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Contents

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Commentary

Warren Hughes

In the December 1998 issue of the *Bulletin* it was stated that "no significant upturn in regional economic activity is expected before the second half of 1999". Halfway through this period it is fair to say that the region is still waiting, however, there could be light at the end of the tunnel. The Asian economies appear to be recovering steadily, although a relapse is always possible. Japan's tentative revival at this point reinforces the Asian progress and if Japan can accelerate its growth, the entire region including NZ and Australia will be back on track to increased prosperity.

Forestry, farming of all types and tourism can be moderately optimistic which bodes well for the construction and retailing sectors throughout the region. A related article entitled *Growth in the Bay of Plenty for 1999* documents significant growth in Waikato's neighbouring region, especially in the Tauranga and the Western BOP districts. The attractiveness of this region for retirees is now being augmented by increased optimism in the forestry, wood products, Kiwifruit and horticulture sectors. In addition, significant growth in cargoes through the Port of Tauranga mean increased business for the transport and storage sectors in this region. A healthy growth rate of 9% is projected for the Tauranga and Western Bay zone, significantly higher than the 3% rate projected for NZ as a whole.

In December 1998, Hamilton City Council established a Rating Task Force to review the rating system in the city and recommend changes. Alan Neilson was a member of the Task Force and he reports on aspects of the study in the article *Setting Rates for Hamilton City.* The pros and cons of different approaches to rating will be extremely useful for those dealing with these difficult issues as we approach the new millennium.

In the article *Socio-Economic Gaps Between Māori and Non-Māori in the Waikato*, authors Sheryl Chase and John Gibson document points of concern to all New Zealanders. Government policy must attempt to narrow these gaps using measures that are sustainable and that minimise the need for continuing benefits. More creativity in NZ's educational system is desperately needed to eliminate the gaps in attainment for different segments of NZ society.

Within the Waikato region, some districts that rely on agriculture have experienced very tough times in recent years. Low commodity prices, the Asian crisis and a high NZ dollar have meant low returns for businesses in these districts. *An Economic Analysis of the Matamata-Piako District* provides a snapshot of such a Waikato district. The dependence on pastoral farming for such districts is starkly revealed in the employment statistics. Much of the manufacturing and service sectors are closely related to farming as well. This lack of diversification makes such districts vulnerable economically. In good times, they can be very profitable but may lack the opportunities to diversify much beyond agriculture. The trend to large processing plants (often located elsewhere) means these districts will need to exercise creative strategies to generate new employment opportunities within their districts.

Stuart Locke and Frank Scrimgeour have just completed stage one of their research into governance issues in Local Government. Their report documents how local councillors in the Waikato region feel about certain aspects of council management. These results, together with Alan Neilson's review of rating systems, should help councils address some pressing problems of Local Government throughout the region, and ultimately in all of New Zealand.

Finally the usual sections on *Economic Statistics* and *Regional Indicators and Outlook* summarise the region's recent progress and attempt to look ahead. While the recent past has been somewhat gloomy, the projections here show an upturn in construction and steady retail sales, assuming no Asian relapse.

Growth in the Bay of Plenty For 1999

Warren Hughes

Introduction

Over recent years the Bay of Plenty (BOP) region has been one of the fastest growing regions in New Zealand (NZ). Tauranga District Council (D.C.) is currently the fastest growing region in NZ and Western BOP D.C. is the third fastest. Although always highly regarded as a retirement and holiday/tourist location, Tauranga (and the Western BOP generally) are now equally well regarded as a desirable location for industry. One reason industry is drawn to this location is the Port of Tauranga. The availability of good logistics for significant large scale, cost-effective importing and exporting to and from other NZ locations as well as overseas has made the Western BOP and the BOP generally one of the best locations for industry in NZ.

The four regions surveyed and analysed in forecasting 1999 growth were as follows: Tauranga D.C. (TDC), Western BOP D.C. (WBOP), Whakatane D.C. (WDC) and Opotiki D.C. (ODC). All four regions collectively have been labelled Coastal BOP or CBOP. For some activities such as tourism, the CBOP may be best considered as one region.

