

Investment attraction and global partnerships

Value for Money (s17A) Review 2017

27 October 2017

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Findings

Value for money

This review delivers on the requirement on local government, in s17A of the Local Government Act 2002, to:

“... review the cost-effectiveness of current arrangements for meeting the needs of communities within its district or region for good-quality local infrastructure, local public services, and performance of regulatory functions ...

... consider options for the governance, funding, and delivery of infrastructure, services, and regulatory functions...”

These reviews must be done at least every six years.

The purpose of this internal strategic review is to identify strategic opportunities to improve value for money. The value propositions in this report have been designed to inform council decisions whether to invest in more detailed investigation, including business case development and consultation on options.

Reviewing cost-effectiveness highlights the need to look at both effectiveness, or the value, of local government services and their cost, hence the term “value for money”.

The Office of the Auditor-General, in its 2008 Procurement guidance for public entities publication, defines value for money as:

“... using resources effectively, economically, and without waste, with due regard for the total costs and benefits of an arrangement, and its contribution to the outcomes the entity is trying to achieve. In addition, the principle of value for money when procuring goods or services does not necessarily mean selecting the lowest price but rather the best possible outcome for the total cost of ownership (or whole-of-life cost).”

We define value from the viewpoint of the customers of the services. Depending on the service, customers might be specific groups of individuals, households or businesses, or they might be the Auckland public in general.

When we consider value for money, we also look at the public policy reason for Auckland council’s current role and whether that role will continue to be appropriate in the future, given changes in factors like technology, customer expectations, the environment, legal framework, etc.

Summary of findings

- Investment attraction and global partnership (IAGP) services are well organised, aligned with strategy, and take an evidence-based approach to prioritising resource.
- The business processes accord with good, if not leading, practice. There is significant coordination effort with the many other agencies and interests in this field.
- The combined budget is not large and is stable. Therefore, the focus of this assessment is on clarity and appropriateness of purpose and evidence of impact.
- The services delivered have the potential to pack a disproportionate economic punch in terms of the amount of new investment. But it is very difficult to attribute investment and other economic outcomes to what the services do, and current measures fail to do that convincingly.

A summary of the review group's findings and recommendations to Auckland Council's Finance and Performance Committee are set out for their consideration.

Coordination

The partnership and investment attraction landscape is very crowded with many local and central government agencies chasing deals within a complex web of relationships.

Relatively recent initiatives to deal with this complexity seem to be making a difference, with greater clarity about the roles and responsibilities, and improved communication and collaboration between council and central government agencies.

There is an opportunity to improve clarity about the Auckland investment story – roles of the agencies and a shared understanding of investment priorities and sequencing.

Fee-for-service as a way to test market value, and to help offset costs

Some of the information, investigation, matching, facilitation and other brokerage-type services appear similar to those private sector firms would offer at a fee.

While it will not be appropriate for all partnership and investment attraction services, some services may be candidates for cost recovery or user charges, as they deliver a direct private benefit to the investor or business opportunity.

Need more compelling outcome measures

Big headline measures such as the number of deals and 'Foreign Direct Investment attracted' are not sufficient measures of value for money or successful performance.

Potential options to measure impact include post-implementation project evaluations, and customer and stakeholder satisfaction measures.

Increased clarity on the effects on less prosperous communities would also be welcome.

Key findings

- Together, the Business Attraction & Investment (BA&I) team in ATEED and Global Partnerships & Strategy [GPS] team in Auckland Council invest, on average, just over \$4m each year in international relationships and investment attraction activities. These activities contribute to the Auckland Plan goal of developing an economy that develops opportunity and prosperity for all.¹
- The combined budget is just around 1 per cent of the approximately \$300m per year of new investment that BA&I and GPS claim to have some role in. Also, some of the facilitation, advisory, diplomacy, strategic and risk management functions are ‘unavoidable’ for a large gateway city. As such, this VfM assessment is less about cost, and more about the clarity and appropriateness of purpose, effectiveness of execution, and impact.
- These activities occur in a crowded space which creates risks of operational inefficiencies. Other local investment activities include the Auckland Investment Office’s coordination of investment in transformational programmes, Auckland Transport’s projects, and Panuku’s urban redevelopment investments. There are also private sector initiatives, post-Treaty settlement entities, and the diplomacy, trade and investment attraction services provided by central government agencies such as the Ministry of Foreign Affairs and Trade (MFAT) and NZ Trade and Enterprise (NZTE).
- The realisation that there needed to be better coordination among Auckland and central government agencies was codified through a Memorandum of Understanding (MoU) signed in 2016. There are also various bilateral MoUs. A monthly international managers network has also been established. Their aim is to clarify agencies’ roles, improve coordination and information sharing, provide a framework for agreeing how and when offshore resources can be leveraged, and addressing strategic issues that impact Auckland agencies in the international space. We have been told that coordination and relationships have improved markedly.
- But the absence of a consolidated and clearly articulated Auckland investment story – how all Auckland agencies with investment functions fit together – remains a concern. For example, the investment opportunities being developed by separate agencies are not sufficiently coordinated and sequenced. This is important given the significant amount of transport, housing and other infrastructure investment needed over the next 20-30 years in line with planned urban growth and where people are expected to live and work.²
- We recommend Auckland’s investment agencies are tasked to work together to develop a consolidated investment story to support coordination, outlining for investor audiences who does what, and profiling current and future investment attraction and financing projects. The Auckland international managers network could be the group to progress this work, and to regularly track progress and share information. Given the trade-offs between the different council objectives for investment attraction, it will benefit from strategic Council oversight.
- Otherwise, the activities are logically selected, well-targeted and prioritised. But more needs to be done to demonstrate their net benefits, as current measures do not give sufficient insight about impact and, therefore, cost-effectiveness.

Key findings

Global partnerships

- The Global Partnerships & Strategy (GPS) team promotes Auckland's economic, strategic and cultural interests. It does this by:
 - maintaining diplomatic networks for the Governing Body with foreign cities to promote Auckland and to share knowledge and best practice
 - managing in- and outbound civic, economic and cultural delegations, and prioritising the many requests from around the world
 - advising on global engagement and impacts of trade agreements on the council (such as government procurement obligations).
- The team allocates its resources to these three functions in roughly equal proportions.
- The significant trade-flows through Auckland and the presence of networked investors means the Governing Body must maintain a strategic and risk management oversight of Auckland's international reputation, particularly in Asia. The GPS supports this function. (The international student market has shown in recent times how fast reputational damage can spread.)
- The team has a clear strategy. Its activities are targeted to economic development priorities. Over the last few years, the team has spent an average of \$1m per year. The team's size seems more or less in line with that in other cities.³
- After amalgamation, the number of formal partnerships and sister city relationships was cut from 30 to 19. Resources devoted to these partnerships are further prioritised, based on a documented analysis of potential benefit. This allows the team to be proactive on a small number of high priority relationships.
- The merits of new projects and increasing volume of delegation requests are assessed against a formal framework that considers strategic alignment, potential impact, and capacity to deliver. The impact of projects is traced over time against performance indicators, recognising the lag between action and result. These and other business processes reflect good practice.
- Various process and proximate outcome measures are used to track performance. While not perfect, the review team sees this as a better approach than counting the number and value of deals that had some involvement from the team. We suggest the team continues to evaluate projects against predetermined baselines and targets (including through client surveys and interviews) and track how it uses its inputs. We endorse the ongoing efforts to improve coordination and transparency with the other Auckland Parties and central government 'NZ Inc' agencies.
- We considered the merit of co-location or combining GPS with ATEED's investment attraction team, and nearer NZTE and MFAT representatives, to reduce coordination costs. However, given the team's advisory, strategic and diplomacy roles, its place with council's planning function and close to the Governing Body continues to be more appropriate.

