



N E W Z E A L A N D

CORE CITIES REPORT

PALMERSTON NORTH

Executive Summary

Competitive Advantage and
Distinctiveness Technical Report



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FOREWORD

LAWRENCE YULE

PRESIDENT OF LOCAL GOVERNMENT NEW ZEALAND

Local Government currently is investing around \$8 billion in infrastructure and services annually that enable business to operate. We are a significant and major player in New Zealand's economic development.

Critical to our success in this role is our partnership with both central government and business. Since the global financial crisis in 2008 these partnerships have been severely tested as New Zealand has reeled from a number of economic shocks most notably;

- The impacts of the GFC in 2008 including a recessionary period that has followed; and
- The Christchurch earthquake which is by global standards one of the most costly earthquakes in history.

LGNZ's Metro Mayors and Chief Executives forum pro-actively responded to these challenges in early 2011 by exploring collaborative economic networks. Using the U.K core cities model as a guide the sector formed a six city-region network and called it NZ Core Cities.

This network, led by LGNZ in partnership with MBIE, Auckland Council, Tauranga City Council, Hamilton City Council, Wellington City Council, Christchurch City Council and Dunedin City Council, invested in research to;

- Better understand the role and economic contribution our six largest cities make to the New Zealand economy; and secondly to
- Identify the "competitive advantage and distinctiveness" of each city-region¹ to help identify specific areas where collaboration can add value to the New Zealand Inc. export effort.

This report prepared by Palmerston North City Council is now the seventh report that has used the same framework. It now offers the opportunity for Palmerston North City to engage in collaborative project work such as:

- Use the research to better inform the economic development strategy for the city and region;
- Collaborate with the other cities on areas such as China engagement; and
- Sharing of best practice such as Business Friendly policies.

We would like to congratulate the Palmerston North City Council on this initiative.



Malcolm Alexander
Chief Executive
Local Government New Zealand



Lawrence Yule
President
Local Government New Zealand

¹ NZ Core Cities technical reports and Research summary 2012

FOREWORD

JIM JEFFERIES

DEPUTY MAYOR OF PALMERSTON NORTH CITY COUNCIL

Strong economic growth, a prime central location and a bright, young population have created a winning combination for Palmerston North city.

This is the first time Palmerston North has been included in the Core Cities analysis, which compares competitive advantage and distinctiveness for New Zealand's largest cities. The Palmerston North report helps us tell our city's story and confirms that our city's economic future is bright.

Significantly, a critical economic success factor is the close match between Palmerston North and New Zealand's fastest growing economic areas. Health care and social assistance, public administration and safety, and education and training contribute to our City's and New Zealand's growing economic success.

These three sectors and the City's logistics and retail sectors accounted for over 60 percent of economic activity (earnings) in our city, and nearly 70 percent of earnings growth between 2002 and 2012. The diversity of these sectors means we are well-placed to withstand any downturn in one sector.

Palmerston North's central location overcomes one of New Zealand's disadvantages that our Core Cities are physically far apart. This report finds that our central North Island location is contributing to above average growth in the retail and the logistics sectors.

Our people are another major advantage. The report points out that we have an above-average share of people with a Bachelor's degree or higher, and a lower-than-average share of people with no qualification, in comparison with the rest of the country.

Palmerston North City provides a strong economic link between the economic powerhouse cities of the north and south. Our combination of a well-educated, young population, excellent sporting and community amenities and affordable housing promises a bright future.