Unlike Tauranga and the WBOP, Whakatane and Opotiki are more dependent on the primary sectors. Whakatane is adjacent to Kawerau D.C. and comes within the orbit of the large pulp and paper plants located in Kawerau. This diversifies Whakatane away from its dependency on the primary sectors. The better outlook for pulp and paper has raised forecast performance in 1999 for the Whakatane region. The outlook for those regions dependent upon the traditional rural sectors were not bright for the 1999/2000 season at the time the surveys were conducted. However, the longer-term prospects for Whakatane and Opotiki are positive with significant regional follow-on processing in the dairy and meat sectors. This advantage is confirmed with the logistical service provided by the nearby port. The only proviso here is that better management in the processing and marketing for these sectors is *essential* if these long term advantages are to be realised in actual returns to farmers and growers in these regions. In the age of mega-site processing plants, any region losing such a facility must recognise that it may never replace this employment base with alternative activities.

Table 1 below illustrates the importance of the Bay of Plenty (BOP) region in the wider New Zealand (NZ) economy. After allowing for the fact that Tauranga and the surrounding region shows the fastest percentage growth in population in NZ over the 1997/98 period, we can approximate the BOP's impact at 6% of the NZ economy. The Auckland region accounts for about 31% of NZ's economic production and the Waikato region for about 10%. This means that the BOP, with major facilities such as the Port of Tauranga, is a significant part of the biggest and fastest growing region of the NZ economy. Established rail links and the expansion of Tauranga airport, together with projected growth in the region's forestry, fruit and tourism sectors, will leverage the importance of the region for the NZ economy as a whole in future years.

TABLE 1: ECONOMIC SIGNIFICANCE OF THE BOP REGION FOR NZ IN 1998

	NZ	BOP	BOP Percent of NZ
Gross Domestic / Regional Product in $ billions	95.9	5.6	5.8
Employment in Full-time Equivalents (FTEs)	1517280	85204	5.6

For each region an 87-sector economic model was constructed. Each of the four regions was surveyed during the period November 1998 to April 1999. Over 700 responses from firms etc. on expected growth were processed and these responses, together with the economic model for each region, formed the basis for generating forecast growth on various economic measures for the 1999 year. For the rural sectors, this actually means the 1999/2000 season ending in June 2000. However, for sake of brevity we refer to all forecasts in this article as for the 1999 year.

TABLE 2: ECONOMIC SIGNIFICANCE OF THE REGIONS FOR THE BOP IN 1998

	Employment		GDP	
Region	**Percent of BOP**	**Sub-total**	**Percent of BOP**	**Sub-total**
Tauranga D.C.	37.7		44.6	
Western BOP D.C.	14.6		10.7	
Tauranga + Western BOP		**52.3**		**55.3**
Whakatane D.C.	16.1		17.9	
Opotiki D.C.	3.1		2.6	
Coastal BOP		**71.5**		**75.8**

In total, the CBOP region with 71.5% of BOP's FTE Employment produces an estimated 75.8% of the BOP's Gross Regional Product (regional GDP). TDC provides a major share of this total as would be expected with much of central government administration, the Port of Tauranga and other major facilities located in Tauranga City. Furthermore, much of WBOP's Value Added (GRP) would be serviced from Tauranga City. This means that while TDC captures extra Value Added, the activity initiates within the WBOP region. Combining these regions brings Employment share and GRP share closer together. Both WDC and ODC produce GRP roughly in line with their FTE Employment share. However, the WDC figures are augmented somewhat by some Kawerau activity that has been included in the WDC region. For example, significant changes in output and/or employment at the Kawerau plants will lead to an associated change in consumer spending by households in the WDC region. Many workers at the Kawerau plants choose to live in the WDC region.

Employment Growth In The Regions

Prior to reporting forecast growth for the four BOP regions, we first look at FTE employment growth in all sectors over the 1995/98 period. Annual growth rates for each sector are shown below in Table 3. Accurate FTE employment numbers were unavailable for the first six primary sectors in 1995, so these sectors have been excluded from Table 3. However, sector 7, *Agricultural Contracting Services* shows significant annual growth for all four districts indicating how important the primary producing sectors are for these regions. Some activities

such as *Coal Mining* are absent from the BOP so these sectors have also been excluded from Table 3. The sector numbers shown under # relate to the sector's number in the 87-sector model.