Key findings

Investment attraction

- Investment attraction is managed by ATEED's Business Attraction & Investment (BA&I) group. With a budget averaging around \$3m per year and 20 staff, this is just one small part of ATEED's tourism and economic development activities (total budget \$65m).
- Investment attraction is well-organised. The BA&I Strategic Plan 2017 documents the intervention framework, priorities, and the key relationships. But there is scope to be clearer. The intervention rationale in the Strategic Plan is to "...act where normal market forces alone are unable to deliver the required level of investment".⁴
- This broad idea should be turned into very clear specific operational criteria. NZTE's investment attraction framework may be a model; it explains why it focuses on early stage and greenfield projects for investment attraction, sets out selection criteria, and identifies where it plays a lead or supporting role.
- BA&I monitors a pipeline of opportunities supported by a Customer Relationship Management system. The strategic plan is aligned with the Economic Development Strategy. The prioritisation of sectors (e.g. advanced industries), and global cities and regions is backed up with reference to international literature, data, and trade priorities.⁵
- The operational model seems to reflect best practice, including leveraging the strengths and resources of other agencies, use of digital channels, and an aftercare programme. ATEED uses the Better Business Case framework to assess initiatives.
- ATEED acknowledges that it is on a journey. Its relationships with other local and central government agencies are maturing. We were told by various sources that working relationships and coordination with other agencies have strengthened in recent times.
- Māori economic development is one of ATEED's cross-cutting priorities. In terms of investment attraction, there is a commitment to partner with iwi to identify opportunities to invest and co-invest for positive outcomes for Māori, but this capability is still developing.
- ATEED meets or exceeds its investment attraction targets (number of multinational companies attracted, the amount of investment and GDP, and the number of investors in aftercare). But these measures only provide limited insight about effectiveness; that is, the quantity and quality of impact, and they are silent on distributional impacts.
- ATEED has identified the need to do more work on spatial considerations; that is, where in Auckland to attract investment to, given the goal to lift prosperity in all communities.
- There is value in looking at other performance measures, including project evaluations that compare outcomes against predetermined baselines or controls, presenting indicators that show which groups and communities benefited, and extending the use of tools like Net Promoter Score and in-depth interviews with clients and other interests to find out what they think what value ATEED added.

Recommendations

It is recommended that council's chief executive take the following actions as soon as practicable working with the relevant council controlled organisations to:

A consolidated Auckland investment story

1. **Task** the Auckland Investment Office, ATEED, Panuku, Auckland Transport and any other Auckland agencies with significant investment attraction roles to develop a consolidated Auckland investment story to:
 - explain clearly to potential investors the respective roles and how they fit together
 - develop a shared understanding of Auckland's overarching urban growth and infrastructure development plan to guide respective investment attraction and financing projects.

Fees for investment attraction services

2. **Investigate** the business case for introducing fees for those investment attraction services that generate clear private benefits to the investors and businesses receiving the investment.

Better performance measures

3. **Develop** better measures of the impact of investment attraction and global partnership activities, such as:
 - results of project evaluations that compare outcomes against predetermined baselines or controls
 - analysis and indicators that show which groups and communities benefited
 - tools like Net Promoter Score (used by NZTE) and in-depth interviews with clients and other interests to find out what value they think was added.

Current state

Approach to this review

We did this review of the **current state** around a clear methodology seeking to understand the current operating approach and framework. This report is a summary of the current state findings. We have assessed the current drivers of value, and the issues and the challenges in delivering the services to identify and document value delivered and any improvement opportunities.

We undertook this review in three parts:



As part of our evidence-based approach we draw on a range of sources:



What we did:

- Engaged with staff from GPS and ATEED for their operational and strategic knowledge, and access to data and expert reports
- Reviewed business plans, financial reports and selected literature
- Tested the intervention logic
- Drew on international literature and reviews of international practices
- Tested our thinking with subject matter experts and other agencies involved in investment attraction and international relations

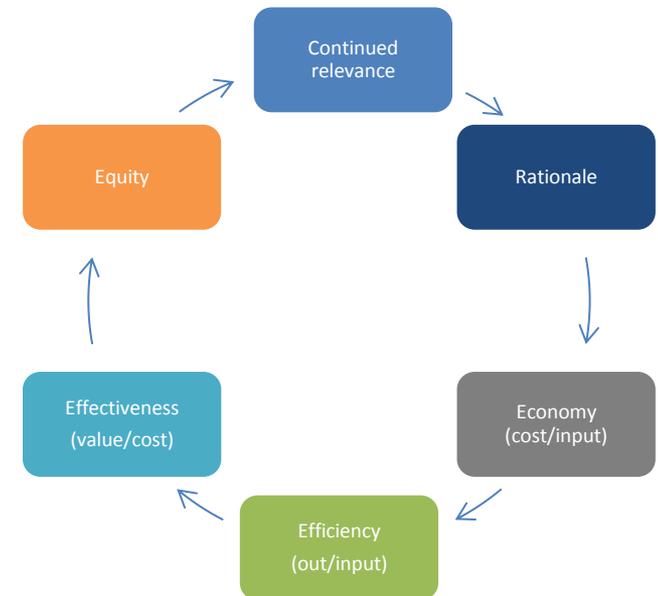
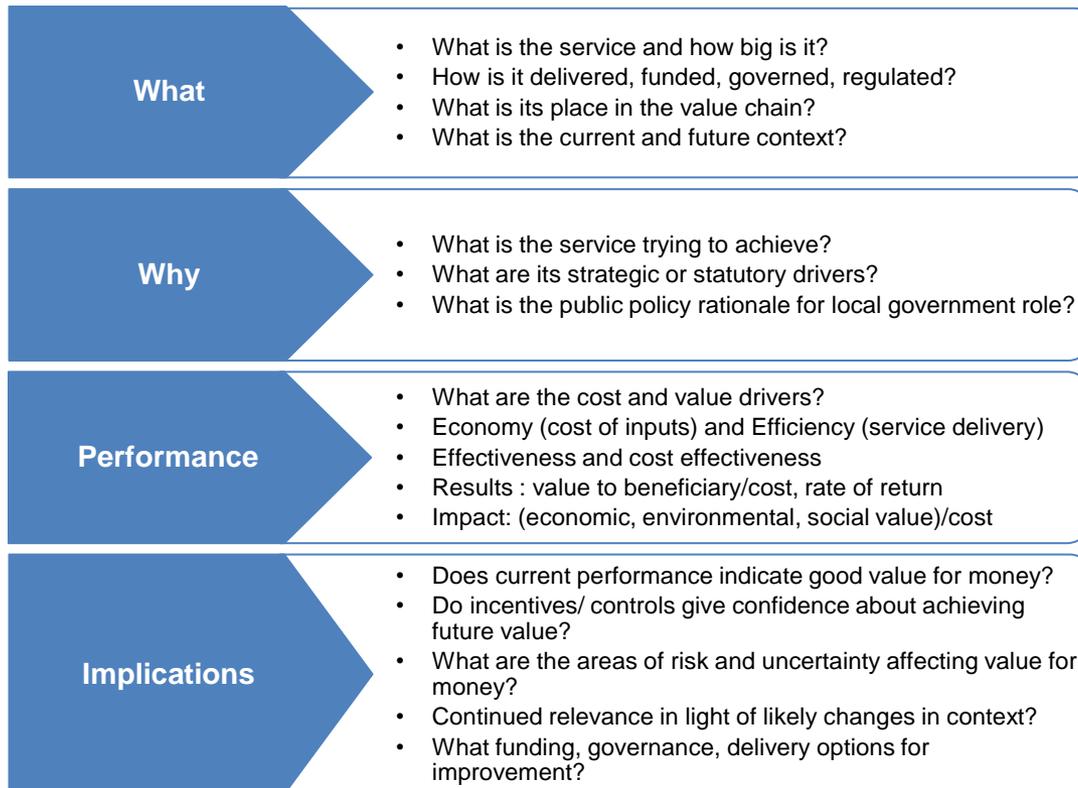
The current state assessment effort has led us to identify a list of challenges, issues and opportunities for further testing during the second part of the review.

