



WAIKATO MEANS BUSINESS: AN ECONOMIC DEVELOPMENT STRATEGY FOR THE WAIKATO REGION

Shaping the next phase of the region's economic development and prosperity

February 2014

Foreword

It is a pleasure to present this strategy on behalf of the Waikato Economic Strategy Governance Group.

While the Waikato region has a range of strengths, it needs a collaborative and integrated approach to further stimulate regional economic growth. This is vitally important if the region is to meet the challenges posed in coming decades. This economic strategy will help move the Waikato economy forward and facilitate more effective partnerships between business and industry, iwi, local government and central government.

The Governance Group appreciates the number of groups and individuals, including business and sector groups, Māori business and others who have contributed to and debated the ideas, opportunities and challenges outlined in this strategy.

This strategy is high level and focuses on the key goals, objectives and strategic priorities for our region.

Thank you for taking the time to help us shape the next phase of the region's economic development and prosperity.



Hon John Luxton

Chair

The Waikato regional economic development strategy is overseen by the Waikato economic strategy governance group:

- Hon John Luxton (Chair)
- Peter Buckley
- John Cook
- Julie Hardaker
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Introduction

The Waikato region's economic performance has been solid in recent years and on most measures we perform close to the New Zealand average.

However, when we consider our advantageous location, the quality of our businesses, people and our natural assets, we have the opportunity to improve greatly on this performance. Our residents and our businesses deserve better. We should lead the way, not follow other regions.

Looking 20 years out it is apparent that we are facing natural resource and labour supply constraints. These will challenge our ability to maintain current levels of performance, and to grow. We need to add more value to our primary resources and improve labour productivity.

In order for the region to realise its potential, collaborative and focused effort is required from businesses, education and research organisations, iwi, local and government agencies and the community.

This strategy sets out the issues, challenges and opportunities that face the Waikato region. We identify strategic priorities and areas of focus to transform the region. This strategy will guide regional economic development policy, investment and activities.

This strategy document has five sections

Section 1: The economic context

Section 2: Vision, goals and objectives

Section 3: Opportunities and challenges

Section 4: Strategic priorities and areas of focus

Section 5: Flagship initiatives

A supporting background report is available on <http://www.waikatoregion.govt.nz/Economy/Annual-report/Waikato-regional-economic-development-strategy/> which provides in more detail the economic and regional analysis on which this strategy is based. The background report brings together economic data, and outlines how the region fares on determinants of regional economic growth and prosperity, forming the evidence base for this discussion paper. The report includes sections on the region's industrial economy, innovation, the region's pull-factors, infrastructure, skills, and the business and built environment.

Economic growth and development

Higher standards of living and incomes result from improvements in labour productivity, new investment and the more efficient use of resources. Businesses (entrepreneurs, employers, workers) are the engines of this growth as they invest, create jobs and find new and better ways of doing things.

Businesses need adequate and quality supplies of natural resources, labour, capital, infrastructure, and the know-how about how to combine these together in pursuit of economic opportunities. They are also influenced by the international, national and local business environment, which includes the quality of institutions, policy settings and regulation.

Regional economic development is the combination of policies, investments and actions that are designed to improve the ability of people and businesses to more productively and effectively use the resources available in our region and to respond to opportunities.

Section 1: The economic context

The region's economic story is one of unrealised opportunities.

Of New Zealand's regions, Waikato makes the fourth largest contribution to the New Zealand economy, behind Auckland, Canterbury and Wellington and represents around 9 percent of the population. However, our economic performance has been mixed over the last 5-10 years:

- GDP growth has been lower than national levels over the last 10 years, but slightly faster over the last five. This is most likely due to being not as hard hit by the global financial crisis than other regions, with its strengths in primary and food production.
- Our GDP per capita is slightly lower than the national average and has been growing slowly over the last decade.
- Employment has grown slightly faster than the national average over the last ten years. Our labour force participation and employment rates are around the national average, although our unemployment rate is better than the national average.
- The region's median weekly household income is close to the national level.
- Our estimated productivity is slightly higher than the New Zealand average but has also only grown slowly over the last decade.

