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Auckland’s economic recovery and council’s role

Context to support the development of Auckland Council’s Economic Development Action Plan

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Te Kaunihera o Tāmaki Makaurau

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Summary

- COVID-19 interrupted a period of strong economic growth for Auckland, but impacts have been smaller than first anticipated.
- Roadblocks to economic recovery remain. The Auckland Council Group ("the Group") has control or influence over some of these.
- But financial constraints limit new funding available to spend on recovery.
- Instead, we need to support recovery by aligning business as usual activities that together improve specific outcomes.
- This report highlights levers the Group has to aid economic recovery and asks how existing activities can better support recovery.

A decade of growth

Auckland is the powerhouse of the New Zealand economy, with close to 40% of national GDP, and over 900,000 workers. Over the decade to early 2020, economic growth has been driven by strong population growth, with the construction and business services sectors leading.

Larger businesses accounted for the bulk in employment growth, as unemployment fell to its lowest level in a decade.

Disparities across sub-populations remained, however, in terms of unemployment rates and a widening wealth gap as house prices surged, particularly between 2011 and 2016.

The pandemic's immediate impacts

Closed borders and two lockdowns in Auckland designed to protect against the loss of life led to more than 20,000 job losses in Auckland. Jobseeker data suggests unemployment is above the official estimate, probably around 6.2% compared with 4% pre-pandemic.

Yet New Zealand and Auckland both showed remarkable resilience. Every major indicator has turned out "less bad" than anticipated by the main economic commentators in April and May 2020.

Most extreme among these surprising outcomes has been the surge in house prices. This implies market confidence (a good thing), but also exacerbates the wealth gap between those who own property and those who don't. This gap restricts economic mobility and at its extreme, can lead to a break down in the social contract.

Roadblocks to recovery are aplenty

Recovery over the next two to three years may be hampered by several roadblocks. Wealth inequality is one. Some are beyond the influence of the Auckland Council Group. We don't control new outbreaks and vaccine rollout and uptake that may keep borders closed. We don't control economic weakness in our trading partners or geopolitical tensions that may hamper trade.

Risks where we may play a meaningful role include overcoming town and city centre economic weakness, reducing congestion and improving supply chains, overcoming skills shortages, and making every dollar we spend count in recovery terms.

The Group has several levers to pull

The Group provides literally hundreds of functions and services, but the vast bulk are not explicitly economic development activities. That does not imply that they are not valuable activities, just that they do not primarily aim to improve key economic indicators beyond the Group.

The Group also faces unprecedented financial constraints, limiting new spending. But the Group has several existing levers it can pull to aid economic recovery. These are typically not single activities, but groups of activities that together can target certain outcomes. This report poses questions under each identified lever to help the Group think through how we can adjust business as usual activities to aid economic recovery.

Levers include enablers (how we use our assets and procurement, regulatory powers, transport networks and so on), those that incentivise efficient choices by the private sector (taxes and fees, investment in town and city centres, skills and tourism attraction), and those that coordinate and support (such as social services and coordination with non-Council stakeholders).

Auckland's pre-COVID-19 economy: a decade of growth

- Auckland is New Zealand's largest economy, led by strong and growing professional services and construction sectors.
- The region's average business size is similar to that of New Zealand, with the vast majority of businesses being sole trader, but businesses with over 50 employees providing half of all regional jobs and most growth.
- Just prior to the COVID-19 pandemic, the region had the lowest unemployment in a decade, but disparities remained, particularly among youth, Māori, Pacific and in the south.
- Productivity growth over the decade was moderate; a strong relationship exists between GDP growth and population growth, led by international migration.
- Strong population growth, an insufficient supply response, and low interest rates among other factors led to a housing boom that widened wealth inequalities.

Auckland powerhouse driven by business services and construction

Auckland constitutes almost 40% of New Zealand's economy. In the year ended March 2020, Auckland's GDP exceeded $114 billion (in 2019 dollars) and the region provided a total of 911,370 jobs. GDP grew 37%, and employment 29%, in the last 10 years.

The largest sector in Auckland is Professional, Scientific and Technical Services, with 109,600 jobs. Approximately one third of employment in this sector is in Auckland's city centre.

Construction contributed the largest share of Auckland's total employment growth over the last 10 years, becoming the region's second largest sector (95,800 jobs). Although Manufacturing is the third largest sector in Auckland (82,000 jobs), its growth was modest. Most of its increase was in South Auckland.

The isthmus contributed 42% of Auckland's employment growth over the last 10 years. Almost a quarter of the region's jobs growth occurred across the southern local board areas of Māngere-Ōtāhuhu, Ōtara-Papatoetoe, Manurewa, Papakura and Franklin.

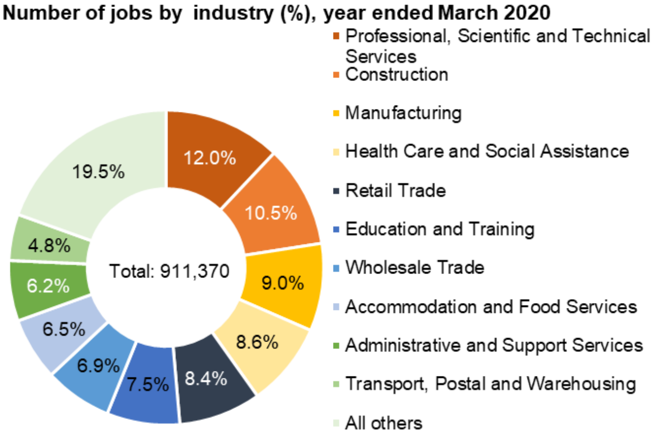
Despite the rhetoric, larger businesses drive employment growth

As at February 2020, Auckland had more than 206,000 businesses. Of these, 147,600 had no salaried (or waged) employees, and most of the rest had employee counts below 20. Fewer than one in 15 (6.5%) had 20 or more employees. This pattern is broadly similar to New Zealand.

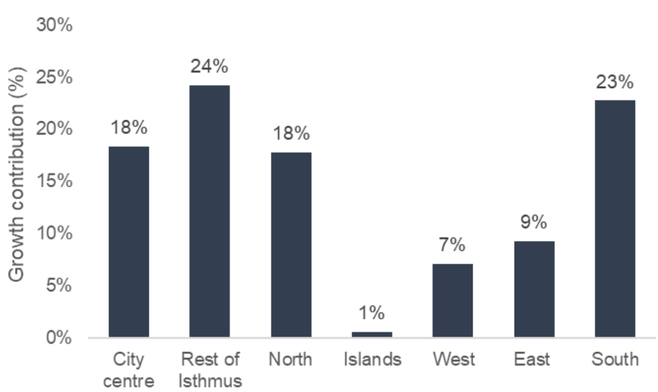
In terms of who employs workers, however, and assuming zero-employee businesses have somebody self-employed, the pattern is starkly different. Large businesses of 50+ employees provide half of all employment in Auckland, and more than half (56.0%) of the net employment growth from 2010 to 2020.

Small businesses of fewer than 20 employees provided a little over a third of total employment, and a third of net employment growth.