Our methodology uses a fact-based approach

We applied our standard framework of questions to the review. The method involves testing current service arrangements, as well as asking if their rationale is still sound and fit for the future.

We then focused on specific challenges, issues and opportunities that we found most relevant for service delivery in the future.

Questions



The services covered by this review

This assessment should be read in conjunction with the review's terms of reference.⁶

The VfM review is a strategic assessment to identify value opportunities that justify further investment in developing a detailed business case for change.

This review checks whether the approach to investment attraction and global partnerships is cost-effective, and contributes towards the council's long-term plan and economic development goals.

The review covers investment attraction and global partnership services within the council parent and ATEED.

These services need to be assessed in the context of similar services provided by central government ministries and agencies, especially MFAT, NZTE and the Ministry for Business, Innovation and Employment.

This context raises questions about how roles and responsibilities complement each other, and how any potential duplication is being managed.

Global partnerships Develop and maintain international relationships between Auckland and other cities abroad for economic and cultural reasons

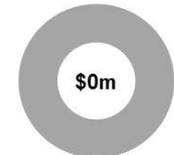
These include sister cities, friendship cities, strategic alliances and memoranda of understanding, and cover diplomatic relationships, delegations, student exchanges and project facilitation

Investment attraction Coordination and promotional services to attract business and investment into the Auckland economy

Covers promoting Auckland, generation of leads, investor facilitation, and post-investment care

Comparison to total council spend 16/17

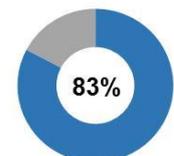
**Capital Spend
16/17
(total \$1.5b)**



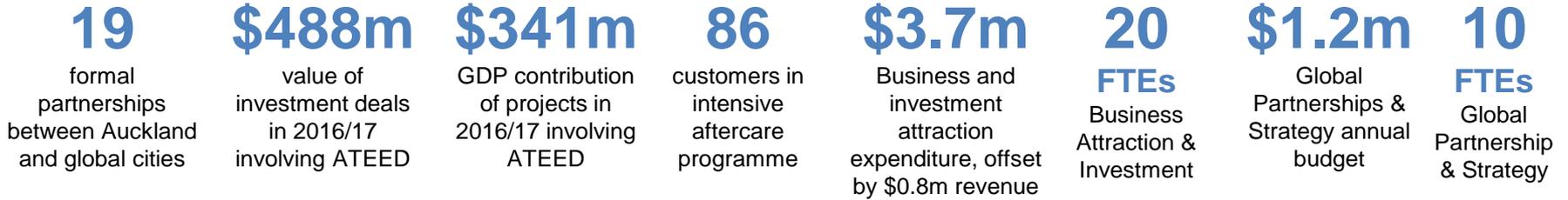
**Operating Spend 16/17
(total \$3.8b)**



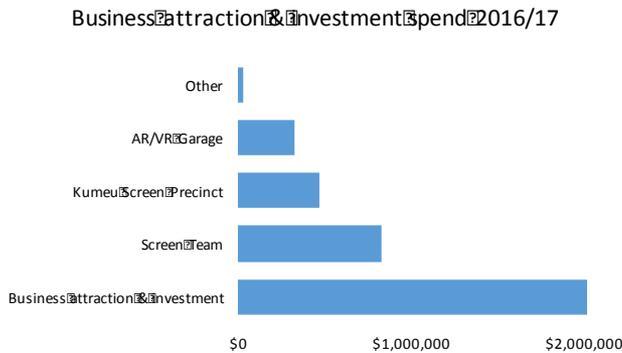
Rates funded share (\$0.23 per \$100 rates)



Some key facts⁷



Staff cost accounts for most of the GP budget. It's just over half of the BA&I budget, given other costs such as the Kumeu screen precinct



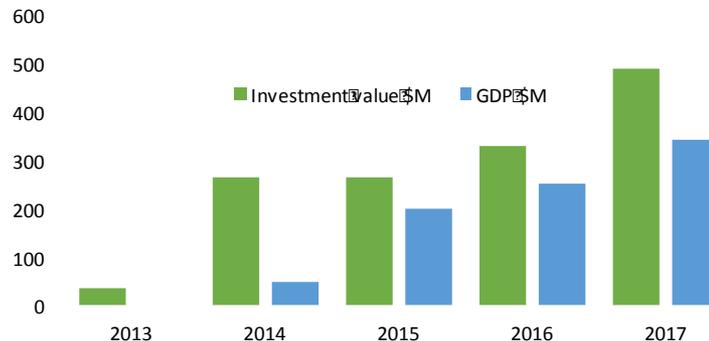
The BA&I strategy 2017 shows a sound and evidenced rationale for selecting target industries⁸

Advanced technology	Screen and creative	Food and beverage	Advanced materials	Other high-value industries
Fintech	Film production	Functional foods	Composite & polymer manufacturing	Hotel development
Health IT	Postproduction	High-value foods		Engineering consulting
Advanced manufacturing	AR/VR	Nutraceuticals and bio-actives		Business outsourcing
Cleantech	Gaming & animation			Big-box retail