Paddy Clifford
Chief Executive
Palmerston North City Council



Jim Jefferies
Deputy Mayor
Palmerston North City Council

NEW ZEALAND CORE CITIES

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NEW ZEALAND CORE CITIES REPORT PALMERSTON NORTH EXECUTIVE SUMMARY



1. INTRODUCTION

- 1.1 The initial New Zealand Core Cities Research Summary report was produced in July 2012 by the Ministry of Business, Innovation and Employment and Local Government New Zealand as part of the Core Cities Project. The research was undertaken in partnership with Auckland, Hamilton, Tauranga, Wellington, Dunedin and Christchurch City Councils. It is the first product of a staged project. Palmerston North was invited to join the project in late 2012. Completing this Palmerston North Competitive Advantage and Distinctiveness Technical Report is an initial key step in participation in Core Cities.
- 1.2 New Zealand's Core Cities Research Summary, published in July 2012, provides a summary of the research on the growing importance of cities within New Zealand and within the global economy.
- 1.3 The Core Cities Project is the result of investment by Local Government New Zealand, Ministry of Business, Innovation and Employment, and the six cities. Its primary goal is to build a shared understanding, applying an agreed research framework, to reveal the economic contribution and core strengths of New Zealand's largest cities. The project also provides a common baseline for councils and the Government to use to remove barriers and strengthen the platform for businesses to grow, export and create high-value jobs.
- 1.4 Project achievements to date include the development of:
 - a public-public partnership between Local Government New Zealand, the Ministry of Business, Innovation and Employment and the six largest cities;
 - a project group comprising mayors, chief executives, and strategy and policy analysts of the key city councils;
 - a report for each city-region outlining its competitive advantages and distinctive features;
 - a list of opportunities for collaboration between the six Core Cities.
- 1.5 The Core Cities Project was initiated in August 2011.

Principles for working together

- 1.6 As part of the Core Cities Project, the six cities developed four shared principles to help them develop better connections:
- Cities offer opportunities for economic growth, now and in the future.
 - There is a shared understanding that the competition is the rest of the world.
 - City-region specialisations are based on different comparative advantages.
 - Councils will work together to improve the economic environment in all New Zealand cities.