\$18.3 billion

GDP, 9 percent of New Zealand's GDP(2012)

\$43,350

GDP per capita, compared to \$46,500 nationally (2012)

1.8%

Per annum real GDP growth (2002-2012) compared to 2.3% nationally

98%

Waikato region's median weekly household income as a proportion of New Zealand's (\$1,281, compared to \$1,304 for NZ)

85%

of residents happy with quality of life (2013)

1.5%

Per annum employment growth (2002-2012) compared to 1.4% nationally

5.8%

Low unemployment (6.7% for NZ, as at June 2013)

102%

Estimated productivity level as a proportion of the national average (2012)

413,200

Population (9.5% of NZ, 2013 Census night). Growing at 1% per annum (2006-2011)

In line with world wide trends toward greater urbanisation, economic growth has been uneven across territorial authorities in the region. There are areas of high performance, but also areas of underperformance. The region's major urban areas, in particular, are seeing growth but some rural areas are not performing as well.

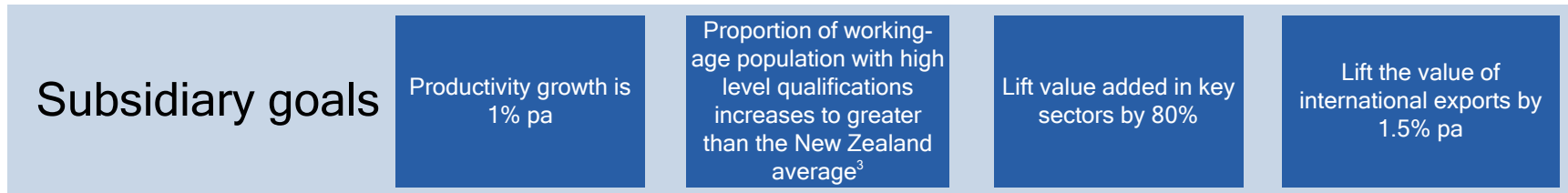
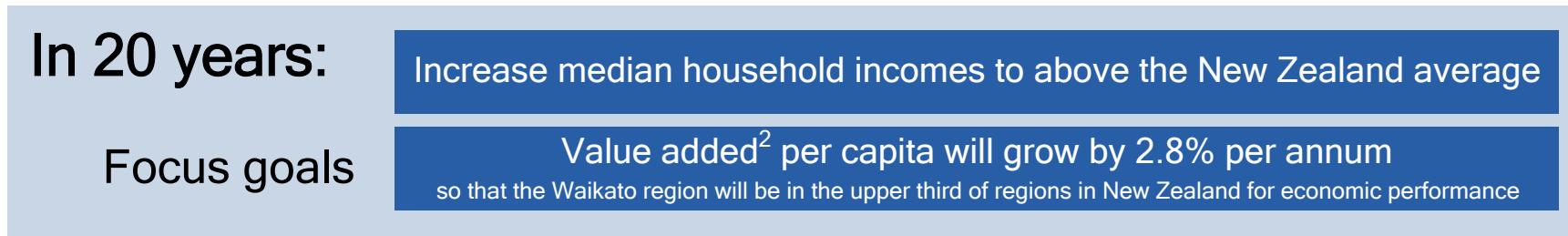
On key economic indicators and measures of prosperity, Hamilton, Waipa and Waikato often perform better than other areas, due in part to industrial structure and population growth. In contrast, Hauraki, Thames-Coromandel and South Waikato have not performed well on several measures and the latter two areas have experienced a decline in real GDP per capita over the last decade.

We want economic growth in the region to raise the living standards and well-being of all residents, communities and economies, not just a select few.

Having higher standards of living in our region is not just about economic growth. We want our residents to be happy with the quality of life and the environment in the region. Our region derives a lot of economic advantage from our land and water assets. The ability of our region to manage these resource demands, understanding how environmental constraints may limit growth, and the environmental impacts from growth in our primary production industries will be critical to our overall success.