- Cities: AKL, LA, Guangzhou
- \$40m value of business deals so far
- 88% of delegates said they have a greater understanding of how to successfully do business in the US or China

\$M Investment attracted that had an ATEED involvement and its estimated GDP impact



Investment attraction targets just over \$300m per year

Examples include attracting Tesla, the film *Meg*, and a major hotel build

2017 was high due to a number of major transactions



Rationale for the service : promoting Auckland in a competitive global market

- The Auckland Plan has a goal of developing an economy that develops opportunity and prosperity for all. This relies on Auckland having access to global markets, and to talent, ideas and capital.
- Auckland competes with other cities and countries for talent, capital, and trade access, and so the council as a group invests in international relationships and investment attraction activities.
- This investment sits alongside private sector initiatives led by entrepreneurs, established firms, business groups, investment banks, commercial property developers, etc.
- It also sits alongside the diplomacy, trade and investment attraction services provided by central government agencies such as MFAT and NZTE.
- The **policy reasons** for council involvement alongside these other parties are that:
 - Auckland is a gateway city that is sufficiently large and different to the rest of New Zealand to warrant specific effort
 - the marketing of Auckland and its opportunities to international audiences is a public good that could benefit all Aucklanders (and New Zealanders)
 - city-to-city diplomacy is an increasingly important way to progress trade and investment objectives, especially in Asia
 - the council can bundle business opportunities and 'entry solutions' in a way that the private sector might not or can't do (e.g. help international investors navigate the permits or consents process, taking care to avoid a perception of 'special favours')
 - there are reputational risks to manage (the international student market is an example of how reputational damage can spread).
- The **challenges** for the council are to:
 - coordinate with the agencies involved in diplomacy and investment attraction to complement each other and avoid duplication
 - promote partnerships and opportunities likely to result in net benefits for all Aucklanders, including less prosperous communities, and avoid simply subsidising selected businesses with no additional benefits
 - pursue partnerships and opportunities with a realistic risk-benefit trade-off, rather than becoming the default or last resort provider when the private sector decides the commercial risks are too high or private benefits too low.

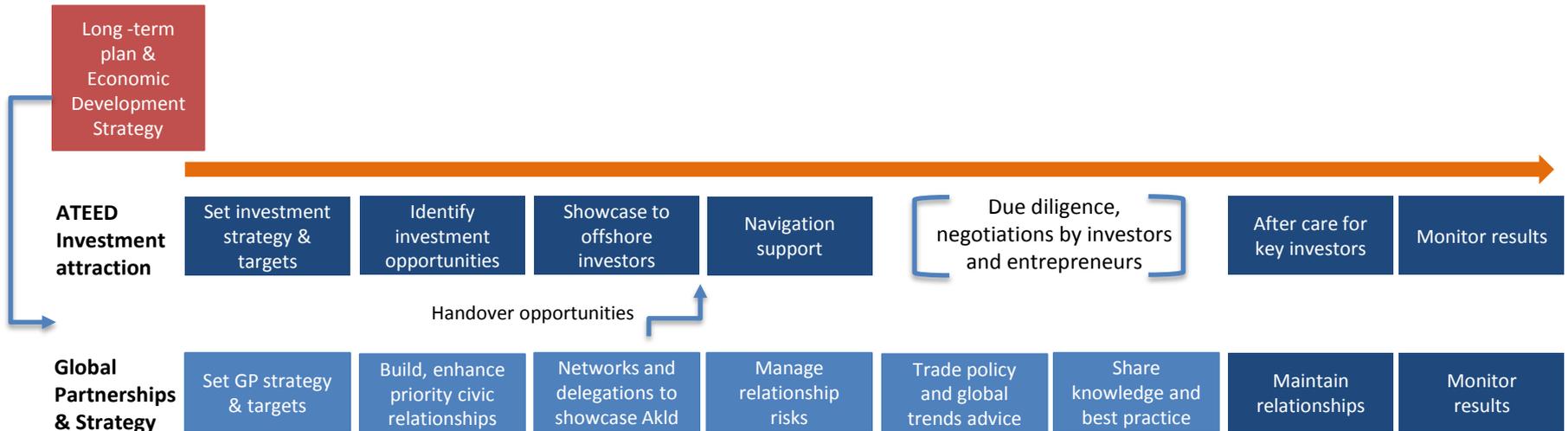
Value chain

We examined the value chain to understand the interconnected parts in delivering outcomes for Auckland.

There is clear alignment between the partnership and investment attraction activities, and the Auckland Plan and Economic Development Strategy. The activities are consistent with the central government's Business Growth Agenda.

The significant potential overlap between Auckland agencies and central government is now well recognised, and discussions and documentation indicate ATEED and GPS are clear about the boundaries of their roles and responsibilities. The boundaries are being managed through:

- bilateral MOUs, and since October 2016, a multilateral MOU between Auckland Council organisations and central government organisations
- a still nascent monthly Auckland international managers network.



The investment attraction and global partnership ecosystem⁹

The ecosystem is crowded; below are just some of the agencies with roles and accountabilities for investment attraction and international partnerships (business to business, city to city, or country to country).

The risks of both gaps and duplication at the local and national level are being managed through memoranda of understanding, and the Auckland International Managers Network. For example, Auckland agencies can leverage MFAT's and NZTE's international networks and resources in target markets, and liaise with them to agree when central government or Auckland should lead, and resource delegations or other showcasing activities.

Auckland Inc

Auckland Plan's transformational shifts
Economic development Strategy
Council funding and financing

Auckland Investment Office

Coordinate Group investment activities for major transformational projects
Develop major investment initiatives, advice on funding and financing

Auckland Council Treasury

Lead the council bond programme
Liaise with investors and credit agencies

GPS

International relations (city-to-city)
Managing in and outbound delegations
Best practice & knowledge sharing on urban development
Advice on impacts of trade policy, foreign affairs and global trends on the council

ATEED

Attract business and investment into Auckland to develop an economy that delivers prosperity and opportunity for all

Auckland Transport

Deliver Auckland's transport system
Attract providers of transport infrastructure and services

Panuku Development Auckland lead urban redevelopment – investor/developer attraction

NZ Inc agencies

Business growth agenda
Support and foster regional economic growth
Support government funding and financing

Treasury

Economic policy advisor
Infrastructure NZ and PPP unit
Capital intentions planning and investor pipeline

MFAT

International relations (inc delegations)
Advice on trade, and foreign policy

NZTE

Pipeline of international investors
Support export and outward direct investment

And many others...

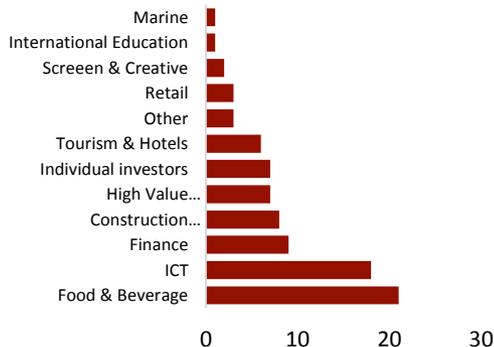
Examples of practice from other places

Local economic development initiatives and sister city relationships originated post-WWII as part of building cultural ties and a reconstruction effort in Europe.¹⁰

Elsewhere, they were motivated by areas affected by structural change (e.g. US rust belt) or rapid urbanisation (Asia).