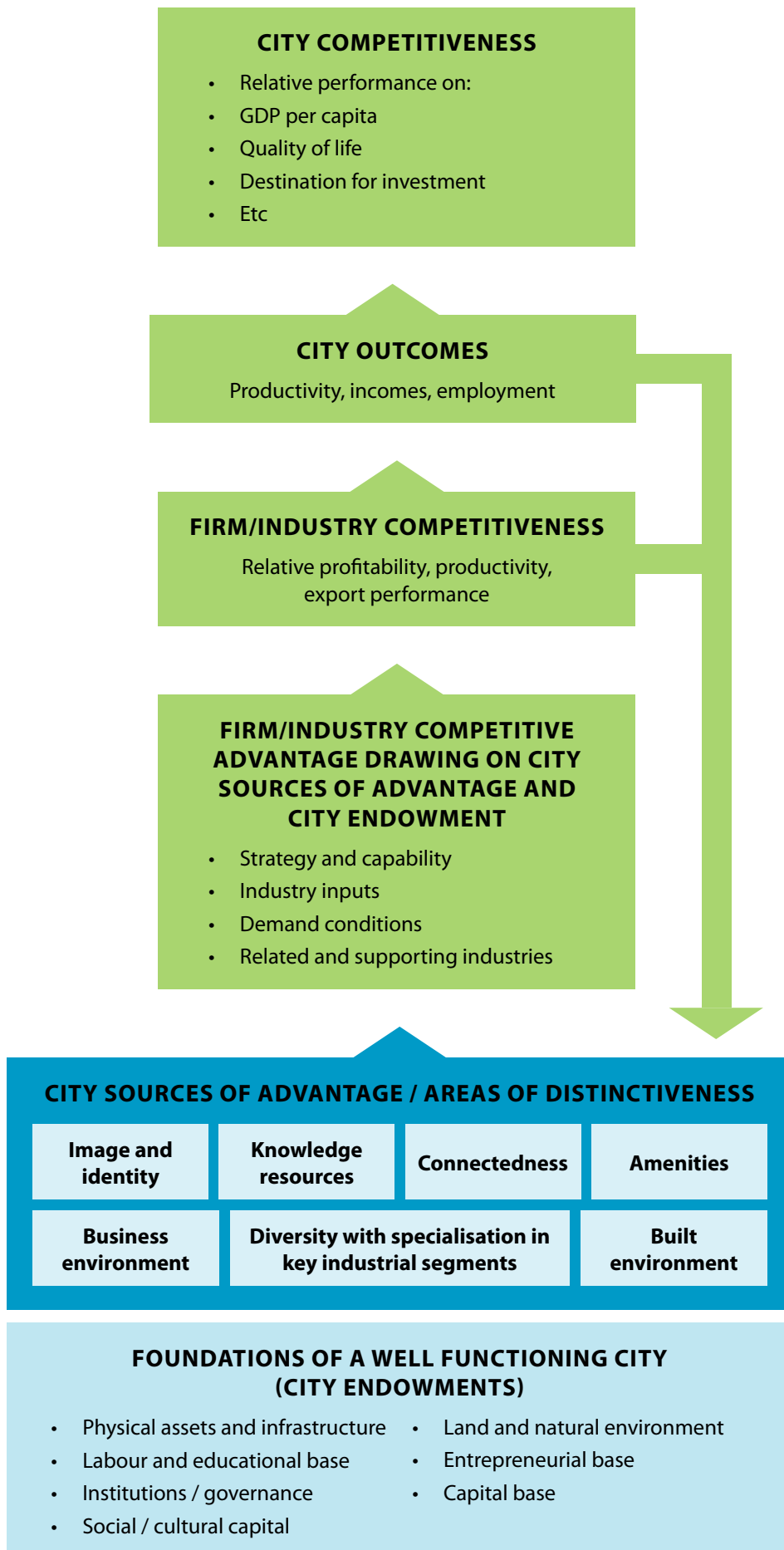
Focus areas for collaboration

- 1.7 New Zealand's six largest cities are home to the majority of the country's businesses and represent over half of the national economy. Their councils are exploring opportunities to grow their role in the national economy. Immediate and obvious focus areas are:
- sharing best practice – for example, policies and processes that build business-friendly councils;
 - continuing to jointly invest in the development of data about the city-regions and using it to support economic strategy and planning;
 - using the research on city-regions as a tool for helping to focus and guide councils' investments to support economic growth;
 - collaborating on future mayoral-led delegations in China and other export markets.
- 1.8 In addition to these focus areas, NZIER have suggested a range of policy options and research questions. These include:
- developing a coordinated development strategy;
 - quantifying the role of transport in city-region performance;
 - identifying barriers to regional business performance;
 - researching economic linkages among and between industries;
 - agreeing to undertake joint research.

2. BACKGROUND

- 2.1 Large, externally oriented cities play an important role in driving the economic development of a nation. They are usually the key entry and departure point for people and products, forming important connection points between the domestic economy and the rest of the world. The attractiveness of cities is an important aspect in a nation's success in drawing in skilled migrants who are able to contribute to improving productivity and stronger economic growth. Migrants are generally younger and more engaged in education and the workforce, so play an important role in increasing vitality in a City.
- 2.2 New Zealand is a highly urbanised country, with 86% of its population living in urban areas. These urban areas account for an even higher concentration of economic activity in New Zealand, due to higher productivity in cities and the movement of labour (commuting) into cities for employment. In 2012 the fifteen largest local authorities, in terms of earnings (salaries and wages and self-employment income), accounted for:
- 70% of New Zealand's population
 - 75% of New Zealand's workforce (job count measure)
 - 79% of New Zealand's salaries and wages
 - 77% of New Zealand's earnings (salaries and wages and self-employment income)
- 2.3 The advantages created by concentrating economic activity in large urban areas are complex, including increasing scale of production, greater diversity of suppliers and improved information about markets and technology. Clusters of similar businesses grow in an urban area because they facilitate interaction and learning from each other. Cities facilitate learning and the diffusion of technology, driving productivity growth, an important contributor to regional and national economic growth. Consumption benefits for residents in urban areas occur due to greater market sophistication and increased consumer choice.
- 2.4 The Ministry of Economic Development (now the Ministry of Business, Innovation and Employment (MBIE)) created a research framework to measure Auckland city's international competitiveness against comparator cities internationally. A framework was developed as a part of a research project into Auckland's areas of comparative advantage and distinctiveness, with the final indicator report published in April 2011. The Auckland framework for international competitiveness is shown on the next page.

