

4. Future Trends

In this section we consider national and international trends that are likely to influence the future state of the Wellington region.

4.1 Global Trends

McKinsey has identified five crucibles of change that will restructure the world economy for the foreseeable future¹⁶. These include;

1. The great rebalancing as emerging countries begin to contribute more growth than developed ones.
2. The productivity imperative - where developed world economies will need to generate pronounced gains in productivity to power continued economic growth.
3. The global grid – with the global economy growing ever more connected with freer flows of capital, goods, information and people, which are creating an interlink network that spans geographies, social groups and economies, in ways that permit large scale interactions at any moment.
4. Pricing the planet – the next decade will see an increased focus on resource productivity, the emergence of substantial clean-tech industries and regulatory initiatives to address rising demand for resources where supply is constrained.
5. The market state – which questions how distinct national entities can govern in an increasingly globalised world.

Underpinning the crucibles of change is ever advancing technology which continues to reshape organisational strategy. In this regard McKinsey has identified ten key mega technology trends, including:

1. Value creation through the web will continue to move into the mainstream.
2. Web technologies will continue to expand access to experts around the world.
3. Continued demand around how technologies can be used to keep improving efficiency and effectiveness.
4. The growing tool kit of smart technology that can be used for all sorts of applications.
5. Growing technology for capturing and analysing the vast amount of data being created.
6. The importance of wiring for a sustainable world, given the ability of IT to eliminate carbon emissions through the application of technology.
7. Organisations monitoring, measuring, customising and billing at a much more granular level, given the ability to capture data about services supplied.
8. Continued growth in the multisided business model, where services to one group of consumers can be supplemented by revenues from third parties.
9. Innovation emerging from developing countries where technology is combined with extreme market conditions.

¹⁶ Global Forces: An Introduction, June 2010 McKinsey Quarterly

10. Producing public good on the grid where technology is important in the evolution of new public goods and the role of government in shaping economies.

These trends will impact on the way Councils provide services in the future. Taking water supply as an example, embedded senses could be used to ensure that water flowing through the systems is uncontaminated, safe to drink and identifies leaks while effective metering and billing for water ensures that the appropriate incentives are in place for efficient usage.

Local Views on Mega Trends

Recent work on the Wellington Regional Strategy and Wellington City's 2040 project has identified similar trends to those highlighted in the McKinsey reports. The Wellington Regional Strategy published five external trends that it believed would affect the growth strategy for the region:

1. Peak oil;
2. Climate change;
3. Competition internationally for the 25-45 age group;
4. Global disruption and conflict; and
5. Major shifts in national policies, e.g. energy, international markets, transport and governance.

Wellington City Council more recently has commenced drafting its 2040 strategy and has identified four key trends:

1. Place is everything;
2. Technology city;

3. Older and bolder; and
4. It's not easy being green.

This local analysis is consistent with global thinking and highlights key areas where Councils will have to evolve, particularly if they wish to maintain competitive cities in addition to meeting the Government's growth expectations.

4.2 International Cities

Truly international cities are often defined by the activities and ideas that are generated from within the city that have the ability to shape the world. New York and London, as an example, can lay such a claim with a strong international image that encompasses diverse cultural events, dynamic populations and commanding business and financial clout. Given this background, a number of broad observations have been made about the nature of these cities, including:

1. The idea that an international city is tied more closely to function than size.
2. No international city exists in isolation, rather they are hubs for leaders in a network of centres that facilitate investment and social development.
3. There is no single policy which can lead to the emergence as an international city. Rather, becoming one results from numerous smaller policy goals which through effective, integrated planning in management, have achieved a high level of innovation and implementation of best practice.

Accompanying these broad observations, there are a number of specific attributes which combine to underpin an international city. These ordinarily include:

- Economic power through industry and business concentration;
- Intellectual capital, including universities and research centres;
- Adequate infrastructure to service business and social needs;
- Adequate social infrastructure which deals with critical community concerns around health, education, housing and community safety; and
- Envable lifestyle characteristics.

New Zealand's relative isolation, size and the state of its physical and social infrastructure creates a potential barrier to its cities becoming truly international. However, it is evident that there are significant opportunities for New Zealand metropolitan areas to collaborate to a much greater degree both within and across metropolitan areas.

4.3 Central Government Perspective

John Whitehead¹⁷, Secretary to the Treasury, in a recent address to the Local Government Chief Executives' Forum, outlined the way forward for New Zealand to achieve its growth expectation.

In doing so he advised that raising New Zealand's growth performance and reducing our vulnerabilities will require consistent and incremental improvements across many fronts, including:

- Business environment: Tax, regulation;
- Investment: Skills, innovation, infrastructure;
- Public sector: Better, smarter public services;

- Macro-economy: Stable and sustainable.

He went on to state that natural resources are a key source of competitive advantage, but we need to manage our resources more effectively through:

- Deciding when to exploit non-renewable resources;
- Setting limits on resource use that reflect social, cultural, economic and environmental goals;
- Allocating the remaining resource to highest value economic use – now and over time.

In terms of Resource Management Reform the Government has recognised the need to tune up the resource management framework through:

- 2009 Amendments to provide a streamlined and simplified process; and
- "Phase II" reforms to examine better approaches for infrastructure, urban design and freshwater management, among other things.