These were temporary measures that have remained, adapting their focus as the environment changed.

Number of customers in Aroha (ATEED aftercare programme) by sector, 2017



Summary of leading practice internationally:

A review of good practice by Ecorys¹¹ identifies the following markers of good practice in investment promotion agencies:

- be clear on the specific competitive advantages to stand apart
- smart specialisation – targeting sectors and investors with bespoke value propositions
- active use of new social media to reach investors and reinforce messages. (e.g. see DCI Winning Strategies)
- collaborate with other investment promotion agencies, as the ability to tap into a wider network is of more value to investors
- provide aftercare as local networks are a source for growth of investment and jobs
- operate as a consultancy/professional services firm
- have formal links with the private sector (e.g. on the agency's board)
- measure and evaluate success.

Council practices¹²:

Local Government NZ surveyed councils in 2016 to paint a picture of economic development activities in New Zealand.

Many councils continue economic development functions despite these not being a core activity under the Local Government Act 2002, though the purpose of the Auckland spatial plan refers to the four wellbeings.¹³

Economic development is not clearly defined which may hinder accountability for performance.

The 69 councils reported the following activities:

- strategy development (59)
- visitor marketing (58)
- events (54)
- infrastructure development for an industry (47)
- case management of businesses through council processes (37)
- investment attraction (36)
- international relations (34).

Auckland Council spend on all these functions together is at the higher end on various measures, but there are concerns about comparability of data.

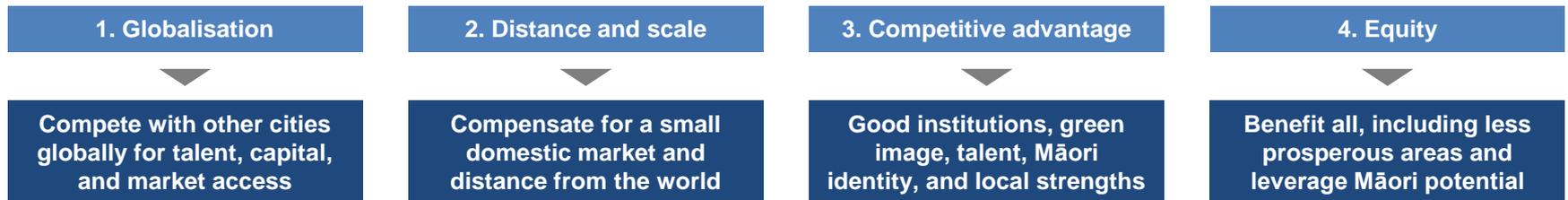
Most councils measure long-term outcomes to assess the value of the economic development activities alongside output measures, and use programme evaluations (36) and cost-benefit analysis (23). Just three mentioning the governments Better Business Case method.

Key value drivers

As New Zealand's largest city and main international gateway, Auckland's economic success is important to the whole country.

Internationally, there is increasing emphasis on city-to-city relationships to progress economic interests and address common city challenges (and, as is increasingly the case, global challenges). City-led civic engagement is an effective way to build trust with counterparties in countries like China, before significant investments can follow – a familiar concept for Māori who value doing this kanohi ki te kanohi (face to face).

There is an increasing emphasis on investment in social outcomes and public-private partnerships.



Questions

1. What investment attraction and global partnership services are being delivered by Auckland Council and ATEED, at what cost, and how do the services and costs compare to benchmarks?

2. What are IAGPS' objectives and how do they contribute to Auckland's economic development objectives, and outcomes for different population groups (incl Māori, Pasifika, Asian and other communities) and localities?

3. How many global partnerships does the council have; are they aligned with the programme's economic development objectives; what value have they contributed over the past five years?

4. How many international investment deals have been attracted and at what amount; how are they aligned with the programme's economic development objectives, and what value have they contributed over the last five years?

5. Who are the key actors in investment attraction and global partnerships in New Zealand, and what activities do they do?

6. To what degree are the IAGPS duplicated between Auckland Council, central government entities and other groups, and what opportunities are there for the council to rationalise, reduce or stop services effectively provided by others?

7. To what extent do investment attraction and global partnerships assist Māori economic development opportunities in Auckland through growth in their employment and income relative to the whole population?

8. What funding, approval, evaluation, and governance processes are in place, to give confidence that the services and activities will deliver good value to ratepayers?

Challenges and issues in realising further value

We identified five key challenges and issues.

Challenges

Issues

To coordinate council and central government agencies' efforts to foster international relationships and attract investment

What are cost-effective ways to maximise information sharing and coordination to avoid duplication or gaps, without the agencies getting tied up in red tape and stifling innovation?

To target investment in global partnerships and relationships with cities that can best support Auckland's interests in trade, capital and innovation

There are too many global partnerships and sister city relationships, some of which are not aligned with our future economic or social interests, but it would be difficult or resource-intensive to formally end them

To ensure ratepayer-funded investments generate additional benefits for all Aucklanders, and are not just a subsidy for businesses

The council risks being drawn into deals that do not stack up on economic or social wellbeing criteria, where the private sector has chosen not to make an investment given the risk-return equation

To ensure investment attraction efforts do not crowd out or take the place of private sector solutions

Investment attraction services are provided free of charge, even though investors and businesses receive private benefits from them, and the private sector could also provide advisory, facilitation and other brokerage services

To demonstrate new business and investments attracted to Auckland to benefit all Aucklanders, including less prosperous communities

The performance measures being used are only suggestive of value-added, and give no insight into the return on ratepayers' funds, and if and to what extent gains are shared across different communities

Current state: governance

There is a risk of overlap both between local entities and national agencies. We have been told that coordination and relationships between local and national agencies have improved markedly in recent times; this will help avoid duplication.

The Auckland agencies need to work together on a consolidated and clearly articulated Auckland investment story to ensure coherence between investment attraction and the sequencing of transport, housing and other infrastructure investment.

- GPS and BA&I are driven by a clear and evidence-based strategy aligned with local and national strategy. Both functions are guided by sound prioritisation processes. For example:
 - ATEED's Governance Framework seeks evidence-based management of activity and improved measurement and evaluation of initiatives, with sound prioritisation criteria.
 - GPS assesses inbound delegation requests in terms of alignment with strategy, whether a priority sector or partnership, and capacity. It also assigns opportunity scores to track how they use their resources and the value of engagements.
- The MOU between Auckland and central government agencies is now a year old, and ATEED is working with NZTE to operationalise it. We have been told that it codified emerging practices but also increased efforts by agencies to work together more closely. Even so, some noted that information flows are stifled by organisational silos. We suggest a watching brief to see if ongoing efforts to improve working relationships will pay off over the next 6-12 months, or else review if a structural solution is needed.
- We considered whether the partnerships and investment attraction functions should be put together. There may be some benefits, but our assessment is that they should remain separate.
 - Advice on international relations and trade policy, and support for civic delegations must be close to the Governing Body and the council's strategic advisory functions (especially risk management).
 - Business and investment attraction services are oriented toward business and closely linked to other economic development services delivered by ATEED.

