non-fixed assets through the period 1993 to 2011. Net current assets (the difference between current assets and current liabilities) and net non-fixed assets (the difference between non-fixed assets and term debt) have both grown dramatically. The fundamental question that this picture raises with respect to the local authorities of the region is why they are accumulating current and non-fixed assets and whether those resources could not be put to far better use within the region?

It is important to note that the regional council is actively planning to use the power of its balance sheet to drive and partly finance the development of projects that enhance the development of the region. Napier City has deliberately paid down external term debt and intends to embark upon increased capital expenditure, in particular associated with Marine Parade. However, Wairoa District appears to retain the equivalent of around one year's total revenue as current assets.

Figure 3.4: Combined Financial Position of the Local Authorities



Note: The very rapid growth and then decline in the value of investments from 2005 to 2009 seems odd and is not reflected in the level of investments noted in the council annual reports for this period. It is believed that this peak reflects changes in the way in which Statistics NZ treated 'investments' over this period. It seems likely for instance that the value of the Port of Napier was included in the regional council between 2006 and 2008, but then for some reason excluded. No other explanation of this trend seems plausible.

Attachment 3: Social and Economic Development in Hawkes Bay

As part of the work undertaken by the project team Sean Bevin of Economic Solutions Ltd was commissioned to prepare background information and analysis to support this project team. The attached report presents that information.