Section 2: Vision, goals and objectives¹

Vision: We want to improve standards of living in the Waikato region, where all people, communities and businesses reach their potential.



¹ These goals do not capture the potential growth limits that environmental and ecological resources may impose. These goals should be read in conjunction with the *Growth Goals Assessment* report (<http://www.waikatoregion.govt.nz/Economy/Annual-report/Waikato-regional-economic-development-strategy/>).

² Value added or GDP represents the returns a nation, region or industry gets from the labour and capital it uses to produce goods and services, i.e., the total value of the goods and services a country/region/industry produces less the cost of the inputs used in production.

³ Working age population refers to usually resident population aged 15 to 65 years. High level education refers to New Zealand Qualifications Framework Level 4 and above.

Section 3: Opportunities and challenges

Opportunities	Challenges
Large economy with strong exporting industries	Image and branding
Amenities and natural assets	Skills constraints
Connectivity to the Upper North	Environmental limits
Leveraging Māori development	Perceptions of the business environment and support



Opportunity: Large economy with strengths in nationally significant and exporting industries

The region has a significant proportion of New Zealand's export-facing industries. Primary activities (such as dairy, meat, forestry and aquaculture, equine), agri-business, tourism and events, education, energy and mining/quarrying are already the largest contributors to economic growth, but further value could be extracted by adding value through manufacturing and provision of services.

Although key sectors are concentrated in certain areas, broader value chains operate across the region. For example, while major logging and sawmilling operations are in Rotorua, Taupo and South Waikato, further processing occurs mainly in the South Waikato and related service businesses tend to be based in Hamilton.

Primary and related processing

Highest milk production and largest dairy processor in New Zealand. Significant Fonterra presence and value added processing

Largest processing region for cattle meat exports

Largest proportion of plantation forests and significant proportion of major wood processors

Second only to Marlborough Sounds for number of aquaculture farms and farmed area

Advanced manufacturing

Wide range of materials, machinery and equipment manufacturing businesses built off the back of strengths in dairy, forestry and food production

Infrastructure-related

Largest generator of electricity

Largest producer of bituminous coal

Multiple energy sources- Waikato River (hydro), geothermal, biofuels, coal

Long history of gold and silver mining, and aggregate quarries and sand mines

Internationally-oriented services

University of Waikato and Wintec offer degree-conferring programmes with partner institutions in China

Nationally significant attractions including Waitomo Caves, Cathedral Cove, Hobbiton and Lake Taupo

Opportunity: High quality amenities and natural assets

The region has a range of amenities which make it attractive for visitors (the region is a strong domestic visitor location), businesses, and current and potential residents. These include the longest river in New Zealand (Waikato River) which is a major source of energy generation, water supply and tourism activity; the largest lake (Lake Taupo); internationally significant wetlands; most of the country's geothermal resource, including spectacular surface features and rare habitats; extensive native and exotic forests and part of the Tongariro National Park, which is a World Heritage site; and 1,150 kilometres of open coast and estuarine shoreline.

We also have a range of parks and recreational facilities, cultural and heritage assets, quality health services and education system, and a variety of affordable residential options from high density apartments and townhouses to lifestyle farm blocks.

Opportunity: Connectivity to the upper North and gateway to the South

Location is at the heart of the Waikato's advantage. The region is a nationally significant juncture for freight and transport, and has good connections to large and growing populations in Auckland and Tauranga, as well as to the central and broader North Island.

The region works with and complements activity in the Upper North. Freight between Waikato, Auckland and the Bay of Plenty represents over half of New Zealand's freight movements. Our region has excellent transport links to Auckland International Airport and the Ports of Auckland and Tauranga for imports and exports.

Waikato has the highest per capita central government capital investment in transport and communications, a good quality road transport network, two of the busiest rail lines in New Zealand, a significant airport in Hamilton and many smaller airports in the region.