Some of the large percentage changes, both positive and negative, have come from a small employment base and are not really significant. Note that 0.0 means zero growth for a regional sector that does employ people in that sector, whereas a blank cell usually indicates zero employment in that sector for both 1995 and 1998. FTE Employment for 1999 only becomes available in October of 1999, so by necessity 1998 FTE data were utilised.

TABLE 3: EMPLOYMENT GROWTH IN PERCENT PER YEAR 1995 - 1998

		Tauranga	WBOP	Whakatane	Opotiki
#	Sector	D.C.	D.C.	D.C.	D.C.
7	Ag Con	17.1	19.4	3.3	10.6
8	Hunting	00.0	0.0	0.0	108.0
9	Forest	-10.4	-7.2	-23.1	-32.5
10	Logging	0.0	-12.6	11.4	19.7
11	F'st Con	81.7	0.0	40.6	44.2
12	Fishing	9.4	6.3	-24.6	5.3
15	Other Min	0.0	7.7	6.3	
16	Ham Poul	32.6	0.0	44.2	
17	Meat Proc	3.7	6.0	0.0	
19	Ice Cream	18.6			
20	Dairy Man	0.0	10.1	-13.8	
21	Fruit Proc	-20.6	14.5	227.1	
22	Fish Proc	-8.2			
23	Other Food	7.2	20.5		
24	Bakery	-6.8	10.1	-26.6	14.5
25	Animal Fd	4.0			
26	Alc & Tob	393.2	-72.0	14.5	
28	Textiles	13.5	0.0	44.2	
29	Knitting	7.7	0.0	-12.6	
30	Carpets	44.2	0.0		
31	Other Tex	44.2	0.0		
32	Clothing	-7.9	11.6	40.6	-100.0
33	Leather	-30.7	0.0	-100.0	
35	Wd Mills	2.8	0.0	2.8	0.0
36	Wood Prod	0.0	44.2	20.5	0.0
37	Pulp & Pap	-3.9	0.0	-1.4	
38	P & P Prod	44.2	0.0	146.6	
39	Printing	1.0	0.0	8.4	0.0
40	Bas Chem	3.2	0.0		
41	Fert & Pest	-6.3	0.0		
42	Oth Chem	5.3	-21.7		-12.6
43	Petrol Prod	14.5	0.0		
44	Oth Petrol	30.5	0.0		
45	Tyre & Rb	30.5	0.0	-12.6	
46	N-Met Min	-2.9	30.5	29.4	
47	Bas Metals	0.0	0.0	0.0	-20.6
48	Met Prod	2.4	12.6	-11.4	14.5

#	Sector	Tauranga	WBOP	Whakatane	Opotiki
49	Machinery	0.7	9.1	14.5	
50	Elec Mach	-7.5	10.1	35.7	
51	Ship Build	0.0	26.0	-100.0	
52	Car & Bike	11.9	7.7	-41.5	
53	Air & Rail	8.7	44.2	11.6	
54	Oth Mach	-6.3	-7.2	-100.0	
55	Electricity	5.3	-56.3	6.4	
57	Water	26.0	0.0	0.0	0.0
58	Building	12.2	13.2	1.7	18.6
59	Other Cons	11.4	-4.8	4.1	-12.6
60	Anc Cons	14.7	14.0	4.5	13.0
61	W&R Trad	5.1	5.0	2.3	4.4
62	Rest & Caf	6.6	10.1	-0.5	6.3
63	Accommod	5.3	11.5	9.3	3.2
64	Rail Trans	4.6	0.0	0.0	
65	Road Pass	5.3	-3.5	9.7	0.0
66	R Freight	6.0	-2.9	-1.6	26.0
67	R Support	-3.5	44.2	6.3	0.0
68	Water Tran	6.0	0.0		
69	Air Transp	4.6	-12.6	-30.7	-100.0
70	Other Tran	11.0	13.6	4.8	-45.0
71	Communic	6.5	0.0	-11.0	0.0
72	Finance	2.6	-2.6	0.9	0.0
74	Real Estate	16.6	22.7	21.8	71.0
76	Law Ac En	10.3	7.2	7.3	0.0
77	Adv & Bus	10.4	6.3	0.0	82.8
78	Rent Mach	4.6	7.7	0.0	
79	Cen Govt	1.3	23.0	-5.9	0.0
80	Local Govt	8.0	14.5	8.6	5.3
81	Cleaning	4.4	17.0	0.0	10.1
82	Education	6.5	2.8	3.6	5.3
84	Health	5.5	-18.8	4.6	2.7
85	Welfare	44.7	34.8	61.5	50.4
86	Rec & Cult	9.2	12.6	11.3	42.9
87	HH Serv	4.6	2.5	1.7	0.0

Note that in the above table, Forestry and *Forestry Consulting* sectors should be considered together. Clearly, there has been a change in sector classification leading to all negatives in *Forestry* and significant positive growth in *Forestry Consulting*.