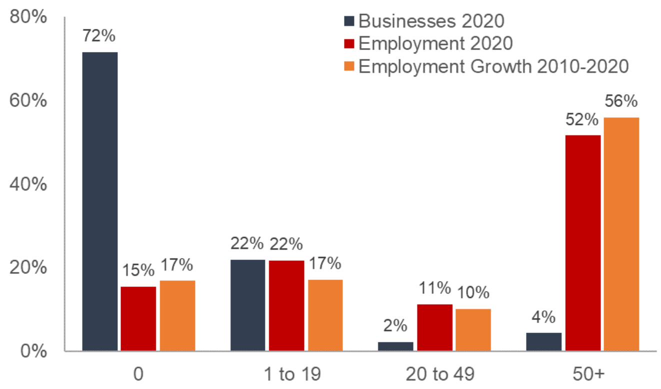
Number of jobs by industry (%), year ended March 2020



Employment growth by geographic area, 10 years to March 2020

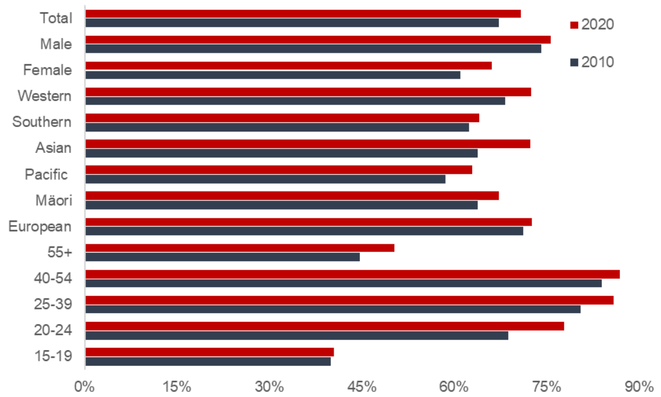


Business, employment and employment growth shares by business size



Source: RIMU's estimate based on Stats NZ's Business Demography data series 2010-2020

Labour force participation rate, March 2010 and 2020



Unemployment at decade lows across the board, but disparities remain

The unemployment rate for the year ended March 2020 was 4.3% for Auckland, significantly lower than in 2010 (6.8%), the early days of recovery from the global financial crisis.

The south, younger people, Māori and Pacific all tended to have a substantially higher overall unemployment rates than the regional average. Women have a slightly higher unemployment rate than the average. All sub-groups had seen unemployment rates fall by at least one third since 2010.

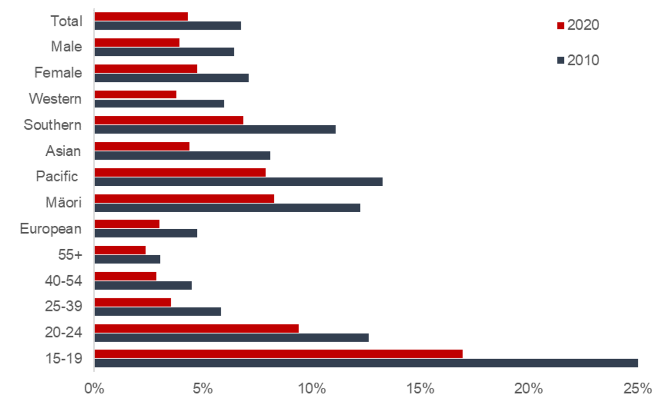
Unemployment rates are lower for higher levels of school qualifications, but the differential has generally narrowed since 2010; it is not clear if this narrowing is an ongoing trend that will continue, or a cyclical process that could reverse with a weakening economy.

The Labour Force Participation Rate (LFPR) for the year ended March 2020 was 70.8% for Auckland, somewhat higher than in 2010 (67.3%); Again, rates had risen for all groups over the 10 years, but were noticeably lower for women, the south, those aged 15-19 (some of whom are in secondary or tertiary education), and Pacific. Overall LFPR was noticeably above average in 2020 among those aged 20-45.

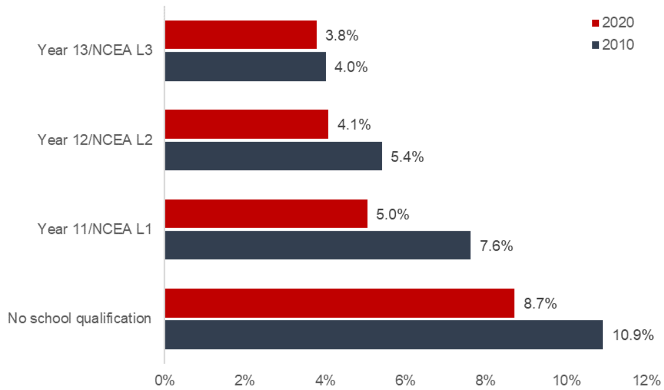
Migration-led population growth drives GDP

Just before the COVID-19 outbreak, the resident population in Auckland was estimated at nearly 1.7 million, an increase of 18% over 10 years. The median age in Auckland (35 years old) is slightly younger than that for New Zealand as a whole (37). The region is more ethnically diverse, with greater proportions of people with Pacific and Asian ethnic identities. Almost 50% of Aucklanders identified as Asian or Pacific, reinforcing the region's cosmopolitan character and reputation as the gateway into New Zealand for around 70% of permanent and short-term arrivals. International migration has been the main contributor to Auckland's population growth.

Unemployment rate (%), March 2010 and 2020



Unemployment rate (%) by qualification, March 2010 and 2020



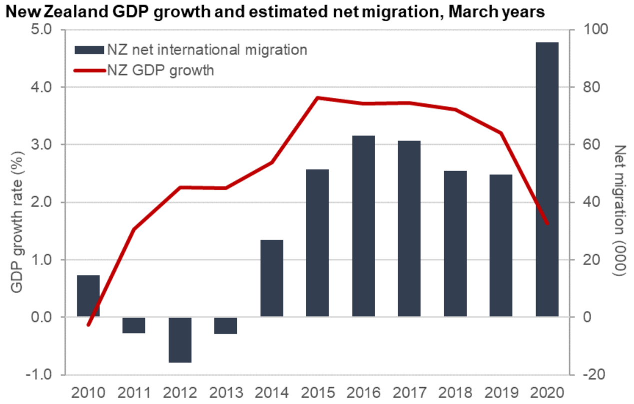
Source: Statistics New Zealand

Migrants tend to be young; over 40% are aged between 20 and 34.

International migration is an important economic driver in New Zealand and in Auckland, which receives around half of all new international migrants. The data suggests that migration stimulates GDP growth rather than the other way around based on the strong correlation between migration and GDP growth in the same period.

Growth in GDP per capita terms has been substantially lower than overall GDP growth. Similarly, productivity growth has been modest, with growth dominated by mouths to feed.

New Zealand GDP growth and estimated net migration, March years



Source: Infometrics' Regional Economic Profile; Stats NZ's estimated migration by direction, 12/16 rule

An anomaly in net international migration is observed during the year ending March 2020. This was driven by a combination of already-high international migration plus "involuntary" net immigration due to the global pandemic. We return to this unusual spike in the next chapter of the report.

House price growth drives wealth gap

Over the last 10 years, Auckland's resident population has grown from around 1.44 million to above 1.70 million. Housing supply has been unable to match demand, and Auckland Council estimates the housing shortage remains around 29,000, down from 36,500 with record numbers of new dwellings consented in the December 2019 year (15,154).

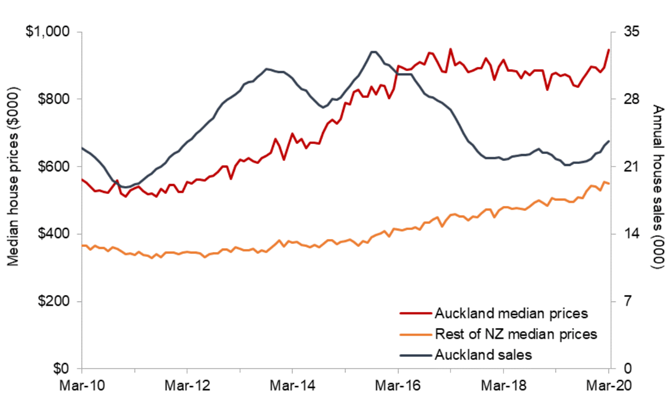
Strong demand has pushed up house prices in Auckland. By March 2020 they had reached $945,000, making them less affordable in Auckland than in the rest of New Zealand. The gap between Auckland house prices and the rest of the country widened to a 72% difference in March 2020 compared to a 54% difference 10 years prior.