Current state: governance cont...

- Māori economic development is a cross-cutting economic development priority. An NZIER report for the IMSB found that in 2013 the assets of Māori entities and businesses were worth \$23b or 3 per cent of the total Auckland business asset base.
- There is a commitment to partner with iwi to identify opportunities to invest and co-invest for positive outcomes for Māori, though the depth and maturity is still developing in the investment attraction.
 - Māori were involved in the design and delivery of the Tripartite Summit, and there are links with the Iwi Business Consortium and the IMSB.
 - ATEED is implementing its Māori Responsiveness Plan, with the CEO leading Whai Rawa (Māori Economic Wellbeing) as part of implementing Te Toa Takitini (Māori Responsiveness Framework) and specific investment objectives.
 - In its July 2017 update to the IMSB, ATEED also noted the appointment of a Māori Economic Development manager and a Māori Engagement Manager to provide greater internal capacity to identify and develop partnership opportunities.
- One of the primary value for money levers in functions like this lies in the capability and management of human capital; we expect that to be picked up by the internal management review of ATEED as a whole led by its chief executive, which was being undertaken in parallel with this value for money review.

Markets are prioritised for their business and investment potential, in line with national strategy and local advantages¹⁴



Key Business attraction and investment

1: Tier one regions: North America, China and Australia

2: Tier two regions: Singapore, Japan, the UK and the European Union

Global partnerships

Tier one: Los Angeles (USA), Guangzhou (China), Brisbane (Australia), Fukuoka (Japan), Pacific

Tier two: Busan (South Korea), Taichung (Taiwan), Southeast Asia, European Union

Tier three: South America, UAE, India

But there is demand for a consolidated investment story

- Discussions with key interests made it clear there isn't a good understanding of how the different Auckland agencies with investment and investment attraction functions fit together. This included comments that Auckland's investment 'shop front' remains unclear.
- This is not primarily about having a compelling marketing story when trying to explain to potential investor audiences what and where the opportunities are, or which Auckland Council group or CCO is best point of contact, though this will be helpful.
- Instead, the primary concern is that investment activities, and possibly the priorities, are coordinated. Currently, the key risk is that investment opportunities being developed and marketed by separate agencies could lack coherence with the intended sequencing of the significant amount of transport, housing, and other infrastructure investment over the next 20-30 years.
- For example, investment attraction for economic development or urban regeneration could focus on places that are, or soon will be, served by additional transport infrastructure and housing development. That could improve returns on the investment projects and on the new infrastructure and employment outcomes. It would require a good understanding of what drives investment/business location decisions.
- There is an opportunity to task Auckland Council agencies involved in investment attraction to work together to:
 - develop a consolidated Auckland investment story that clearly explains how all agencies fit together, and where their boundaries are
 - develop a common understanding of Auckland's overarching urban growth and infrastructure development plan so that this guides the agencies' respective investment attraction and financing projects and avoid misallocation of investment
 - establish a group, working party or forum to regularly track progress and share information.
- Because of the different investment objectives that the Council has, there are going to be trade-offs, and this suggests the need for clear strategic oversight, rather than a self-managed process, to guide this coordination of investment attraction across agencies.
- BA&I is clearly focused on attracting investment for **business** growth. The strategic context is one of increasing policy emphasis on social investment. This includes facilitating (co-)investment by non-government organisations and public private partnerships to lift wellbeing locally. It raises the question about the future scope of the investment attraction function (and of the economic development function in general). We do not resolve this here, but note the trade-off between specialisation to deliver economic and business outcomes, and breadth to contribute significantly to social development outcomes (with consequences for the required competencies).

Current state: funding

Services are predominantly rates-funded. This is consistent with the idea that global partnership and investment attraction services benefit Aucklanders in general.

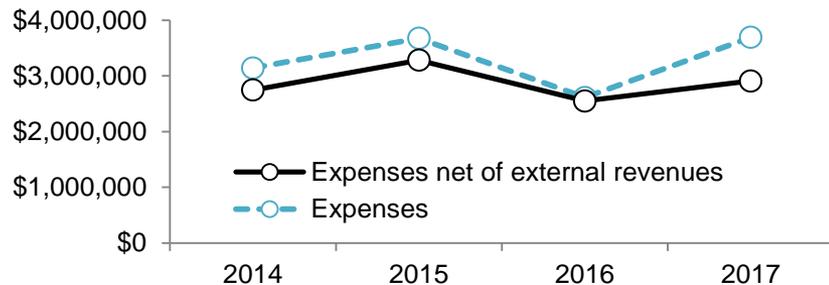
There is some revenue from user charges, sponsorship, and rental income. A case could be made that investors and businesses should pay fees for some of the investment attraction and facilitation services being provided to them.

Costs have been broadly flat:

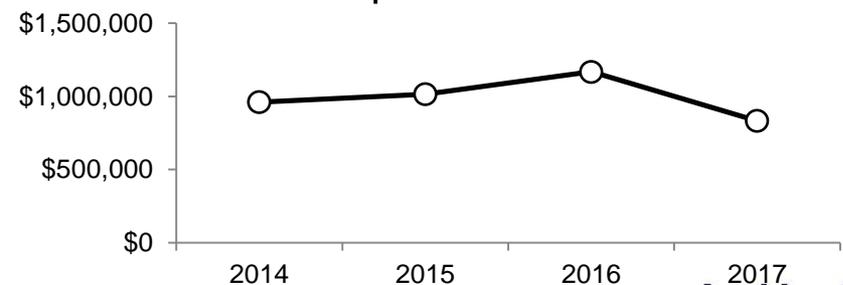
- Staff costs make up the largest share of expenditure.
- The cost of growing the film permitting team and of building specialist capability has been offset by temporary changes in reporting lines (e.g. corporate partnerships).
- The drop in expenditure in 2015/16 was due to reduced spending on advertising, marketing, and consultancy for the investment attraction function, with less reliance on contractors, and a reduction in staff.
- The new Kumeu Screen Precinct and AR/VR Garage initiatives raised operating costs in 2016/17, though this was offset by revenues from rents, user charges and grants.
- GPS' spending reduced in the last year, primarily because of reduced consultancy costs, and because a one-off grant had temporarily lifted cost in the previous year.

It is worthwhile reconsidering the case for businesses contributing to the cost of some of the investment attraction and facilitation services, because they get a direct private benefit from it (even if the wider public also benefits). It would be a true test as to whether businesses see value in the services being provided. These types of services are similar to those provided by investment banks, brokers, property specialists and business consultancies in the private sector. In recent times, ATEED decided against this idea, having trialled it in 2014. It didn't attract fee income, and it raised independence and other implementation questions.