**Figure 1:
Auckland's framework for international competitiveness**



- 2.5 The indicators showed that Auckland was a desirable city to live in and it attracted a relatively young international population that contributes to a youthful and entrepreneurial city. International quality of life indicators rank Auckland consistently high, as the fourth best city in the world to live.
- 2.6 The Auckland framework became the basis of the research for an expanded Core Cities Project, which was initiated in August 2011, focusing on New Zealand's six largest cities: Auckland, Christchurch, Wellington, Hamilton, Dunedin and Tauranga. Collectively, these six cities represent 55% of national gross domestic product (GDP), and 55% of the national population. The initial 12-month project was a joint public-public partnership between the Ministry of Economic Development and Local Government New Zealand, with the six City Councils, and where appropriate the economic development agency, representing each city.
- 2.7 Stage one of the project was the development of a set of city-region indicator reports, using the methodology from the Auckland competitive advantage and areas of distinctiveness report. The framework indicators were organised into seven areas of distinctiveness:
- a) Image and identity
 - b) Innovation and knowledge resources
 - c) Connectedness
 - d) Industry Structure
 - e) Amenities
 - f) Built environment; and
 - g) Business environment
- 2.8 The city reports also included analysis of city-region performance (GDP per capita, incomes and employment) and the foundations of a well-functioning city. The key sections used for the foundations analysis were:
- a) Physical assets and infrastructure
 - b) Labour – supply, mobility and quality
 - c) Institutions and governance
 - d) Social and cultural capital
 - e) Land, water, energy, waste and the natural environment
 - f) Entrepreneurial base
- 2.9 By international standards these cities, even Auckland, are small. The Core Cities project, therefore, sought to establish the foundation for a national city-region network where these cities can work together to support business and enhance New Zealand's ability to compete internationally.
- 2.10 Agreement was given in late 2012 for Palmerston North to participate in the Core Cities project and work on the Palmerston North Competitive Advantage and Distinctiveness report was started. Palmerston North is the smallest of the Core Cities but the difference in size between it and the other smaller cities in the project (Tauranga and Dunedin) is much smaller based on economic measures compared with the usual comparative indicator of population.

3. OVERVIEW OF CORE CITIES

City-region performance: GDP Per Capita

- 3.1 The measure of gross domestic product (GDP) per capita suggests Palmerston North performs relatively poorly when compared to the average for the six initial Core Cities and is slightly lower than the average for all of New Zealand. This can be largely explained by the high proportion of students residing in Palmerston North and the industry structure of Palmerston North's economy. The gap between Palmerston North and all of the Core Cities is closing, with Palmerston North achieving the highest annual average per capita GDP growth rate between 2001 and 2013.

City-region economic outcomes

Income

- 3.2 Income measures for Palmerston North show that it compares well with the average income growth rate for New Zealand, particularly for growth in annual average salaries and wages. Palmerston North has experienced the fifth fastest growth rate for earnings (salaries, wages and self-employment income) of the seven cities.

Employment

- 3.3 Labour force participation rates in Palmerston North declined between 2006 and 2013, reflecting the impact of the global financial crisis on employment levels. Also contributing to the decline in the participation rate was an increase in the City's population aged 65 years and over, and increased retention of students at secondary schools in years 12 and 13.
- 3.4 The youth unemployment rate in the City in 2013 was 28% in the 15 – 19 years age group, and 13% in the 20 – 24 years age group, compared with 17.4% and 9.3% respectively in 2006. The number of young people in employment declined between 2006 and 2013 while an additional 528 people aged 65 years and over were in employment in 2013 compared with 2006. The strongest increase in employment was in the 60 – 69 years age group.

City-region distinctiveness

Image and identity

- 3.5 Regular Council surveys suggest residents' perceptions of Palmerston North as an attractive place to live have improved, but the City is still perceived less positively as a place people would want to visit.
- 3.6 The City is experiencing rapid change in the ethnicity of its population, with its Māori, Pacific Peoples and Asian populations increasing at a faster rate of growth than the average for New Zealand.