Sectors to show significant growth from a large employment base are the construction sectors (58 – 60), sectors related to tourism (62 – 63) and sectors related to business services (74, 76 – 77). Table 3 provides some objective evidence as to sector growth for tourism etc. and other activities such as forestry that are deemed to be important for the CBOP region's future.

Growth Forecasts For Each Region For 1999

From the survey results for each region, the sales growth of each sector in the relevant economy was estimated. These estimates form the basis for the growth projections in the following tables. This means, the growth projections are very much a function of business

confidence (or lack thereof) in the regions in early 1999. Note that a minimum and maximum growth rate is projected for each economic measure, together with a "Best Estimate".

TABLE 4: FORECAST AGGREGATE GROWTH FOR TAURANGA D.C. FOR 1999

IMPACT MEASURE	1998 LEVEL	MIN for 1999 and % Change	MAX for 1999 and % Change	BEST ESTIMATE and % Change
Sales in $ m	4964.1	325.8 (6.6%)	560.5 (11.3%)	490.1 (9.9%)
Net Income in $ m	871.7	56.8 (6.5%)	99.5 (11.4%)	86.7 (9.9%)
Employment in FTEs	32106	2141 (6.7%)	3778 (11.8%)	3287 (10.2%)
Value Added in $ m	2453.0	148.6 (6.1%)	250.6 (10.2%)	220.0 (9.0%)

Table 4 shows very significant growth for the TDC region. Using the Value Added measure (or GRP), we see that growth is projected to be at least 6.1% and could be as high as 10.2%. The best estimate is set at 9.0%, which is significantly higher than the 3% estimated for NZ GDP by various economic prognosticators.

Results for the WBOP D.C. are shown in Table 5.

TABLE 5: FORECAST AGGREGATE GROWTH FOR WBOP D.C. FOR 1999

IMPACT MEASURE	1998 LEVEL	MIN for 1999 and % Change	MAX for 1999 and % Change	BEST ESTIMATE And % Change
Sales $ m	1389.0	57.4 (4.1%)	95.4 (6.9%)	84.1 (6.1%)
Net Income $ m	241.5	7.8 (3.2%)	13.3 (5.5%)	9.3 (3.9%)
Employment in FTEs	12432	390 (3.1%)	675 (5.4%)	590 (4.7%)
Value Added $ m	642.4	22.9 (3.6%)	36.4 (5.7%)	32.4 (5.0%)

Projected growth for this region is somewhat lower than for Tauranga D.C. The significant growth projected for the Port of Tauranga (10.7%), which has its main impact on the TDC, is part of the answer and the muted outlook for some of the rural sectors such as *Dairy*, *Beef* and *Mixed Farming*, is another reason. However, the increased confidence in the Kiwifruit industry means the WBOP should see significant growth in 1999.

Results for the Whakatane D.C. area are shown in Table 6.

TABLE 6: FORECAST AGGREGATE GROWTH FOR WHAKATANE D.C. FOR 1999

IMPACT MEASURE	1998 LEVEL	MIN for 1999 and % Change	MAX for 1999 and % Change	BEST ESTIMATE And % Change
Sales $ m	2026.8	120.8 (6.0%)	201.8 (10.0%)	161.3 (8.0%)
Net Income in $ m	382.0	16.9 (4.4%)	28.7 (7.5%)	22.8 (6.0%)
Employment in FTEs	13750	645 (4.6%)	1097 (7.8%)	871 (6.3%)
Value Added in $ m	1002.0	45.0 (4.5%)	74.3 (7.4%)	59.7 (6.0%)

Recall that WDC includes the Kawerau plants for this report. These plants are major employers for the WDC and much household spending in Whakatane originates from

Kawerau employment. Prospects for the pulp and paper plants are expected to improve over 1999/2000 and this leads to solid growth for the WDC region.