Yet in the three years from late 2016 to late 2019, house prices in Auckland flattened quite noticeably, leading to a meaningful improvement in housing affordability.

Sharp asset price rises as we saw between 2011 and 2016, and as began again by late 2019, lead to widening wealth gaps amongst Aucklanders. Those who own assets enjoy a large untaxed increase in wealth, while those who don't own assets are increasingly locked out of owning those wealth-generating assets by barriers like deposit requirements. The 2018 Census already shows a lower home ownership rate (59% of those households living in occupied private dwellings) compared to the 2013 and 2006 Censuses (61% and 64% respectively).

Wealth provides choices. Aucklanders who cannot afford to buy a house are increasingly disadvantaged relative to home owners who enjoy wealth gains, limiting economic mobility.

House sales and median house prices



Source: REINZ

SAM median house price affordability relative to December 2006

The impacts of COVID-19 on Auckland's economy

- Auckland's solid recent economic performance was interrupted by a surge in unemployment and falling GDP through two lockdowns.
- Nevertheless, economic activity has rebounded faster than economic commentators assumed would be the case.
- Responses here and abroad to tackle the pandemic and its economic consequences have contributed to a spike in migration and rampant house price growth in Auckland.

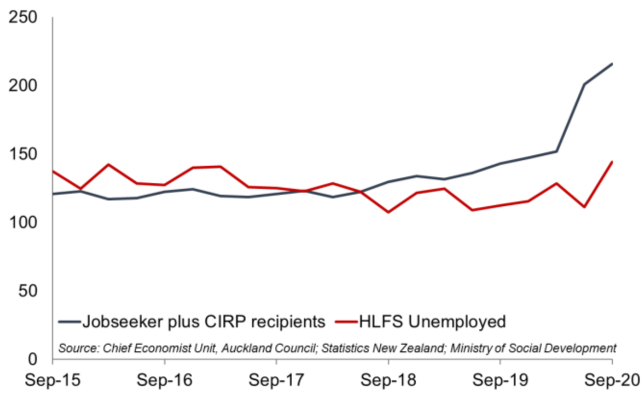
Lockdowns cost over 22,000 jobs; young people affected most

More than 26,000 Aucklanders lost their jobs between March and August 2020, and the unemployment rate surged. The unreliability of unemployment statistics under covid-19 conditions, highlighted when comparisons are made to Jobseeker statistics, suggests that the real unemployment rate is well above the official estimate of 5.6% for Auckland.

A second lockdown and a lower level of wage subsidy support than during the first lockdown mean Auckland's unemployment rate also rose faster than elsewhere. Around 200 Aucklanders lost their jobs each day at Level 3.

Encouragingly, total recipients of Jobseeker benefits and Covid Income Relief Payments (CIRP) have fallen by about 3,900 since the peak, leaving job losses at about 22,800 since March, but some further job losses are expected.

Unemployed: MSD Benefit recipients vs Stats NZ HLFS (000)



Source: Chief Economist Unit, Auckland Council; Statistics New Zealand; Ministry of Social Development

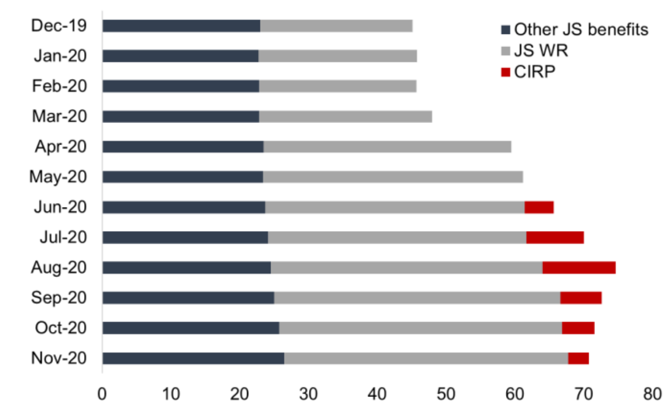
Across Jobseeker data where ethnicity was recorded by the Ministry of Social Development, the ***number of jobs*** lost was spread fairly evenly. The ***percentage change*** in the number of jobseekers rose fastest across categories labelled "European" and "Other" (mostly Asian). Yet Māori and Pacific had higher unemployment rates to begin with. Further, because they are smaller shares of the population, these ethnicities experienced bigger percentage changes in ***shares of their population seeking jobs***.

The number of female Jobseeker and CIRP beneficiaries in Auckland grew by 9,200 between December 2019 and September 2020, or 44%, compared to 12,400 in total or 52% for males.

The biggest rise in Jobseekers was for 18-24 year olds, up 84%, and for 25-39 year olds, up 57%.

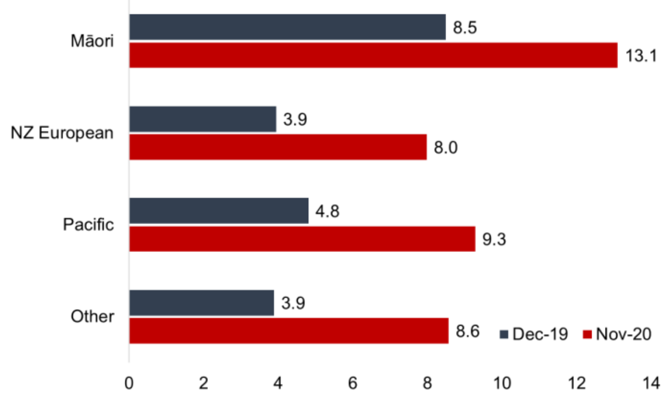
Auckland's GDP fell around 13% in the June quarter, the biggest ever decline, unsurprising given that swathes of the economy were shut for weeks to prevent a lethal virus from spreading.

Auckland Jobseeker and CIRP recipients (000)



Source: Chief Economist Unit, Auckland Council; MSD

Auckland Jobseeker - Work Ready recipients (000), ethnicity known



Source: Chief Economist Unit, Auckland Council; MSD

The national economy rebounded strongly in September 2020 (around 14%), reaching a figure higher than before the pandemic began. But the rebound in Auckland was weaker given the second round of lockdown here, estimated at between 7% and 9% quarter on quarter.

Negative economic impacts more modest than expected

Nevertheless, New Zealand, and even Auckland with an extra round of lockdown, has weathered the economic storm better than commentators believed would be the case.

Over the four months to December 2020, there was not a single major economic indicator that was weaker than anticipated back in April, or even as we exited the first lockdown in June.

A non-exhaustive list of better-than-expected economic outcomes includes:

- Unemployment rising far less than anticipated (May 2020 forecasts across commentators were for unemployment of 9-12%)
- GDP rebounding to pre-pandemic levels faster than anticipated
- Retail trade bouncing remarkably, remaining flat in nominal terms for Auckland year-on-year despite a collapse during the first lockdown
- Air New Zealand reaching 90% of pre-pandemic domestic capacity by December 2020, implying take-up by New Zealanders to offset some of the domestic travel by international visitors
- Business confidence being higher than at three previous points under the current government before the pandemic, when GDP was growing around 2.5% in Auckland and unemployment was at decade lows
- House prices surging 16% in the year to December 2020, as 10% unemployment did not materialise, interest rates plummeted and loan-to-value ratio restrictions were removed
- Consequently, residential development reaching record levels.