The region's location has led to it being an inter-regional service hub in a number of key areas, including health, civil defence and education.

Opportunity: Leveraging Māori development

Māori make a significant contribution to the Waikato region through participation in the labour market as well as having a significant asset base, especially in agriculture, forestry and fishing and property and business services.

The region has a higher proportion of residents who identify themselves as Māori (21%, NZ 14%; 2013). The principal iwi groups in the region are Waikato/Tainui, Maniapoto, Raukawa, Hauraki, Tūwharetoa and Te Arawa.

Waikato iwi are active investors in property and finance, geothermal energy, aquaculture, dairy and tourism, which offers significant potential for our region. Tūwharetoa have investments in horticulture, geothermal power generation, sustainable farming and broadband internet (Tuaropaki), forestry (Lake Taupo Forest Trust) and fisheries. Waikato-Tainui has a major share of investment in Hamilton's commercial and retail space, including the Airport Hotel, Ruakura estate, Novotel and The Base in Te Rapa.

Challenge: Image and branding

While local businesses and residents on the whole have a positive image of our region, we have not yet been able to project this nationally and internationally.

Our region is well known as a centre for dairy and beef, but less well for other key sectors such as advanced manufacturing and services. Our competitive advantage is not well known, agreed or consistently articulated.

We have a quality education system including good primary and second schools as well as a high performing tertiary sector. However, this is not well known nationally and internationally.

Three regional tourism organisations (RTOs - Hamilton and Waikato Tourism, Destination

Coromandel and Destination Great Lake Taupō) promote and attract visitors to our region. Although our region is estimated to secure 10 percent of national visitor expenditure (a similar proportion to comparable regions), we have low average visitor nights across all RTO areas. We have only been slowly growing the number of international students.

Challenge: Skills constraints

We need to improve the levels of education achievement and skills in our region if we are to improve standards of living:

- Waikato region has a relatively low proportion of the population aged 15 years and over with tertiary qualifications (16%, NZ 20%; 2013), and a high proportion of school leavers without at least NCEA Level 2 (30%, NZ 26%; 2012)
- We have lower proportions of the adult population with higher literacy or numeracy (around 6% lower than the national level and lower than most New Zealand regions; 2006)
- We have a relatively high proportion of youth not in employment, education or training (13.0%, NZ 12.5%; year to September 2013)
- Higher proportions of Māori than non-Māori leave school with lower levels of qualifications. This is of particular concern given our relatively large Māori population, which is projected to continue to grow at a faster rate than other ethnic groups.

Several Waikato employers have told us that they have difficulty attracting, developing and retaining people across the skill/occupation spectrum.

Challenge: Environmental limits

Water, the marine environment and coastline are critical to our economic base.

Water quality and quantity are significant issues for the region. This is strongly influenced by increased levels of nitrogen in waterways, increased demand for freshwater for irrigation and to meet population growth, and climate change and the potential for increased droughts. The availability of high class soils (also referred to as high quality soils) are under threat due to sub-division and intensification of land use, which could impact on the potential of our agricultural industries.

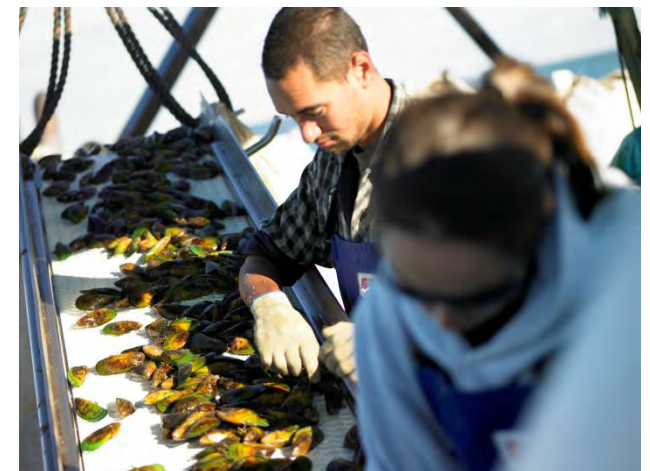
Any industry growth must consider the need to manage or avoid environmental impacts and constraints. Growth in existing primary industries needs to come from increasing the value of processed products (manufacturing) and services.