Results for ODC are shown in Table 7.

TABLE 7: FORECAST AGGREGATE GROWTH FOR OPOTIKI D.C. FOR 1999

IMPACT MEASURE	1998 LEVEL	MIN for 1999 and % Change	MAX for 1999 and % Change	BEST ESTIMATE And % Change
Sales $ m	295.8	8.8 (3.0%)	14.1 (4.8%)	11.5 (3.9%)
Net Income in $ m	55.7	1.4 (2.5%)	2.3 (4.1%)	1.9 (3.3%)
Employment in FTEs	2635	65 (2.5%)	107 (4.1%)	86 (3.3%)
Value Added in $ m	143.9	3.5 (2.4%)	5.6 (3.9%)	4.6 (3.2%)

For ODC, the traditional farming sectors are still the main growth drivers, although the regional economy is now diversifying significantly into other areas such as fishing and technology. The projections in Table 7 were completed at a time of some pessimism in the farming sectors. While dairy commodity prices are not expected to lift significantly, the prospects for the sheep and beef sectors have improved of late. However, resulting growth for this region is the lowest of all the regions in the CBOP.

Comparison of Previous Forecasts With Actuals

The current study is the second research project initiated by Tauranga's **Economic Development Agency** with **The University of Waikato.** For the survey of regional business units, a student enrolled for the BMS (Honours) degree was engaged over the 1998/99 summer. The analysis was supervised from the University's Department of Economics. In the previous study using an approach similar to the current project, FTE Employment growth was projected for Tauranga and the T&WBOP (Tauranga D.C. plus Western BOP D.C.) regions over the 1996/98 period. Unfortunately, the onset of the Asian crisis in 1997 led to a severe drop in employment and activity in the forestry related sectors. Consequently, actual growth was lower than projected for these sectors. Continued recent growth in the Asian region is good news for NZ forestry and these sectors in the Waikato/BOP regions. In contrast to the forest sectors, the fruit and horticultural sectors did better than projected over the forecast period. Currently, the outlook for Kiwifruit is favourable with slightly lower fruit volumes compensated by higher unit prices and the lower NZ dollar.

Table 8 below shows how well those forecasts turned out for the FTE Employment measure in aggregate. Note that this figure is objectively measured by *Statistics NZ.* Other measures such as GRP need to be estimated from an economic model. However, since forecasted employment, income and GRP all move together, the forecast accuracy for any one measure can be considered a proxy for all the other measures.

TABLE 8: AGGREGATE EMPLOYMENT FORECASTS COMPARED WITH ACTUALS

	ACTUAL FTE	**FTE**	**PROJECTED**	**FOR 1998**	**ACTUAL FTE**
	1996	**Minimum**	**Expected**	**Maximum**	**1998**
Tauranga D.C.	27915	30737	31793	32063	32106
T&WBOP	38210	42231	43771	44161	44538

Actual FTE Employment growth over the two years to 1998 exceeded the maximum forecasts for both regions. Percentage errors using the *expected* values were minus 1 % and minus 1.7% respectively. This is extremely close for forecasting aggregate employment. Since the same methodology has been utilised for the current forecasts (over more regions), it is hoped that a similar level of accuracy can be achieved based on over 700 survey responses from the CBOP region.

Setting Rates for Hamilton City

Alan Neilson

Introduction

In recent months there has been considerable controversy in Hamilton about the way in which property rates are to be levied. In particular the controversy has revolved around the relative shares of rates paid by categories of ratepayers, particularly the commercial and residential sectors. The relative shares are substantially determined by whether land value or capital value is used and what differentials, if any, are used. To a much lesser extent the rates levied on individual properties will vary if uniform annual charges and uniform annual general charges are used.

The intent of this article is to provide some background to the issues and also to consider some of the implications.

In December 1998 the Hamilton City Council established a Community Based Rating Task Force (RTF) to review several aspects of the Hamilton rating system and report its recommendations to the Strategic Planning and Policy Committee of Council by the end of February 1999.

The task force consisted of 12 members selected by the City Council to be representative of the population of Hamilton. The author of this article was one of the members of the task force.