Indicators like rapidly rising house prices are a double-edged sword – they often imply widening inequity – but are powerful indicators of economic confidence. Similarly, the surge in development activity, despite higher unemployment, is a strong vote of confidence in the outlook for the economy. It points to construction continuing to play a dominant role in Auckland's job and GDP growth, as it has in the last decade.

Unexpected consequences in housing and migration

As the government and Reserve Bank scrambled to respond to the looming economic crisis from the pandemic, they took drastic action to prop up the economy, playing a major role in outcomes being better than expected. But at the same time, this stimulated house price growth, as already highlighted, leading to poorer affordability, widening the wealth gap.

Another unexpected outcome has been a huge surge in migration. The media talks about a flood of New Zealanders returning to New Zealand, but the net number of long-term arrivals ***since borders closed*** to non-residents in March has been remarkably small, in the range of a few hundred a month.

Auckland retail trade

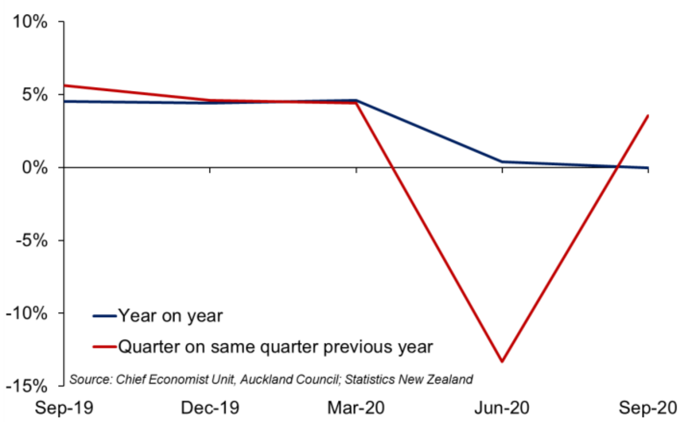
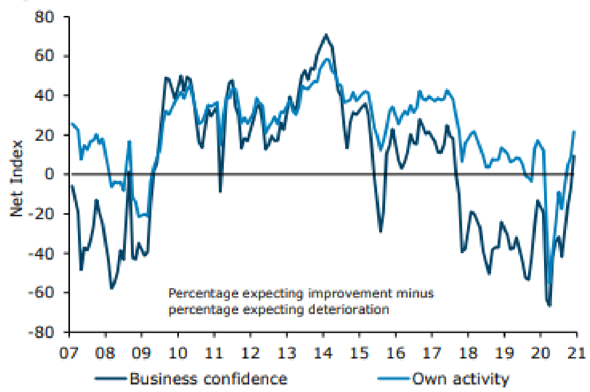


Figure 1. ANZ Business Confidence Index and ANZ Own Activity Index



Source: ANZ Research

So why did net migration surge to nearly 100,000 ***just before borders closed***, as the migration graph in the previous chapter shows? This appears to have been driven by people coming to New Zealand perhaps on a short-term basis in the months leading up to the pandemic, and then choosing not to or being prevented from leaving once those borders closed. This choice could have been because of worsening health and economic conditions overseas, or simply difficulty or cost in leaving New Zealand. Regardless, it has created an artificial distortion in migration figures. This will be putting huge pressure on the housing stock nationally, contributing to higher prices, but will also be having a stimulatory effect on the economy more broadly. All those extra people need food, clothing, internet services and so on. But in the year to March 2021, we can expect to see significantly lower net international migration figures due to the current trickle of people.

Roadblocks to recovery

- Numerous risks to recovery exist.
- One group of risks is from the ***pandemic itself*** – the ongoing possibility of spread, new mutations, or slow vaccine rollout and uptake.
- Others relate to ***global trade and geopolitical tensions***.
- A third category relates to ***closed borders*** here, with a languishing tertiary sector, less downtown business and skills shortages.
- ***Funding and public confidence*** risks include rising national debt levels, quality of evaluation of proposed interventions, risk of loss of public support, and challenges for Council funding.
- If fiscal and monetary policy don't work together, large ***wealth inequalities*** will continue to worsen.

Several immediate risks to economic recovery exist, and some are growing. Not all of these risks may materialise or last, and ***not all are risks that a Group-led economic development action plan (EDAP) can overcome***, but we must keep the full range of risks to economic recovery in mind. These risks are discussed next, not necessarily in order of importance.

More outbreaks and lockdowns

New Zealand, with Auckland as the primary gateway, remains at constant risk of the virus getting into the community and causing another lockdown. Further outbreaks, if they result in lockdowns of more than a few weeks, would likely have far larger ongoing economic impacts than previous lockdowns here, as seen in Victoria (Australia) and the UK, for instance.

Auckland's second lockdown saw the region lose almost 200 jobs a day across 18 days of Level 3. This outcome was even after the experience of the first lockdown, which helped prepare businesses for the second lockdown.

A Level 4 lockdown, or a longer period of severe restrictions, would have a snowballing impact on economic outcomes, and could even lead to different trade-offs being made between protecting lives and protecting livelihoods.

Slow rollout or uptake of vaccines

Slow rollout of vaccines in New Zealand, or slow uptake globally, would mean closed borders for longer. This would limit recovery of our tourism and international student markets, and restrict access to skilled workers, a point we return to again below.

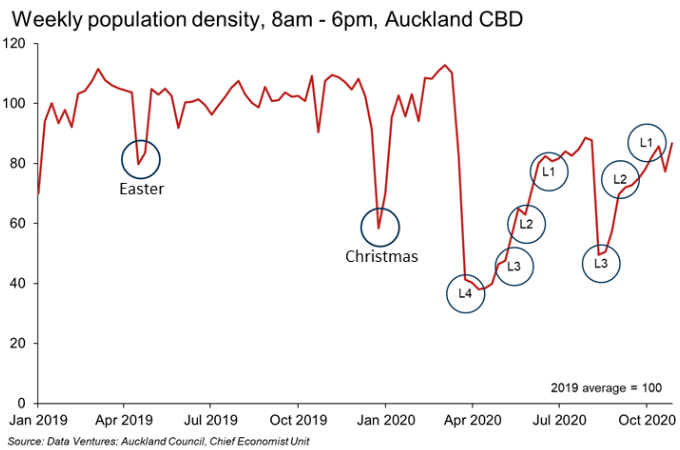
Further, the longer the global community takes to reduce the availability of human hosts for the virus, the more likelihood of further mutations and vaccine-resistant strains developing.

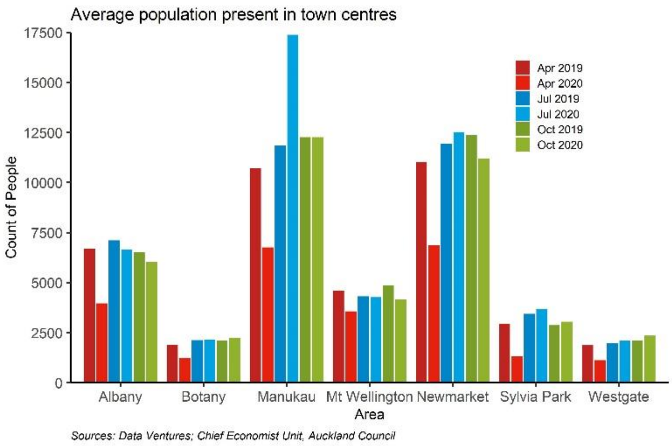
Economic weakness in our trading partners

The world economy was already slowing pre-pandemic. Global weakness and repeated virus surges are dampening economic activity in many of our main trading partners. Without further lockdowns here, we would expect to see GDP growth here surge as the calendar quarters dampened by lockdowns exit the annual data. But after this "maths" of New Zealand's domestic recovery has occurred, where will economic growth come from? This risk will be particularly bad if borders remain largely closed into late 2021, a distinct possibility given the relatively late planned roll-out of vaccines in New Zealand (third quarter of 2021 onward for non-frontline workers).