Innovation and knowledge resources

- 3.7 Palmerston North has a well educated population, with an above average share of Bachelor's degrees or higher qualifications, and a lower than average share of people who do not have a qualification, compared with the average for New Zealand.
- 3.8 The proportion of Palmerston North school leavers achieving University Entrance standard increased between 2009 and 2012 but the rate of increase for the City has been lower than the rate of improvement for all school leavers in New Zealand. In 2013 43% of Palmerston North school leavers achieved University Entrance standard compared with 47% of all school leavers in New Zealand.
- 3.9 Palmerston North recorded the highest rate of school stand-downs in 2012 compared with the other Core Cities but the rates of suspensions, exclusions and expulsions were similar to the average for New Zealand.
- 3.10 The Manawatū region has a significant concentration of agri-tech businesses, reflecting relationships with Massey University, the Crown Research Institutes and sector-based research associations based in Palmerston North. Food HQ, based at Massey, aims to strengthen these relationships with agri-tech and food processing businesses.
- 3.11 Massey University is consistently ranked in the top 3 per cent of universities worldwide. Last year it was ranked as New Zealand's fifth most attractive employer brand in the annual Randstad Awards, an international survey conducted across 14 countries.
- 3.12 The Universal College of Learning, or UCOL, is an institute of technology and polytechnic with three campuses in the lower half of the North Island (Palmerston North, Wanganui and Wairarapa). UCOL specialises in health and science, trades and technology, and arts and design courses, as well as offering business related studies.

Connectedness

- 3.13 Most Palmerston North people travel to work by car but the compact layout of the City and relatively flat terrain contribute to a high percentage of the population who walk or cycle to work compared with the average for New Zealand. Public transport use is low but rising fuel prices and improvements in the level of public transport services have contributed to strong growth in bus patronage.
- 3.14 Data from the 2013 Census shows little difference in the proportion of households with access to the internet in the major cities. The average download speed in Palmerston North is below the average for New Zealand, but improved significantly between 2013 and 2014.

Industry structure

- 3.15 High location quotients for key industry sectors in the City mostly reflect the central position of Palmerston North in the lower North Island and its key transport connections. The diversity of sectors supporting economic growth in the City reduces the vulnerability of the City to a reduction in economic activity in one of its key sectors.
- 3.16 The outlook for economic growth in the City is strong, reflecting the City's

key strength in health care services, the fastest growing sector in New Zealand, and the benefits of the City's central location for the logistics, retail and defence sectors. Declining housing affordability and higher business operating costs in the three largest cities will continue to influence business relocation decisions in favour of Palmerston North.

Amenities

- 3.17 Palmerston North's central position in New Zealand means that most climate indicators are close to the average for New Zealand, with the exception being the below average number of annual sunshine hours.
- 3.18 Palmerston North has many arts and cultural facilities, and residents have high levels of involvement with the arts.
- 3.19 The number of General Practitioners (GPs) on a full-time equivalent basis is fairly consistent across the Core Cities, with generally higher GP ratios than the average for New Zealand.
- 3.20 Palmerston North offers a full range of sporting facilities for its residents and visitors. The City's central location, compact layout, close proximity of sporting facilities to accommodation providers and a strong retail centre gives Palmerston North a particular strength in hosting large tournaments.

Built environment

- 3.21 Palmerston North housing is the most affordable of the Core Cities, with the average house price slightly below 5.8 times the average annual salary. The affordability ratio for New Zealand was 7.9 times the average annual wage. However, housing affordability in the City has deteriorated since 2000, when the housing affordability ratio was 4.6 times the average annual salary.
- 3.22 Population density for the main urban area of the City was 1,057 people per km² in 2013, reflecting the compact layout of the City.

Business environment

- 3.23 The level of customer service is surveyed regularly by the Council but the surveys do not distinguish between residents and businesses. A regular business survey based on survey proposals developed for the Core Cities project is planned. This is likely to be conducted around the same time as the Council survey of residents.