BA&I annual expenditure



GPS annual expenditure



Current state: service delivery

Impacts are hard to measure, but clear plans and processes make it more likely that interventions have a positive impact, and reduce the risk of corporate welfare/capture of funding and assistance by special interest groups.

There is room to improve the measurement of outcomes and demonstrate how the benefits are shared across Auckland.

While we can be firm that business processes align with good practice, we are unable to deliver firm conclusions on the effectiveness of the services. This is because it is very difficult to be definitive about the contribution or effectiveness of these functions and their extra value-added:

- With time lags and many factors at play in any investment decision, it is hard to attribute outcomes to the actions of any one agency.
- Some of the potential investors are identified because they already signal an interest to invest, so there is a 'selection bias'.
- Sectors are targeted because they are expected to grow and so will draw in investment, obscuring the cause and effect relationship.

The public documents show results in terms of headline measures like the number and volume of Foreign Direct Investment (FDI) attracted and its associated GDP impact. More detailed investment attraction KPIs mainly consist of process measures (such as opportunities in the pipeline, visits, etc.). At best, these are indicative of impact.

Another issue is that the performance measures in public reports do not show how the benefits from partnerships and investments (such as a growth in jobs and incomes ahead of some baseline) are shared by different and less prosperous communities, including Māori and Pasifika. Most deals to date have been oriented around the CBD. More recently, ATEED has been working with other agencies targeting development precincts such as Henderson, Kumeu and Manukau.

We saw some examples of post-project evaluation against baselines and targets, and this should become more widespread. We recommend more meaningful performance measures be introduced, including project evaluations that compare outcomes against predetermined baselines or controls, presenting indicators showing which groups and communities benefited, and using tools like Net Promoter Score (used by NZTE) and in-depth interviews with clients and other interests to find out how they value their services.

Opportunities to improve value for money

This current state assessment has identified potential value improvement opportunities that could increase effectiveness of services.

The next part of the report assesses the potential value, risks, implementation, and the timing and sequencing of the opportunities.

#	Area	Opportunity
1	Governance	<p>Develop a consolidated Auckland investment story – task the Auckland Investment Office, ATEED, Panuku, Auckland Transport and any other Auckland agencies with significant investment attraction roles, to:</p> <ul style="list-style-type: none"> - develop an Auckland investment story that clearly explains how all the Auckland agencies with investment functions fit together - provide a common understanding of Auckland’s overarching urban growth and infrastructure development plan to guide the agencies’ respective investment attraction and financing projects, and avoid misallocation of investment
2	Funding	<p>Consider user charges – investigate the potential to introduce fees for those investment attraction services that generate clear private benefits to the investors and investment opportunities</p>
3	Delivery	<p>Find better measures of success – look to supplement current aggregate performance indicators with measures that give better insight into the value of the contribution of investment attraction and global partnership activities, such as:</p> <ul style="list-style-type: none"> - results of project evaluations that compare outcomes against predetermined baselines or controls - analysis and indicators that show which groups and communities benefited - tools like Net Promoter Score (used by NZTE) and in-depth interviews with clients and other interests to find out what value they think was added

Note: An improvement opportunity can impact more than one of the s17A review categories of governance, funding and service delivery.

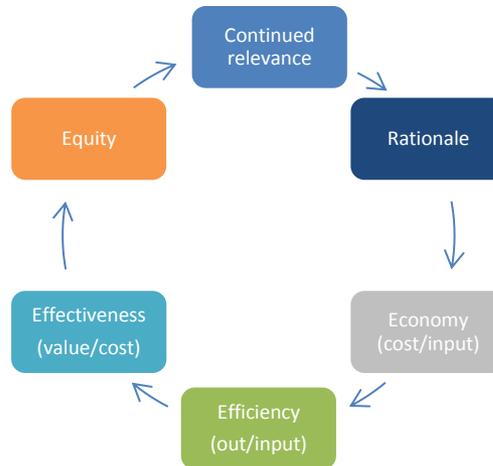
Options

Approach to options analysis

In the current state report we identified a number of improvement opportunities for waste.

In this **second part**, we have analysed these opportunities to understand the value that would be delivered by acting on these key improvement opportunities, and provide orders-of-magnitude estimates.

In this second part of the report we evaluate the ongoing relevance of governance, funding and service delivery arrangements and alternative options.



Our critical success factors draw on the Better Business Case framework

Strategic fit (strategic case)

Does the option progress the outcomes the council is pursuing, and fit with the council's role?

Value for money (economic case)

Do benefits to Aucklanders exceed costs?
Does the option provide:

- clear accountability
- transparency
- compatible incentives
- risk allocation to where best managed
- proportional admin and compliance costs

Equity (social case)

Does the option promote a strong inclusive and equitable society, and share costs appropriately?

Feasibility (commercial case)

Can the option be commercially viable?

Affordability (financial case)

Do options fit the council's financial objectives and constraints?

Competency (management case)

Has the council the competencies to execute?

Value proposition #1: Auckland investment story

IF

... we have a clear statement of the roles, priorities and plans of the Auckland Council organisations involved in investment attraction ...

BY

- tasking ATEED, Auckland Investment Office, Panuku, Auckland Transport – the council entities with substantial investment attraction roles – to work together to develop a terms of reference to guide a working party to develop a marketing story to investor audiences including:
 - the entities' respective roles and services and how they fit together
 - Auckland's overarching urban growth and infrastructure development plan and sequencing by location
 - key projects and benefits
- establishing a monthly Auckland investment forum to maintain a shared understanding of investment priorities plans and sequencing, share information, and track progress

THEN we will achieve:

- Improved the ability of agencies like MFAT and NZTE to represent Auckland's investment opportunities to overseas investors
- Improved coherence of business investment opportunities with the intended sequencing of transport, housing and other infrastructure investment over the next 20-30 years

Net estimate	+ve (not quantified)
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Ease of implementation	Easy
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Timing	< 6 months
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Overall rating	Must do
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The topic is big and sufficiently urgent to warrant regular dedicated and substantial discussion. The monthly Auckland international managers network has made a start, but it may warrant a short-term project team to deliver, after which it could be monitored by the network.

Assessment	
Criteria	Comment
Strategic fit	Better alignment of investment attraction efforts with the long-term plan
Value for money	Improved returns on both business investment (lower travel cost, better access to labour) and on transport and other infrastructure investment (higher utilisation)
Equity	Consistent with place-based economic development objectives
Feasibility	No concerns. Will require a clear lead.
Affordability	Should be a business as usual activity. Insignificant implementation costs
Competency	Core competency

Results

Summary of financial costs and benefits

Costs

- Should be a business as usual activity, primarily some staff time

Benefits

- Unquantified, but could be significant given the very substantial transport, housing and other infrastructure being planned over the next 20-30 years
- Coordination of business investment attraction and urban regeneration initiatives with planned transport and housing investments can raise their economic returns, e.g. reduced travel times for workers
- Can also avoid inadvertent costs, such as attracting investment into the wrong place, putting stress on a locality

Key risks and constraints

- Someone needs to be allocated the accountability to lead the exercise, otherwise the risk is that the status quo prevails.
 - May overlap in membership with the Auckland international managers network – could be set up as a time-limited dedicated project, and in time fold back into that network.
-

Key assumptions

- Once established, it is assumed there would be regular monitoring of progress and periodic review of the story and priorities.
 - Focus is on aligning investment attraction by the economic and urban regeneration agencies with overarching urban growth plans (in particular, land use and transport planning).
-

Value proposition #2: User charges

IF

... ATEED introduced fees for its investment attraction services where these generate clear private benefits ...