Closed borders will prevent a rebound in tourism and export education, while sales of more traditional New Zealand primary commodities may be limited by a weak global economy.

Weakness overseas carries a further risk, too – that higher unemployment there leads to more bad debts, and that a financial crisis emerges as the financial system comes under pressure. As we saw with the Global Financial Crisis, this would have lingering impacts that would flow on to countries like New Zealand, even if we don't suffer as much from the same banking risks here.





Geopolitical tensions

The political fallout from the pandemic is ongoing. With several of New Zealand's traditional allies pushing for an independent inquiry into the origins of the virus, New Zealand may be caught in the political and economic crossfire.

There has already been a sharp economic response from China to calls for the inquiry from New Zealand's second largest trading partner and largest tourism market, Australia. China has implemented successive rounds of trade sanctions on Australia as rhetoric from both sides has grown.

If tensions continue to mount, New Zealand may be pressured to choose sides, leading to further risks of weaker international trade.

City and town centre weakness

The city centre (and many metro and town centres) have been badly affected by the loss of tourists, loss of international students, lower employment, and more people working from home. The working from home trend seems to have weakened again to some extent, retreating to mostly Mondays and Fridays.

But with no clear plan in place for bringing in foreign students for the 2021 year, and an ongoing ban on other international arrivals, the risk is certainly for ongoing city centre weakness. The rise in domestic online shopping (up 33% in the September 2020 quarter nation-wide compared to a year earlier according to Marketview) also means fewer residents are spending in their local town centres, reducing local economic vitality even as industry composition changes fast.

Tertiary sector breadth of study, reputation and exposure

International students are a major revenue source for tertiary institutions. Further, access to a pool of international students allows institutions to provide a range of courses and other services that may not be possible with restricted revenues and student numbers.

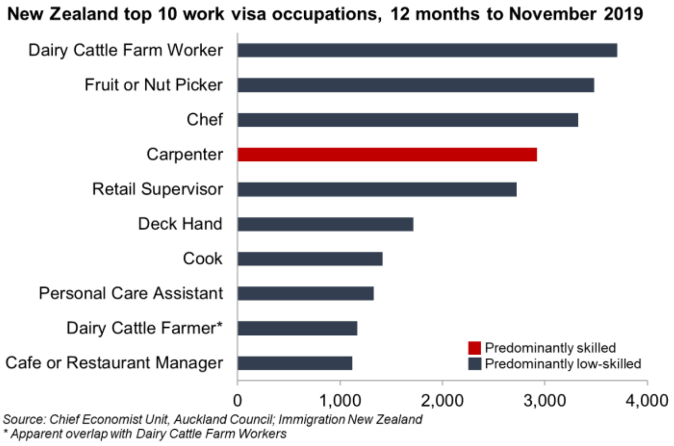
With no clear plan to allow most international students back into New Zealand, this loss of income and student volumes will likely lead to reduced course offerings for domestic students. It will also result in less exposure for New Zealand tertiary institutions (with much of the reputational gain coming from international exposure).

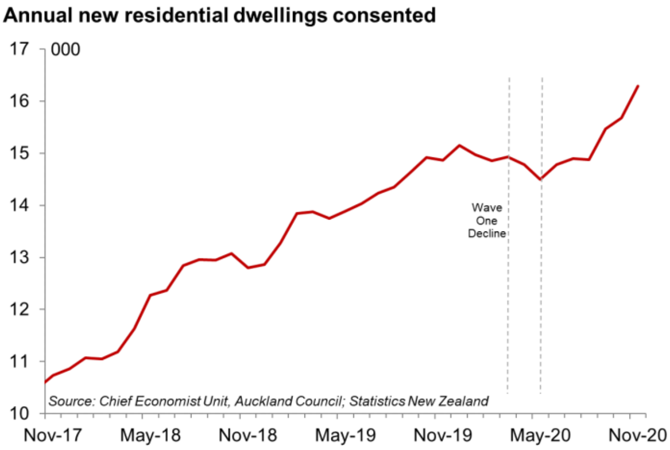
Finally, we may miss out on the opportunity to attract more students to New Zealand while we enjoy our reputation as one of the few countries that has COVID-19 under control, and to keep the best graduates to fill our skills gaps.

Worsening skills shortage

A quick glance at the occupations for which work visas were issued prior to the pandemic shows that a large number were for unskilled workers. But there are genuine shortages across many skilled worker categories.

Anecdotally, there are already challenges bringing in engineers and film crews among others, with such limited quarantine spaces available. Without open borders, and without further flex in quarantine capacity, these gaps will widen, slowing recovery.





In the absence of access to skilled overseas workers, questions remain over whether Auckland will be able to upskill enough workers of our own to fill gaps, particularly if the nature of work changes in as yet unknown ways post-pandemic.

Workers for our housing and infrastructure deficit

Further to the skills shortages already described, questions arise as to where the builders will come from to build the 16,000 dwellings consented in the last year, especially with borders closed and Australia now offering one-way quarantine-free travel to New Zealanders.

With billions of dollars of NZ Upgrade and now shovel-ready projects announced nationally and in Auckland, the risk is that the funding goes unspent, exacerbating the infrastructure shortfall, due to a lack of capacity to deliver the projects.

Congestion without public transport (PT) uptake

Prior to the pandemic, Auckland had a well-documented congestion problem. Since Auckland entered lower levels of restrictions, the move back into PT use has been slow. Travel times into the city centre are largely back at where they were pre-pandemic, but with public transport use still down about 30% compared to the same time a year earlier. Vehicle use has rebounded to pre-pandemic levels, suggesting reluctance by Aucklanders to get back on the bus, train or ferry.

This means the recovery is being impeded by the same congestion and emissions issues we saw pre-pandemic, but with smaller numbers of people accessing the highly productive city centre. This reality is despite more people working from home, which should reduce typical travel times.

Rising debt with mixed results

Some central government and Reserve Bank policies have been effective at stimulating the economy, helping to prevent a bigger economic decline. However, in the early days of pandemic response, including the May budget, the forecast was particularly bleak, and there were many unknowns. A critical view would be that as a result, money was spent on a lot of things, without the luxury of time to evaluate the courses of action that delivered the best value outcomes.

A year on, there is far less of a case for broad brush programmes, with better knowledge about how to respond to the pandemic, how different responses have fared, and as national debt (and Auckland's share, as around 40% of the tax-take) rises. The risk is that funds are spent on projects that don't deliver value for money, based on limited analysis, which will slow the recovery.

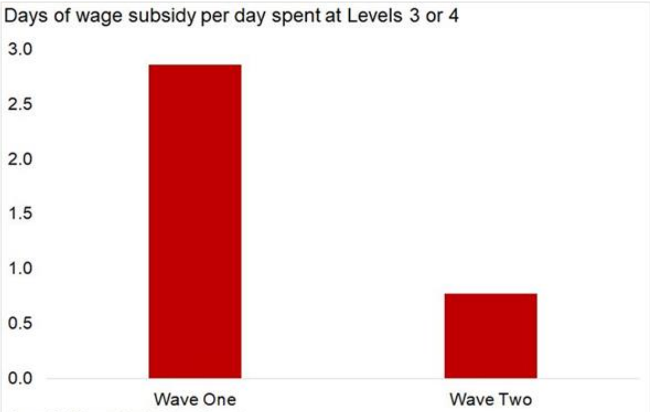
Public support and confidence

Public support for ***health*** and ***economic*** counter-measures rests on their transparency, perceived equity, affordability and likelihood of success.

