

# the community is a system

GROWING ECONOMIC DIVERSITY AND RESILIENCE IN OTAGO  
ŌTEPOTI

## Contents

What are Vulnerable Communities?.....	2
Otago and Southland communities vulnerable to economic shock.....	3
The community is a system: building economic resilience.....	4
Economic consequences of the loss of a single industry.....	4
What does ‘economic diversification’ mean?.....	5
Diversification in Action.....	5
Business Attraction Strategies.....	5
Performance Measures.....	6
Examples of economic diversification in Otago.....	7
RSLG Actions to support Vulnerable Communities.....	7
Appendix: Localities data.....	9
References.....	10

## What are Vulnerable Communities?

Vulnerability can be defined as the extent to which a community, structure, service, or geographic area is likely to be damaged or disrupted by the impact of hazards. Vulnerable communities are areas susceptible to sustaining damage or disruption due to environmental, social, or economic challenges. These communities may face increased risk, leading to negative impacts on the wellbeing of the community, infrastructure, and natural systems.

Factors contributing to a region being considered vulnerable include:

- **Socioeconomic Conditions:** Low socioeconomic status, high poverty rates, and limited access to resources and services can contribute to vulnerability, as these conditions may limit a community's ability to prepare for and respond to adverse events. Communities that have lost an industry they are economically reliant on experience demographic and economic change, leading to challenges related to declining population, limited job opportunities, and reduced access to services and resources.
- **Environmental Conditions:** In the context of climate change, vulnerability is assessed based on the extent to which natural and social systems are susceptible to sustaining damage from environmental stressors. Regions with environmental degradation, weak infrastructure, and general exposure to natural hazards are considered vulnerable due to their increased risk of damage.
- **Global Economic Drivers:** The changing global supply chain dynamics and policy responses across small, advanced economies have been identified as a challenge for New Zealand (Skilling, 2022). New Zealand's economic geography and institutional context means it has one of the most exposed supply chain positions across advanced economies (Skilling, 2022).
- **Regulatory and Legislative Impacts:** Global policy and regulatory changes may have an impact on New Zealand businesses reliant on overseas supply chains. On a national scale, if a community is a large supplier of public services (i.e. health provision, universities, public administration), the community will be impacted by trends in public sector investment. This is also linked to Consumer Demand/Supply.
- **Infrastructure and Services:** Weak infrastructure, limited access to services such as healthcare and education, and inadequate social support networks can contribute to vulnerability, as these factors may hinder a community's ability to respond to and recover from adverse events.
- **Consumer Demand/Supply:** linked closely with socioeconomic conditions and infrastructure and services, consumer demand and available supply contribute significantly to vulnerability. Communities reliant on a single industry are vulnerable to economic shocks and fluctuations in demand, which can lead to economic instability and reduced job opportunities (Otago Regional Skills Leadership Group, 2023). For example, while a community may offer a wide range of services (as such within tourism), if all services are reliant on consumer demand drivers, they are at greater risk when demand stalls or declines.
- **Export Markets:** Communities that rely on exports, such as food or tourism products, are particularly susceptible to changes in global market conditions, including fluctuations in commodity prices, trade barriers, and exchange rates (Otago Regional Skills Leadership Group, 2023)

To address these vulnerabilities, communities in New Zealand can focus on building resilience, investing in infrastructure and workforce development, and collaborating with stakeholders to manage resources and address challenges effectively (EHINZ, 2023) (Ministry for the Environment, 2022).

### Otago and Southland communities vulnerable to economic shock

Queenstown is a popular tourism destination, with the tourism industry playing a significant role in the local economy. While there are many services on offer within Queenstown, the vulnerability lies in the potential for consumer demand levels to decline. This has been felt keenly through effects stemming from the Covid-19 pandemic.

Wānaka is another tourism hub in Otago, with the industry contributing significantly to the local economy. Again, while services differ from Queenstown, the sector will have felt the impact of a reduced number of tourists. Considering New Zealanders are experiencing an increase cost of living, discretionary spending may decrease for these services.