Challenge: Perceptions of the business environment and support for innovation

Businesses in the Waikato have identified areas where the regulatory environment could be improved, including improving council engagement with industry when developing or applying regulation (for example, through 'key account' services), improving consistency in consent processing across councils, and pooling of capability when significant developments are being assessed. Several councils have already identified, and are working on, such improvements.

Our region has a wide range of organisations that aim to support business development and innovation. But in some industries, such as agri-technology and manufacturing, it is perceived that research, education and support organisations could do more to work with business to help solve their technical and innovation problems.



Section 4: Strategic priorities and areas of focus

Strategic priorities are the key areas our region needs to address or leverage to achieve our goals

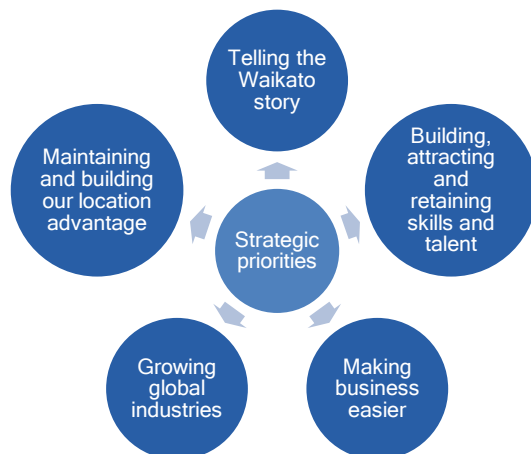
Maintaining and building our location advantage

This priority is about:

- continuing to maintain good international connections through Auckland and Tauranga, and broader connections to the rest of the North Island
- continuing to improve the quality of our local transport and broadband networks
- building links between industries across the region, traversing territorial boundaries
- recognising the importance of transport and freight between the primary and processing industries within the region
- recognising the role of the region as an inter-regional service hub

Areas of focus:

- Ruakura Hub (see Flagship initiatives)
- Continued investment in infrastructure
- Upper North Island Strategic Alliance
- Waikato region spatial plan



Growing global industries

This priority about:

- encouraging greater value-added, capital investment, sustainable innovation and productivity improvements from our natural resource-based and related industries, and tourism and events sector
- better coordination of industry and stakeholders across value chains
- encouraging and supporting businesses to develop international markets
- encouraging improved linkages between business and innovation support

Areas of focus:

- Maximising value from primary production (see Flagship initiatives) and ensuring industries with growth potential are supported
- Building linkages between and within research and industry, including through the proposed Waikato Agricultural Research Hub and Callaghan Innovation
- Joint Waikato-Bay of Connections aquaculture strategy
- Working with Māori entities and businesses to explore export opportunities
- Leveraging our energy resources

Making business easier

This priority is about:

- ensuring business support is well targeted and value for money
- providing a consistent approach to local government regulation and relationship management with businesses across the region

Areas of focus:

- Regional coordination of business support
- Key account management within each council, consistency in planning and regulatory processes across the region, and better council and industry engagement.

Building, attracting and retaining skills and talent

This priority is about:

- increasing levels of literacy and numeracy and educational attainment in our youth and workforce
- building a responsive and flexible skills system to respond to changing market and industry requirements
- ensuring businesses can attract, develop and retain the skills they need to grow.