There is a risk, highlighted already, of public concern over rising national debt, particularly as the especially bleak outlook foreseen in May failed to materialise (in part precisely because of government and Reserve Bank action).

This risk is mostly political, but if political resistance to spending rises, it can lead to slower decision-making and perhaps less spending than may be justified in certain areas of need at both the central and local government levels.

Constrained funding for Auckland



Source: Chief Economist unit, Auckland Council

At the same time local governments, including Auckland Council, have faced revenue challenges from border closures and lockdowns. This means that despite a huge infrastructure deficit, and despite planned spending on infrastructure over the next 10 years that will still be at record levels, Auckland is unable to deliver infrastructure at the rate it had hoped.

Further, as we saw during the second lockdown, the impacts of which were overwhelmingly skewed toward Auckland, there is reluctance to spend on targeted support for Auckland. This may mean that Auckland is left to fend economically more for itself than other parts of the country, despite this region's contribution to the tax-take and bigger hit from pandemic lockdowns and border closures.

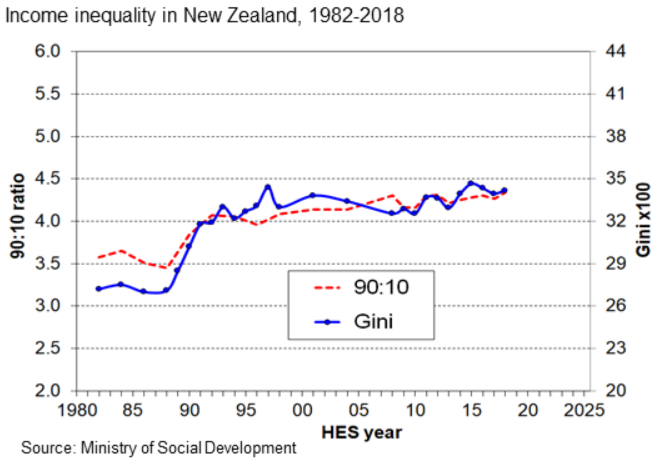
Rising wealth inequality

In the last 20 years, New Zealand's inequality has been a rising wealth gap far more than a rising income gap. Monetary policy, which aims to stimulate the economy by lowering interest rates, plays a big part in this. It stimulates by pushing up asset (such as house) prices, which create a wealth effect and encourage spending.

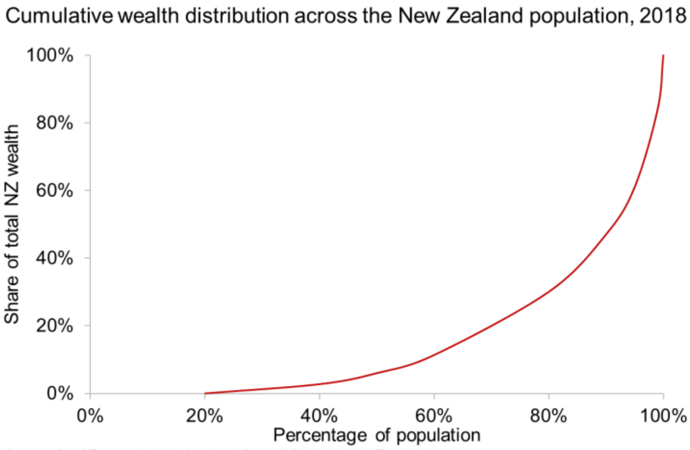
There is nothing wrong with this relatively blunt instrument on its own. But it must be accompanied by other, fiscal policy tools if we are not going to exacerbate the divide between the haves and the have-nots, often exemplified by landowners and renters.

Ironically, rapid house price rises give developers confidence to build more homes, which we need to overcome the ongoing shortage in Auckland.

Pushed too far, wealth inequality can lead to a break down in the social contract, and resultant political and social upheaval. This inevitably has impacts on economic growth. If wealth inequality is not tackled, it will lead to worse socio-economic division and poorer upward immobility.



Source: Ministry of Social Development



Source: Chief Economist Unit, Auckland Council; Statistics New Zealand

Economic development levers the Group has

- Auckland Council Group provides hundreds of services that are valuable, but most of these are not economic development levers.
- By economic development levers, we mean Group activities that can be demonstrated to ***materially*** improve economic development indicators ***beyond the Group***.
- The Group is financially constrained. This means any levers we pull have to be about ***improving*** existing processes and activities, or re-prioritising, rather than spending pots of new money.
- Group levers include ***enablers*** (how we use our assets and procurement, regulator powers, transport networks and so on), those that ***incentivise efficient choices*** by the private sector (taxes and fees, investment in town and city centres, skills and tourism attraction), and those that ***coordinate and support*** (such as social services and coordination with non-Council stakeholders).

What do we mean by economic development?

It is *not* everything we do

The Group provides a huge array of services to Aucklanders. But the focus of this report is not on every service the Group provides, but only on services that:

1. can be explicitly used as ***levers*** to stimulate ***economic development*** beyond the Group
2. can be demonstrated to ***materially*** increase incomes, increase the number of jobs, decrease unemployment, reduce reliance on government benefits, increase the mix of business types, increase GDP growth, and/or increase productivity (GDP/worker) beyond the Group.

If you strain your eyes and tilt your head enough, you could call almost anything “economic development”, but that is not an honest appraisal. This analysis cares about ***scale of impact*** on economic development, and the extent to which the Group owns these levers (i.e. the extent of our ***influence***).

It is beyond the Group

The focus is beyond the Group. Economic development is ***not*** achieved by the Council employing more people directly. Any money we spend is ultimately some form of tax or user charge that comes from the pockets of households and businesses, so the job we generate is at direct cost to someone else.

Thus, the question of how the Group aids recovery is really about how we use our role in Auckland to stimulate ***additional or better*** economic outcomes than we would see in our business as usual activities, ***beyond*** the Group.

What do we mean by levers?

Themes of activities

The Group engages in literally hundreds of different activities, services, and internal processes. It would be a vain effort to discuss each one of them that has some link to economic development. Instead, we take a ***thematic*** look at the levers we have available.

An example of this is how we use procurement. The Group engages in all kinds of procurement, from infrastructure to library books. It does not make sense to discuss library book purchases as a specific lever to pull, but ***procurement*** across the board can be used as a lever to aid recovery if done well.

Doing BAU better

The mandate for the EDAP is clear. There is not a pot of money available for an array of new initiatives. The levers need to be ***things that we are already doing***, but where we may be able to ***do things differently or better*** to support recovery. As we read them, resist the urge to say, “But we already do that”. That’s the whole point.

The focus is recovery

The specific focus of the EDAP is on recovery – a three year timeframe. This does not mean that some of the levers we pull won’t have much longer-lasting impacts, but these levers should be able to have immediate impacts.

Before we pull the levers

Before pulling the levers, it makes sense to consider the following:

1. ***Just because something can be done, doesn't mean it should be***: Any specific project undertaken under the banner of a lever should still be justified. This means using empirical evidence to demonstrate that the project is a good use of money, and monitoring that it delivers the recovery outcomes it aims to achieve.
2. ***Every decision we make involves trade-offs***. Choosing to spend more here means less to spend there. Funds are limited, so pulling one lever may mean we are limited in what we can do in another area. We need to explicitly consider these trade-offs and make them knowingly.
3. ***How we implement projects matters***: Once we decide a project is justified in aiding recovery, how we deliver it will obviously affect its success. An example of this is infrastructure development. Disruption associated with infrastructure development can offset a lot of the gains that infrastructure will have in the long-term.
4. ***Are we crowding out services that should be provided by central government, other agencies or the private sector?*** All local governments together collect 7% of taxes in New Zealand. Central government collects 93%. In such constrained times for local government, we need to carefully evaluate whether we fund services that fall better under the central government mandate and funding umbrella. The challenge is that we see gaps in provision of services and feel the need to step in, but this discourages central government or other agencies from funding these services in Auckland, or in some cases crowds out private business.
5. ***What is the role of technology in implementation***? Sometimes, technology can help us improve delivery, but only if the technology is fit for purpose. In thinking of how to support recovery, we should be thinking of better ways to deliver services, and whether technology will aid that delivery.