Dunedin provides a large share of public services, including health, education and government administration. The provision of public service is determined by the level of investment in this sector – and investment trends may vary. Not only does this affect those employed within this space, but it will have detrimental outcomes for the users of these services. It is also the case that demand for some these public services may decline (such as a reduction in the number of university students attending on campus due to the possibility of online learning).

The Waitaki District's economy has a concentration in primary industries, such as agriculture, fishing, and tourism. Among the broad economic sectors primary industries accounted for the largest proportion of GDP (40.3%) in Waitaki District, which was higher than in New Zealand (5.8%) (Infometrics, 2023).

The Clutha District's economy is characterized by low population density and small settlements with services spread thinly across the district. Primary industries account for a significant portion of the economy, and incomes in the Clutha District are more volatile on average compared to New Zealand as a whole, reflecting the dependency of the Clutha economy on agriculture (Wylie & Morton, 2023). Among the broad economic sectors primary industries accounted for the largest proportion of GDP (32.2%) in Clutha District, which was higher than in New Zealand (5.8%) (Infometrics, 2023).

Te Anau is again another tourism-dependent industry, with marked seasonal fluctuation. The Covid-19 pandemic highlighted the vulnerability of the area - for areas such as Fiordland, although accommodation and food services businesses were theoretically able to operate at 47% capacity during Level 3, the lack of international visitors means they were likely operating at a far lower level, with businesses remaining closed in some cases (Infometrics, 2021).

Southland is predominantly an agricultural and manufacturing focused region in terms of employment and GDP. While services are diverse in Invercargill (Southland's most populous subregion) there are some major employers who are vulnerable to changes in government investment or international priorities. New Zealand Aluminium Smelter Tīwai Point has been signalled for closure at the end of 2024 depending on the outcome of an electricity deal – meaning no fewer than 700 direct employees and 1,800 contractors to the site are at risk of losing jobs (Infometrics, 2021). Ensuring there are other manufacturing and engineering opportunities for these workers is key to ensuring their skills are retained in the region. Alternatively, identifying where their

skills can be transferred to new industry will help support diversification and retain population and skills.

While these are just a small example of vulnerable communities, further analysis on a subregional basis will help to identify where initiatives can be developed that support economic diversification. The RSLG has already begun this subregional analysis.

## The community is a system: building economic resilience

### Economic consequences of the loss of a single industry

Reliance on a single industry can make communities more vulnerable to economic shocks and fluctuations in demand, as the loss of the key industry can have significant negative impacts on the local economy and community (Otago Regional Skills Leadership Group, 2023). A single-industry economy may struggle to diversify and adapt to changing market conditions, which can lead to economic instability and reduced job opportunities (Otago Regional Skills Leadership Group, 2023)

Workforce challenges due to seasonal labour shortages are a common challenge in communities reliant on industries such as agriculture, horticulture, viticulture, and tourism (Central Otago District Council, 2019). Communities in Otago that rely on natural resources, such as water and land, face challenges related to water availability, allocation, management, and storage, which can have flow-on effects to supporting industries and the broader community (Yang & Cardwell, 2023) (Central Otago District Council, 2019).

To mitigate the negative effects of the loss of a single industry, communities can develop strategies to diversify their economy, invest in education and workforce development, collaborate with public, private, and civil sector stakeholders, and strengthen social safety nets and support systems to help vulnerable populations cope with the economic downturn.