BY

- ATEED evaluating the business case (including benefits) of implementing its 2014 policy on fee arrangements for business introductions as a way to:
 - reduce costs to ratepayers
 - ensure the direct beneficiaries of the services pay (in particularly for services that are, or would be, provided also by the market)
- Identifying and publishing which of its investment attraction services are free of charge, and which ones are fee-for-service, and why, and the basis of the fee

THEN we will achieve:

- Greater scope to provide a broader set of services to attract investment by lifting the budget constraint
- Fair allocation of costs, avoiding inappropriate subsidies
- Efficient allocation of ATEED resources, as services are directed to investors/businesses that value them most
- A level playing field with private sector where it also provides scouting, advisory and broking services

Net estimate	+ve for ratepayers transfers cost to businesses
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Ease of implementation	Medium
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Timing	6-12 months
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Overall rating	Could do
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There is a trade-off between the efficiency and fairness of the beneficiary pays principle, and the risk it could undermine how the organisation is perceived by potential international investors.

Assessment	
Criteria	Comment
Strategic fit	Consistent with aim of alternative funding sources Can reduce any crowding out of private sector
Value for money	Promotes efficient use of resources as services would only be used by businesses who value them more than they cost to deliver
Equity	Consistent with beneficiary pays principle
Feasibility	Should not pose a significant issue. ATEED currently manages receipt of other sources of revenues
Affordability	Would be a revenue stream
Competency	No concerns. The quantity of transactions is unlikely to be large (though the value could be)

Results

Summary of financial costs and benefits

Costs

- Would involve some implementation costs though they are likely small

Benefits

- If fees are determined on a cost-recovery basis then the financial benefits are likely modest – some share of the \$3.7m annual expenditure on investment attraction
- To illustrate, at 25% of \$3.7m this could accumulate to near \$10m alternative revenue over 10 years.

Key risks and constraints

- Could undermine trust in the agency if charging a fee creates a perception among investors that the investment service is not independent, but motivated by chasing fees. The risk seems remote, and could be managed with transparency on which services are free and which are optional extras.
 - Could inadvertently skew the business model if it leads to staff chasing deals for their fees, rather than for their long-term economic value to Auckland and New Zealand. This could be managed through clear performance measures.
 - May not generate any fees, if business processes only supplement market services, rather than compete with, or displace, them.
-

Key assumptions

- That there is a business case for fees (taking into account the lessons from ATEED's 2014 pilot to charge fees).
 - Fees would be on a cost-recovery basis.
 - That the agency will avoid crowding out private sector investment services.
 - That fees will be consistent with Auckland Council's fees and user charges policies.
-

Value proposition #3: Better performance measures

IF

... we improved our understanding of impact the global partnership and investment attraction activities were making, including for different community groups and localities, with measures that show causality rather than association or correlation ...

BY

- Doing and reporting on project evaluations that compare outcomes against predetermined baselines (without investment attraction activity) or control groups
- Surveying all customers and stakeholders on a rolling basis to understand their satisfaction, and implementing tools like the existing Net Promoter Score to enable benchmarking
- From time to time, in-depth interviews with clients and other interests to learn about investment services they valued, how much and why
- Introducing indicators of the impact on, and satisfaction of, different community groups and localities, including Māori (mana whenua and mataawaka) and less prosperous communities

THEN we will achieve:

- A better understanding of the effectiveness and value of the services being provided, and how the benefits are shared
- Comfort that the services are not simply subsidising selected businesses with no additional benefits
- A better evidence base to decide whether to do certain activities or pursue particular investment, or whether to retreat

Net estimate	+ve (not quantified)
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Ease of implementation	Medium
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Timing	0-12 months
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Overall rating	Must do
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Assessment	
Criteria	Comment
Strategic fit	Will give better information on whether Auckland Plan and Economic Development Strategy goals are being attained
Value for money	Better evidence base on the impact and value of the activities and justification of cost. Should improve portfolio choices
Equity	Better evidence base on the distribution of impacts, so activities can be adjusted to meet equity goals
Feasibility	Measuring impact in this area is fraught but proposed approaches are achievable
Affordability	Evaluation and surveying will involve some evaluation resource. After set-up, survey costs should be small
Competency	Past monitoring reports prepared by RIMU indicate capability exists

Results
Summary of financial costs and benefits
<p>Costs</p> <ul style="list-style-type: none"> • Would require additional evaluation resource, if this type of resource isn't available to be reallocated. That would need job-sizing, but a preliminary estimate would be 1 FTE (or equivalent if outsourced) plus associated budget. <p>Benefits</p> <ul style="list-style-type: none"> • Facilitates improved allocation of resources and thus greater impact/value over time • Improved accountability to ratepayers

Key risks and constraints

- Needs further work to understand the size of the task and, therefore, cost.
 - Difficult to get right and get beyond basic indicators of inputs, process and outputs to insights on true impact.
-

Key assumptions

- ATEED and Auckland Council have people with the skills to develop new measures or can obtain them.
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Appendix

Footnotes

1. Auckland Council, February 2017, Economic Development Strategy Summary for LTP 2018-2018
2. For example, see the Unitary Plan, Auckland Transport Alignment Project, and Transport for Future Urban Growth
3. Covec. 2011. International Relations Benchmarking Review
4. ATEED. 2017. Business Attraction & Investment Strategic Plan 2017
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6. Auckland Council, 20 June 2017, Terms of reference: Value for Money Review: Investment Attraction and Global Partnerships. See also Auckland Council's Finance and Performance Committee minutes for 21 March 2017 at:
http://infocouncil.aucklandcouncil.govt.nz/Open/2017/03/FIN_20170321_AGN_6792_AT.PDF
7. Data sourced from annual plans and reports, statements of intent, and other official documents
8. See https://www.aucklandnz.com/sites/build_auckland/files/media-library/documents/Advanced_Industries_Auckland%E2%80%99s_Opportunity.pdf.pdf
9. Based on Auckland Global Engagement Ecosystem Maps, May 2017
10. Clark G, Huxley J, and Mountford D. 2010. Organising local economic development – the role of economic development agencies and companies, OECD
11. Ecorys. 2013. Exchange of good practice in foreign direct investment promotion. Report for DG Enterprise & Industry
12. LGNZ. 2017. Better economic development in local government: a discussion paper
13. See section 70 of the Local Government (Auckland Council) Act 2009 on the purpose of the spatial plan for Auckland
14. Map courtesy of ATEED

We wish to thank the following people who were either interviewed or participated in discussions relating to this review.

Contacts

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