With this context in mind, we turn to the levers, which are not presented in order of importance.

Lever 1: Use assets to provide what Aucklanders need

As at June 2020, Auckland Council group had $50 billion in property, plant and equipment. A large portion of this is in community infrastructure – our libraries, pools, parks, community centres, indoor sports facilities, golf courses, sports parks, and corporate property among others.

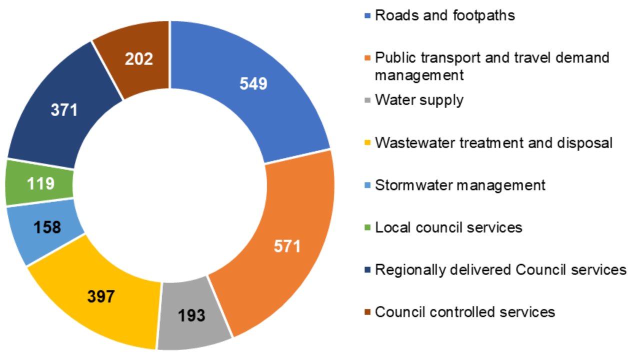
Some of the questions to consider thinking of this powerful lever include:

- Do we have value tied up in assets that are a hindrance to supporting recovery in an equitable and pragmatic way?
- How do or should we monitor what outcomes (and not just outputs such as number of users) we get out of these various assets to help understand how they support economic development?
- Are we bold in divesting those that don't stack up and adjusting the use where necessary of those that we retain?
- Is the level of implied subsidy for our different types of facilities and services commensurate with the use and value to Aucklanders?

Lever 2: Stimulate through procurement

We have already highlighted that the Group procures a wide array of products and services, from office supplies and library books to multi-billion dollar infrastructure programmes.

Auckland Council Group capital investment 2019/20



Source: Auckland Council Summary Annual Report 2019/2020

The 2018 to 2028 Long-Term Plan proposed $26 billion of capital spending alone, on transport, water, parks, community, town centre development and so on. The proposal for the 2021-2031 period includes spending on capital of $31 billion. This is in addition to additional billions in operational spending.

Questions to consider as we spend these billions of dollars include:

- Are we spending on things that stimulate downstream (i.e. beyond the Group) economic recovery? Not all spending is equal in this regard. Spending that encourages people into our communities, to spend money locally instead of on the internet, for example, can have big down-stream benefits. Spending on infrastructure that enables further development using land more efficiently and making more housing closer to jobs available, is another example of procurement with a potentially large downstream benefit.
- Are our procurement practices making upward mobility possible? As large procurers, especially of infrastructure, we play a major role in the Auckland market. If we tend to use only large suppliers, this can hollow out the sector such that smaller players never have the opportunity to grow to deliver larger projects. Over time, this can reduce innovation and competitiveness in an industry.
- Do our procurement policies support local and diverse supplier sources, so that salaries and profits generated from procurement we fund go back into many communities in Auckland?
- Are our procurement processes suitably scalable, making it easy for suppliers to get work from us, supporting a more competitive market and better outcomes?

Clearly when considering these latter two questions, we still have to ensure ***value for money***. A smaller supplier who wants to charge twice as much may not be a good way to spend ratepayer money.

But governments exist to deliver ***economic*** wellbeing (correctly defined as financial, environmental, social, cultural and potentially other components of wellbeing), not financial benefit *per se*, the way a private business does. This means it is right not only to consider the dollar cost of procurement, but what that procurement ***does*** for Auckland, from a recovery perspective and beyond.

Lever 3: Support business and development through right-zoning

One of the most powerful levers we have is the Unitary Plan, which sets the rules for what we can build where.

An enabling Plan supports economic growth; a restrictive one stifles economic activity. This report is not speculating where on that spectrum the Plan currently lies.

But a number of questions arise in considering how to use zoning rules to support recovery:

- Does the Plan make it easy to undertake business activities, minimizing compliance costs for businesses? This includes where and how businesses can operate.
- Does the Plan maximise housing development opportunities in a way that maximises the efficient use of land (which reduces compliance and housing costs), especially close to jobs and PT, so as to reduce impediments to accessing jobs, goods and services?
- Do zoning rules maximise usability of a site such that we get economically efficient outcomes?

Lever 4: Support business and development through regulatory processes

The Group has a number of regulatory responsibilities as a unitary authority. These regulatory processes have to strike a balance between meeting legislative responsibilities, and trade-offs between competing priorities.

Fast, ***fit-for-purpose*** and ***pragmatic*** processes can aid business recovery and development, while processes without these characteristics do the opposite. Processes with a direct economic development impact range from resource and building consents to licences for alfresco dining.

Questions to consider on this lever include:

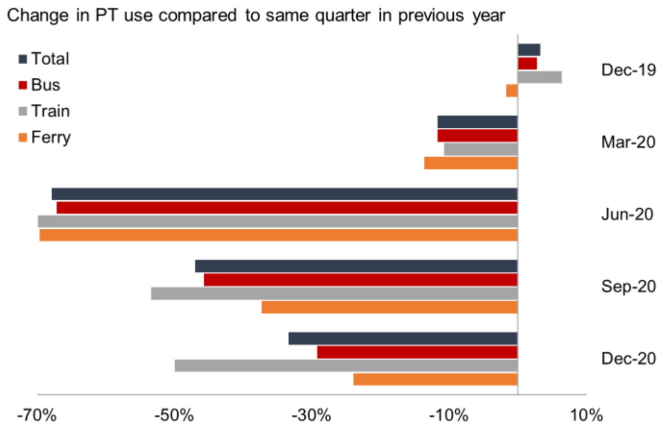
- How do we make regulatory processes faster?
- Are processes fit-for-purpose in supporting economic recovery?
- Are we pragmatic in finding solutions?
- Do we say “No”, more often than we say “Yes, that will work with these small changes”?

Lever 5: Reduce congestion, improve travel and supply chains

The Roadblocks chapter pointed out how congestion has surged since the first lockdown despite more people working from home.

Challenges also arose at the Ports of Auckland in processing cargo in the lead-up to Christmas.

Congestion and supply chain disruption are major impediments to an economy at any time, and no less so as we seek to recover from a downturn. It would be naïve to think that Auckland’s congestion problem, which has been growing through decades of under-investment by local and central government, can be overcome in the next three years. The current level of government and Council group funding for transport, and within that for PT, is a leap in the right direction.



Source: Chief Economist Unit, Auckland Council; Auckland Transport

But the mandate in this EDAP report is how we use existing services, without large additional cost, to encourage recovery. In that context, questions include:

- How do we get Aucklanders back on the bus, ferry or train immediately, and grow usage in the double digits annually, a rate needed to make any dent in peak hour congestion? Strong growth also improves commercial viability of routes.
- How can zoning and infrastructure decisions support this objective of improving travel for people and products through the region?
- How do we optimise PT routes to allow for faster cross-town travel?
- How do we avoid a repeat of the supply chain disruption in December?
- How do we get incentives right so that people use the existing transport network in the most efficient way?
- How can we collaborate with the private sector to encourage PT use and off-peak travel among their workforces?

Lever 6: Get people into centres

Retail spending in New Zealand has been remarkably resilient through the last year, but how we spend money has changed. By September 2020, New Zealand had recorded a 33% increase in quarterly domestic ***online*** spending compared to a year before, according to Marketview.