Local governments respond to the loss of a single industry in various ways, including:

- **Economic diversification:** Encouraging the development of new industries and businesses to replace the lost industry, which can help stabilize the local economy and reduce its dependence on a single sector. The process of diversification, if successful, leads to new job opportunities, frequently in higher value adding roles (Patterson, 2020)
- **Workforce development:** Investing in education and training programs to help workers affected by the loss of the industry acquire new skills and find employment in other sectors.
- **Attracting new industries:** Offering incentives and support to businesses and industries that are willing to locate or expand in the community, with the goal of creating new job opportunities and diversifying the local economy.
- **Supporting existing industries:** Providing assistance to remaining industries in the community to help them expand and thrive, which can help maintain employment levels and tax revenue.
- **Collaboration with public, private, and civil sector stakeholders:** Working closely with various stakeholders to develop comprehensive strategies for economic recovery and revitalization, as well as to access available resources and funding to support these efforts.
- **Strengthening social safety nets:** Ensuring that social assistance programs and support systems are in place to help vulnerable populations cope with the economic downturn and transition to new opportunities.

- Promoting regional and local economic recovery: Collaborating with neighbouring communities and regions to share resources, knowledge, and best practices for recovering from the loss of a single industry.

By implementing these strategies, local governments can work to mitigate the negative effects of the loss of a single industry and foster a more resilient and diversified local economy.

### What does 'economic diversification' mean?

While there is no standard definition, economic diversification is a strategy to move an economy towards a more varied structure of domestic production and trade with a view to enhancing economic and social wellbeing (Patterson, 2020). Diversified economies are more resilient to adverse events or fluctuations as risk is spread more evenly across several industries. Diversification is regarded by some to act as a form of employment insurance for a local economy, with more diversified economies experiencing lower unemployment during cyclical downturns (Patterson, 2020).

## Diversification in Action

### Business Attraction Strategies

Various successful strategies to attract new industries have been trialled across the globe, as regions and communities seek to build their economic resilience. These strategies include:

- **Offering competitive incentives:** Providing fiscal incentives, such as cash grants, rebates, and tax credits, to companies to encourage them to relocate, expand, or stay in the community (Gonzales, Kerlin, Schaff, & Tucker-Ray, 2019).
- **Improving infrastructure:** Upgrading and expanding transportation networks, utilities, and other infrastructure elements to make the community more attractive to businesses (What Works Centre for Local Growth, 2018).
- **Targeted workforce development:** Implementing programs to train and educate the local workforce in specific industries or occupations, ensuring that there is a skilled workforce available for new businesses (D'Arcy, 2023).
- **Establishing innovation hubs:** Creating spaces and resources that support small businesses, startups, and entrepreneurs, such as incubators, accelerators, and research parks (D'Arcy, 2023).
- **Promoting the community's unique assets:** Highlighting the community's strengths, such as its natural resources, cultural attractions, or strategic location, to make it more appealing to potential businesses (United States Environmental Protection Agency, 2014).
- **Collaborating with educational institutions:** Partnering with local schools, colleges, and universities to provide training programs and research opportunities that align with the needs of target industries (D'Arcy, 2023).
- **Implementing smart growth strategies:** Encouraging compact, walkable, and mixed-use development to create vibrant communities that are more attractive to businesses and residents (United States Environmental Protection Agency, 2014).

- **Benchmarking against peers:** Comparing the community's economic development efforts to those of other communities to identify best practices and areas for improvement (Gonzales, Kerlin, Schaff, & Tucker-Ray, 2019).
- **Focusing on specific industries:** Targeting industries that are likely to thrive in the community due to its unique assets, workforce, or location, and developing strategies to attract businesses in those sectors (What Works Centre for Local Growth, 2018).
- **Ensuring accountability and transparency:** Keeping residents and stakeholders informed about the progress and effectiveness of economic development efforts, and being transparent in the use of public funds for incentives and other programs (What Works Centre for Local Growth, 2018).

By implementing these strategies, local governments can create a competitive environment that encourages new industries to locate or expand in their communities, diversifying the local economy and creating new job opportunities for residents.

### Performance Measures

Two of the most common approaches to measuring diversification focus on the extent to which jobs or Gross Domestic Product (GDP) are concentrated on certain industries, and the concentration of exports by product type or market. Considering diversification from these two angles allows for a better understanding of domestic and external factors across both supply and demand (Patterson, 2020).