Areas of focus:

- Reviewing the effectiveness of local skills initiatives and scaling up successful initiatives, including initiatives to build skills in youth, literacy and numeracy skills and transition people to work
- Better coordination of skills initiatives, through a regional labour market strategy including enhancing the relationships between education providers and industry
- Working with iwi to develop skills and retain young Māori in the region

Telling the Waikato story

This priority is about:

- articulating the Waikato region's value proposition as a place to live, work, study in, visit and invest
- maintaining, growing and promoting our region's spectacular natural assets, cultural and heritage assets and identity, Maoritanga and Maori enterprise, education offering, business successes, a strong events calendar and good infrastructure

Areas of focus:

- Developing a credible visitor, talent attraction and retention and investment offer (see Flagship initiatives) and ensuring alignment with the Government's "New Zealand story"
- Regional tourism strategy, including coordination of the work of the three regional tourism organisations in the region
- A regional approach to talent, business and investment attraction and retention

Section 5: Flagship initiatives

Tests for flagship initiatives

Support the development of the Ruakura hub



The proposed inland port at Ruakura, which utilises the East Coast Main Trunk line and the proposed Waikato Expressway, will complement the Fonterra hub, and generate further business investment activity by leveraging Waikato's central location. The Ruakura area covers over 800 hectares. Tainui Group Holdings (TGH) owns almost 500 hectares of the land to be developed and Chedworth-Park Limited (CPL) owns 116 hectares, which will be developed specifically for residential use. Some of the land included in the project is already in use by AgResearch and Waikato Innovation Park. The initial stages - the inland port and freight logistics hub will cover 80 hectares. It has been estimated that the proposed hub could create an additional 11,000 jobs for the region, contribute an additional \$1 billion in GDP by 2061, and increase exports by 2 percent, with other assessments suggesting the benefits could be even higher. TGH and CPL have sought a private plan change to the Hamilton District Plan. The Environmental Protection Authority has determined the development and plan change is part of a proposal of national significance. The plan change has been referred to an independent Board of Inquiry for a decision.

Potential impact

is likely to have sizable impact on the economy and achieving the economic goals

Practical and manageable

is realistic and able to be implemented

International orientation

has the potential to increase export earnings, overseas investment and/or attract skills

Collaborative

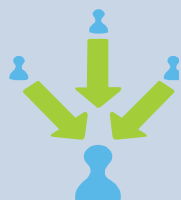
involves a number of partners

Leverages existing investment

builds on current work and investments

Consistency with national priorities

Establish and execute a regional labour market strategy



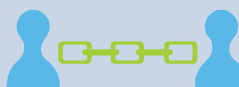
The region has workforce gaps, and skills issues. Despite a strong research and education sector (primary through to tertiary, including University of Waikato, Te Wānanga o Aotearoa and Wintec) our businesses struggle to attract, develop and retain the right people. The main challenges identified include: weak linkages between industry and secondary education (so that good and relevant careers information is provided and that literacy, language and numeracy issues are addressed), the lack of regionally consistent labour and skills data and knowledge, monitoring and evaluation of the success of career pathway initiatives and coordination of current initiatives to ensure limited resources are targeted at priority areas. Support is required to develop a regional skills/labour market strategy and forum to address these issues.

Attract talent, visitors, and businesses through a clear investment offer



The Waikato is in a prime position to attract visitors, international students, workers, businesses and investment. The region forms two points of the international tourism triangle of Auckland, Waitomo and Rotorua; we have good infrastructure, relatively affordable housing and plentiful land supply. Thames-Coromandel and Taupo are strong domestic visitor locations; we have nationally significant attractions such as the Waitomo Caves, Cathedral Cove and Lake Taupo. The region has significant events (including sporting and equine-related events) and good quality event infrastructure. The region would benefit from a clear, co-ordinated business, visitor and talent attraction strategy and offer that clearly articulates these points of difference and which is tailored to key target markets.

Maximise value from primary production



The Waikato advantage includes natural resources, major businesses involved in primary production and related processing and a strong base of science and research in the primary sectors. However, more value could be extracted from our forestry, meat, dairy, aquaculture and materials sectors through further processing and innovation. Waikato Innovation Park, Crown research institutes, private researchers, tertiary education and a vibrant manufacturing sector all reside in the region, but the connections are not as strong as they could be. Bringing these strengths together could secure the region's reputation as New Zealand's centre of production, engineering and manufacturing.