Online spending has the potential to reduce congestion and emissions. But it also discourages people from shopping locally. Larger online retailers tend to benefit to the detriment of local retailers. This can lead to hollowed out town or city centres, creating community-level social and financial issues.

The Group is engaged in a number of services that can be used to get people back into centres. Questions that arise include:

- How do zoning rules encourage development around town centres? Population density is a primary driver of sustaining a wider range of goods and services locally.
- How do regulatory processes encourage town centre (re)development and a wide range of business activity?
- Are our infrastructure projects focused on providing higher density around town centres?
- Are we prioritising town centre regeneration projects that will encourage people into them?
- Do we have frequent, widespread public transport links from surrounding suburbs into town centres, and between town centres?

- How can we best support Business Improvement Districts?
- How can we work with the private sector to change the offering businesses have, so they don't tie their success to one demographic only, such as the nine to five office worker?
- Are there activities we already provide that could be provided in town centres to lure people back there?

Lever 7: Incentivise productive activity

Prices are a major way to modify behaviour. Charge a lot for something and quantity demanded falls. Charge a little and quantity demand will rise.

Economics explains that you get the most efficient outcomes (which means better economic recovery) when things are priced accurately. Pricing accurately includes charging for the cost of producing that good or service, but also adds in the cost of any detrimental effects that good or service may have on others, or discounting for external benefits that good or service provides.

The Group sets numerous taxes and charges, from property rates, to development contributions, licensing, building consent fees, and PT fares.

In setting fees and taxes, the Group has several considerations including the actual cost of delivering a service; affordability to those asked to pay; and establishing who benefits.

Questions to consider include:

- Do Group taxes and charges reflect the market cost of delivering a service, such that it directs people to where services are most cost-effective? An example of this is development contributions. If we under-charge for this (relative to the true cost of delivering infrastructure there), land prices rise artificially, and development there is incentivized even though it may be more cost-effective to develop elsewhere.
- To what extent do Group taxes and charges cover the external (non-market) price of choices people make such that they make economically efficient choices? A textbook example of this is the decision to use the roading network, imposing travel time costs on other network users.
- How are rates and charges incentivizing people to achieve good economic development outcomes?

Lever 8: Grow skills and investment

Skills shortages in Auckland are growing for two reasons. Over the last several years, internal migration within New Zealand has seen a net outflow of Aucklanders to other regions. Second, borders remain largely closed.

Similarly, closed borders are a challenge to attracting direct investment from offshore. While we could try and attract investment from other parts of New Zealand, Auckland is already the commercial capital of the country. New Zealand's private investment funding is largely already here.

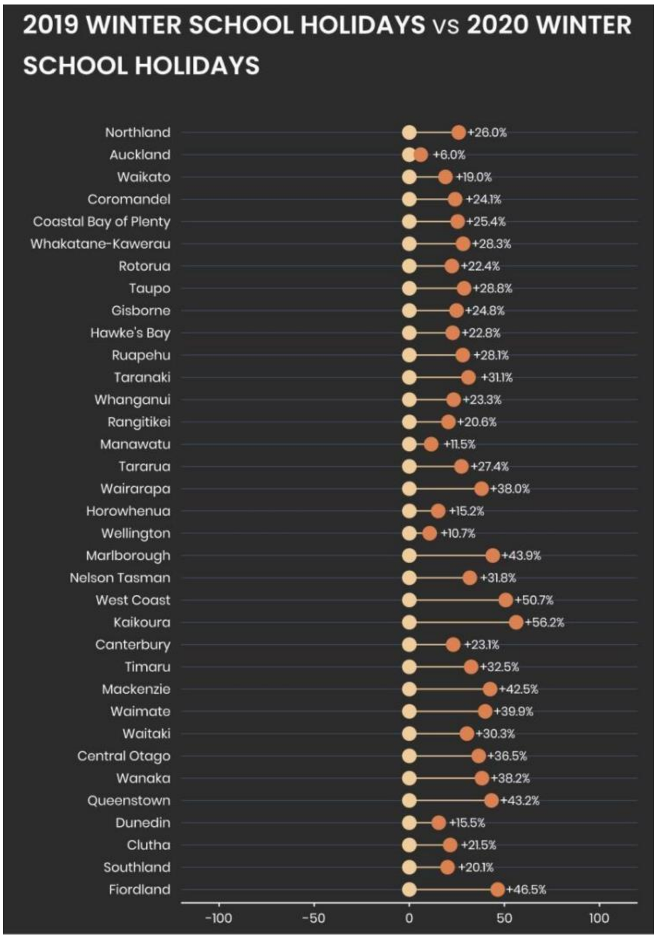
Some questions include:

- If borders remain closed for most of 2021, what role can the Group play in attracting skills from other parts of New Zealand?
- What is the role of the Group in skills development or retraining and where does that start and stop relative to central government and other organisations (see also Lever 10: Provide social support commensurate with our size and role)
- To what extent can we navigate around the challenge of largely closed borders in attracting foreign investment?

Lever 9: Fill the tourism gap

With borders closed, Auckland has struggled to attract its "fair share" of growth in domestic tourism. With 35% of New Zealanders already living here, boosting our share is hard.

But borders also won't be closed forever, and we want to be positioned for our share of what could be an unprecedented wave of tourism once perceptions on the risk of COVID-19 change.



Source: Data Ventures

Some questions to ask include:

- What does Auckland offer domestic tourists to boost our market share and how do we communicate that to the rest of the country?
- How do we prepare for open borders such that we maximise on our region's position?
- How do we answer the decades-old question of boosting the quality (spend) per visitor, rather than simply chasing numbers?
- How can we use this period of relative weakness in tourism growth to improve tourism infrastructure challenges?
- Who and how do we fund this infrastructure?

Lever 10: Provide social support commensurate with our size and role

We have identified levers primarily as groups of activities the Group can undertake to improve economic indicators beyond the Group. It is right to keep that tight definition for an economic development action plan.

The Group also provides a range of social support services through our local involvement in communities. These are not direct economic development levers, and the purpose of this report is not to list every service we provide or try to shoe-horn each one of them into somehow being economic development activities.

But some of the social services the Group provides can be ***drawn upon by the community in times of economic hardship***, helping to provide a social safety net. We should be thinking about the social services we provide and how they can support recovery.

There is also a risk that the Group attempts to provide a range and level of services inconsistent with its size and funding. The Group is too small to provide a full array of social support services. That is predominantly the role of central government, non-government organisations, faith-based organisations, marae and the like.

Historically, the Group has stepped in to tackle social challenges where a need has been identified, but this crowds out the funding and work that other agencies should provide, and at which they are specialised. This does not serve Aucklanders best, and is unaffordable.

Questions that arise include:

- How do our services support those who have lost their jobs to get back on their feet?
- How do our services help people form and maintain social connections particularly during harder economic times for many?
- Where have we seen mandate creep, putting Group funding into services that are best provided (or at least funded) by other agencies and how do we address or step back from that?
- Is our provision of social services commensurate with our role and budget?

Lever 11: Coordinate the response

Finally, bearing in mind that we cannot be the provider of all services, and that our influence extends across Auckland, but our spending is only a fraction of regional GDP, the Group can play a powerful coordination role.

We are government on the ground. We have the local knowledge and responsibility to identify areas of greatest need and then work with central government, the private sector, charities and other organisations to meet those needs.

Questions that arise include:

- How do we use our wealth of data to help inform non-Group decision-makers?
- How can we link people and organisations with the right skills together to achieve their common recovery goals?
- How can we provide advice and feedback on how these non-Group organisations can navigate regulatory processes in a fast and pragmatic way to support recovery?