Government initiatives and programs often focus on identifying and supporting vulnerable regions to enhance their resilience, reduce risks, and address specific challenges related to environmental, social, or economic vulnerabilities. Local governments can develop business attraction strategies, and measure the success of these using various performance measures and data sources. Some of these include:

- **Number of new businesses:** Counting the number of new businesses that have located in the community; development of a business-attraction program to encourage new business growth.
- **Number of new jobs:** Measuring the number of new jobs created in the community due to the attraction of new businesses.
- **Investment in the community:** Tracking the total investment in the community by new businesses, which can include capital expenditures, infrastructure improvements, and job creation.
- **Tax revenue:** Monitoring the increase in tax revenue generated by new businesses, which can help offset the costs of the business-attraction program.
- **Workforce development:** Assessing the impact of the business-attraction program on workforce development, such as the creation of new jobs and the training of locals for these positions.
- **Economic growth:** Analysing the overall economic growth in the community, including measures such as gross domestic product (GDP), employment growth, and income growth.
- **Quality of life:** Surveying residents to gauge their satisfaction with the community's quality of life, which can be influenced by factors such as access to amenities, public services, and environmental quality.
- **Customer satisfaction:** Gathering feedback from businesses that have relocated or expanded in the community to assess their satisfaction with the services and support provided by the local government.

- **Benchmarking against peers:** Comparing the community's business-attraction performance to that of other communities to identify best practices and areas for improvement.

By tracking these performance measures and data sources, local governments can evaluate the effectiveness of their business-attraction programs and make necessary adjustments to improve their efforts and achieve their economic development goals.

### Examples of economic diversification in Otago

Some successful examples of economic diversification in Otago include:

**Queenstown** has been working on diversifying its economy by supporting local niches, such as technology for tourism, and attracting diverse businesses to the region (Queenstown Lakes District Council, 2023). The town has also been exploring opportunities to build on its strengths in tourism and lifestyle to attract entrepreneurs and businesses in other industries.

**Central Otago** has focused on its main economic drivers, such as farming, horticulture, viticulture, and construction, while also promoting its unique blend of commerce and lifestyle to value-added industries looking to establish or relocate (Central Otago District Council, 2019). The region has also been working on addressing challenges related to water allocation, management, and storage, which have flow-on effects to supporting industries (Central Otago District Council, 2019).

**Dunedin** has been supporting the growth of industries related to construction, hydroelectricity, real estate, and light manufacturing (Central Otago District Council, 2019). The city has also been investing in education and workforce development to create a skilled workforce that can support new industries (Otago Regional Skills Leadership Group, 2023).

**Waitaki District** has focused on its main economic drivers, such as agriculture, tourism, and manufacturing, while also promoting its unique blend of commerce and lifestyle to value-added industries looking to establish or relocate (Otago Regional Economic Development, 2019). The region has also been working on addressing challenges related to water availability and rapid population growth.

These examples demonstrate that communities in Otago have been successful in diversifying their economies by supporting the growth of existing industries, attracting new businesses, and investing in workforce development and infrastructure improvements (Otago Regional Skills Leadership Group, 2023) (Queenstown Lakes District Council, 2023) (Central Otago District Council, 2019).

## RSLG Actions to support Vulnerable Communities

### *How can we identify and group distinct Otago communities to further understand this problem?*

Using localities data to compare regions based on their industry contributions to GDP is a useful way to begin to understand commonalities. For example, those localities with a heavy reliance on consumer-driven services could be grouped initially, with further analysis completed on the types of services provided and the future demand potential.

The initial subregional industry contribution to GDP is attached in a separate document. This will support initial 'grouping' of subregions that may have a reliance on a particular type of industry and may need support to enable economic diversification and resilience.



*What skills do people in our most vulnerable communities need to be able to adapt to change?*

To solve this issue, we first need to understand *current workforce capability/ skills profiles*. From there, the RSLG can analyse the gaps based on *projected consumer demand changes* – globally, nationally and locally.

## Appendix: Localities data

Included as attachment

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