Foundations of a well-functioning city

Physical assets and infrastructure

- 3.24 Palmerston North has a very efficient water supply system that provides an excellent level of service to all of its residents and business community. The primary system comprises two large storage dams in the foothills of the Tararua Ranges and a series of deep bores throughout the City.
- 3.25 The City is served by an effective wastewater and stormwater system. The Council has made large investments in upgrading the level of treatment to improve the quality of the discharge to the Manawatū River. A further upgrade to reduce phosphorus levels in the discharge is being planned for the next few years. The Council has embarked on a programme of consolidation of all of its wastewater discharges to one location in the Manawatū River, where all of the wastewater receives a high level of

treatment.

- 3.26 The City's roads are generally in an average condition, but there are noticeable signs that defects are increasing on some routes. Urban arterial roads are likely to experience continued traffic growth, as the population increases and new development occurs. Significant future heavy traffic growth is anticipated in expanding industrial areas. Plans are in place to address this through intersection upgrades, traffic signal installation and road widening.

Labour - supply, mobility and quality

- 3.27 The quality of higher education institutions based in Palmerston North is an important factor in attracting young people and international migrants to Palmerston North. Relatively affordable housing in the City and wider region means that labour can readily move to the City or region for employment. The proportion of the City labour force that is not resident in the City reflects the ease by which residents of surrounding communities of the Manawatū, Horowhenua, Tararua and Rangitikei can commute to the City for work. As a result the ratio between the number of people employed in Palmerston North and the number of residents in the City is high compared with the average for New Zealand and the majority of the Core Cities.

Social and Cultural Capital

- 3.28 Social capital includes levels of engagement in civic life and levels of trust and involvement in local communities. Community spirit is "a sense of belonging and togetherness, a pride in the area, and a good atmosphere among people." Council surveys show that while there is some volatility in annual survey results, the percentage of people saying that community spirit is good or very good in Palmerston North has improved.
- 3.29 Voter turnout at the 2013 election declined in Palmerston North between 2010 and 2013. The percentage of eligible voters in the City who voted in 2013 was close to the average for the seven Core Cities.
- 3.30 The Council's commitment to improving community safety has been confirmed through successful accreditation with the World Health Organisation (WHO) International Safe Communities model. This provides a useful framework for the Council to continue to address community safety in the City in partnership with other agencies through the Palmerston North Safety Advisory Board.

Land, water, energy, waste and the natural environment

- 3.31 Comparative information on the price of commercial land or the rental costs of office, retail and industrial property is difficult to find for the Core Cities but housing affordability data suggests land costs in Palmerston North are lower than the average for the Core Cities.
- 3.32 Improving the quality of public transport in Palmerston North is seen as a priority for reducing greenhouse gas emissions produced in the City. Data indicating reduced car ownership levels in the City is positive along with data showing a decline in sales volumes for petrol. Census 2013 data confirms that more people are travelling to work using public transport, the percentage travelling by cycle has increased slightly but the share of those walking has declined.

- 3.33 KiwiRail is experiencing growth in volumes of freight transported to and from Palmerston North, contributing to weaker growth in the volume of diesel sold in the Manawatū-Horowhenua region.
- 3.34 Nearly 60% of the Palmerston North waste stream is diverted from landfill. Progress has been made since 2009, largely as a result of recycling initiatives. The Council's Waste Management and Minimisation Plan has a target of 75% diversion of waste to beneficial use by 2015.
- 3.35 The average domestic daily water use in New Zealand is 300 litres per person each day, so in using 220 litres per person each day, Palmerston North uses less water than most. However, water use is generally lower in cities than in rural areas and small towns, as outdoor water use is generally less. The Council has already taken steps to reduce water use, including an ongoing water pipe renewal programme, reduction of water pressure in some parts of the system and the installation of meters for the largest water users.
- 3.36 Palmerston North has many parks and tree-lined suburbs, but the trees are largely exotic and for amenity purposes, which offer limited benefits for biodiversity. The City's rural area is predominantly farmland and relatively devoid of native bush, apart from some key reserves and small pockets of regenerating native vegetation on private land. The Council's 2013 Biodiversity Strategy focuses on increasing the health and extent of terrestrial and aquatic biodiversity in the City.