The Secretary stressed the importance of infrastructure investment given:

- It is a key part of the Government's economic growth programme;
- There is room for improvement at both the national and local levels; and
- The Government wants to keep working with local government to maximise the economic impacts of investments.

¹⁷ Speech to Local Government Chief Executives' Forum, 18 June 2010

4.4 National Economic Geography Perspective

Philip McCann¹⁸, Professor of Economic Geography at Waikato University, in a recent publication, sought to address the reasons why the country that appeared to have best practice growth driver policies, was an average performer in the OECD. McCann’s argument is predicated on the interrelationship between geographic location, economies of scale and the diversity of production and trade.

He highlighted the growing realisation internationally of the role played by cities in generating “agglomeration economies”.

Evidence suggests:

- There are major advantages associated with industrial and commercial clustering of high value added activities;
- The geographical concentration of these types of activities is becoming more important over time; and
- The importance of cities in shaping not only the spatial distribution of activity but also the spatial distribution of productivity is beyond question.

McCann went on to highlight that all of New Zealand’s regions play a critical role in the country’s exports, and therefore anything that limits accessibility and global engagement, damages the economy as a whole.

A key inference to draw from McCann’s work is that it is vital for regions to operate integrated land use and transport planning regimes. Further, operating competitive land use activities within the same metropolitan areas, is likely to run contra to the agglomeration arguments and lead to low productivity. Allowing competing industrial zones or clusters is an example of this.

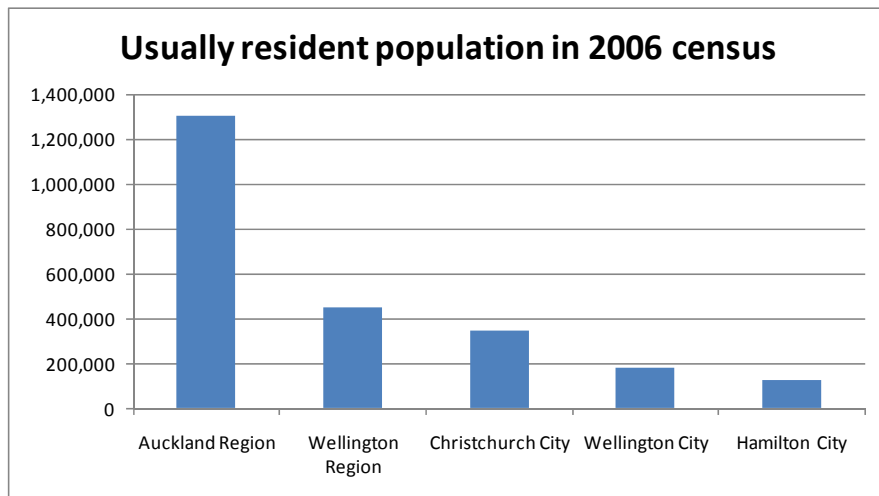
¹⁸ Economic geography, globalisation and New Zealand’s productivity paradox, University of Waikato, December 2009

4.5 The ‘Auckland’ Factor

In the lead-up to the recent local government elections, a number of candidates observed that cities and districts outside of the Auckland region would need to increase their level of engagement with Central Government to ensure that their level of influence is maintained.

Looking at a few of the comparators which will be a factor in the level of influence, there are a number of significant contrasts as the Wellington comparison highlights.

	Auckland	Wellington
Mayor	1	8 plus Chair
CEOs	1	9
Utilities:		
- Water	1	1 bulk, 9 local
- Transport	1	9 local
Total Assets	\$32,440m	\$11,890m
Total Opex	\$ 1,785m	\$ 835m
Total Capex	\$ 807m	\$ 273m
Population Represented	Per graph	Per graph



The opportunity presented by a stronger regional approach also potentially provides benefits beyond the ability to influence central government. For instance, the annual spend of key central government service delivery agencies within cities and districts far exceeds that of local Councils. Having a united pan-region approach is likely to have a more direct impact on how agency expenditure is targeted within communities.

4.6 Challenges for Wellington

This section on future trends highlights that the Wellington region faces similar challenges to many other regional and metropolitan areas. Globalisation and the ease with which both people and investment can move rapidly around the world, are challenges the region will need to address if it wants to both ensure growth and influence the way growth occurs.

Specifically the trends highlighted through this section pose several key questions:

1. Productivity - what steps can the region take to improve productivity?

2. Technology - how this can be utilised to support productivity improvements and growth?
3. Sustainability - how can the growing cost of resources be managed more effectively?
4. Population
 - How can the region accommodate growth equivalent to the addition of two Porirua Cities over the next 20 years;
 - How to address the needs of the ageing population including a likely increase in demand for publicly provided goods and services; and
 - How to attract and retain younger talent.
5. International city attributes
 - How to facilitate industry and business concentration without the benefit of a fully integrated land use plan;
 - How to grow and improve infrastructure to meet the combined needs of population change, technology based industry and efficient transport of people, goods and services; and
 - How the spend of the wider public service agencies can be efficiently and effectively targeted.

Given these trends are well signalled, the region can plan for them. It is inevitable that change will occur. The question is how the Wellington region can best position itself to address future challenges.