Entrepreneurial base

- 3.37 Traditional indicators of entrepreneurship such as business births and deaths are limited in their usefulness due the domination of the statistics by the property sector. High and increasing levels of investment property ownership meant that in February 2013 there were 1,281 residential and non-residential property operators in Palmerston North, accounting for 17% of business units in the City. Similarly, data for working proprietors is heavily influenced by the property and primary sectors. The high share of government sector employment in Palmerston North and concentration of employment in organisations with 100 or more employees means most indicators of entrepreneurship are relatively weak in Palmerston North.

4. CONCLUSION

- 4.1 Palmerston North is the smallest of the Core Cities but its economic performance compares well alongside the other six Core Cities. The outlook for economic growth in the City is favourable, with City strengths in sectors which are among New Zealand's fastest growing sectors (health care and social assistance, public administration and safety, and education and training). Further to these strengths, the City's central location in New Zealand is contributing to above average growth rates in the logistics and retail sectors. These five sectors account for over 60% of economic activity (earnings) in the City and nearly 70% of earnings growth in the City between 2000 and 2012. The diversity of these sectors and the factors supporting their growth reduces the risk of a downturn in one sector having a significant impact on the City's growth rate.
- 4.2 The City is the eighth largest city in New Zealand, with an estimated population of 85,900 people as at 30 June 2013, accounting for 1.9% of New Zealand's population. Population growth in the City has been weaker than the average for New Zealand since 2000, with an average annual growth rate of 0.8% for the City compared with an average annual growth rate of 1.1% for New Zealand. However, strong growth in economic activity in the City during this period has contributed to strengthening population growth in the local authorities adjacent to the City, particularly in Manawatū District.
- 4.3 Economic measures such as per capita GDP and average annual income present a different picture of the strength of Palmerston North in comparison to the population data trends. The City has experienced stronger growth rates for per capita GDP and incomes compared with the average for New Zealand. Average annual total earnings growth in Palmerston North over the period between 2000 and 2012 was 5.0%, very close to the 5.2% average for the Core Cities, and stronger than the growth rates recorded by Wellington and Dunedin.
- 4.4 The economic measures also present a different picture of the size of the City, with economic activity in the City significantly larger than the population data suggests. This reflects the 20% share of the workforce which lives outside the City boundary and strong growth in the commuter population over the past 20 years. Earnings and job count measures suggest the City is much closer in size to Dunedin and Tauranga than the population data suggests. The City's share of New Zealand annual earnings (salaries, wages and self-employment income) in the year ended March 2012 was 2.1%, close to the 2.3% share for Tauranga and 2.4% share for Dunedin.
- 4.5 Palmerston North has a well educated population, with an above average share having a Bachelor's degree or higher qualification and a lower

than average share who do not have a qualification compared with the average for New Zealand. However, the improvement in the proportion of Palmerston North school leavers achieving University Entrance standard has been slower than the rate of improvement for all school leavers in New Zealand. In 2013 43% of Palmerston North school leavers achieved University Entrance standard compared with 47% of all school leavers in New Zealand.

- 4.6 Housing affordability was identified as a priority in the City Economic Well-Being Strategy published in 2010. Palmerston North had the most affordable housing of the Core Cities in March 2013 and it is likely this difference will have widened over the last 12 months, with a small decline in average house values in the City in the year to June 2014 while the average increase in New Zealand house values was 8%. However, housing is still less affordable than it was in 2000 and further improvements in affordability remain a priority for the Council.
- 4.7 Palmerston North City offers a full range of cultural, recreational and sporting facilities for its residents and visitors. The City's central location, compact layout, proximity of sporting facilities to accommodation providers and a strong retail centre gives Palmerston North a particular strength in hosting large tournaments at Arena Manawatū and its extensive sports grounds, as well as at privately operated sports facilities. This has also supported the provision of excellent sports facilities for residents.

Palmerston North City Council
W pncc.govt.nz | E info@pncc.govt.nz | P 356 8199

We are.
LGNZ.