The main terms of reference for the RTF were :

- To establish the fairest and most equitable rating system for Hamilton allowable by the Rating Powers Act
- To consider the appropriateness of the present property sectors (commercial, residential, multi unit, large rural and small rural)
- To investigate uniform annual charges and uniform annual general charges
- To consider the continuation of the differential rating system.

Specifically excluded from the terms of reference was any review of Council's core business.

Terminology

Some of the terminology being used needs to be defined.

Firstly, rating on capital value means that the latest total value of each property is used. This comprises the value of the land plus the value of any improvements such as a residential dwelling or office block. Valuing on land value means ignoring the value of improvements for rating purposes. There is a third way in which rates can be set under the Rating Powers Act. That is to use annual rental value as is the case in Auckland City. This approach will not be considered in this paper because it has not been central to the debate in Hamilton.

In the Hamilton City Council's Annual Plan and Financial Management Policy document, Council expenditure is divided into several categories. Examples of these are refuse collection, water supply and economic development and marketing. There are detailed explanations of the categories, the amounts spent and the objectives in terms of funding the

costs from rates and charges. Differentials can be applied to each category of Council expenditure and result in property sectors paying more or less than would be implied by that sector's share of the total value of property. Using differentials is effectively a 'zero sum' exercise in that any payment more than a sector's relative share is offset by one or more sectors paying an equivalent amount less in rates. Differentials are not a mechanism for increasing rates in total but rather are another mechanism for apportioning rates in addition to using land or capital value. There will be further comment on differentials later in this paper.

In determining the basis on which rates are assessed there are generally considered to be two offsetting objectives to be taken into account. One of these is ability to pay (sometimes referred to as equity). The other is user pays (sometimes referred to as efficiency).

Aspects of each are evident in considering whether to base rates on land or capital values and are also evident in considering what differentials, if any, to use.

Some Implications

Rating by land or capital value takes no particular account of the level of services used. That means that neither of them is a user pays approach. However using capital value is arguably a better reflection of ability to pay in that it considers the overall value of the property and thus the assumed wealth of the owners. This does not consider the net equity of the owners in that it takes no account of any mortgage owed on the property.

Also it can be argued that capital value is a reflection of user pays, at least in the case of commercial property. Consider two adjacent, equal sized properties, one with a high rise office block on it and the other a car sales yard. The land value of each property would be the same and thus rates would be the same using land value rating.

Using capital value, the property with the high rise block would be charged higher rates because the value of improvements would be considerably higher. Occupants of the high rise block would generally make greater use of council services. As such, on a user pays basis, rates on the high rise block should be higher than on the car sales yard and capital value rating reflects this. At the same time it needs to be recognised that the higher level of rates is a result of the method by which rates are levied rather than a conscious decision to levy rates according to the use made of particular services. The user pays element is really a by-product of the choice to rate by capital value.

Differentials can be used as a more conscious attempt to levy rates according to a user pays approach. If it is considered that the commercial sector receives say 60% of the benefit from a particular category of council expenditure then the commercial sector could be levied 60% of the cost of providing the service and the other ratepaying sectors would pay the other 40% of the costs. This would mean that for this particular service, the commercial sector would be paying higher rates than is implied by property values because the value of commercial property is less than 60% of the value of rateable properties in Hamilton.

It also means that properties with a higher value pay a higher share of the cost irrespective of whether they use that proportionate amount of the service or not. This means that there are aspects of ability to pay contained within an approach designed to reflect user pays.

These illustrations of the way in which ability to pay and user pays are intertwined also highlight the difficulty there is with trying to set rates in a way which all, or at least the majority, will consider fair.

The Rating Task Force Deliberations

The RTF recommended that Hamilton should adopt a capital based rates system with reduced differentials on the commercial sector and increased differentials on the multi-unit sector relative to the residential sector which is used as the 'norm' or 'yardstick' in the Hamilton City Council's rates assessment model.

Twenty six different models (11 based on land value and 15 based on capital value) were considered. Quoting from Page 3 of the report to the Council, 'The decision to recommend a capital value based system was approved 10 - 1..... The majority of the Task Force felt that capital value was inherently fairer as it took account of the total value of the property and was also a better measure of ability to pay.....Rates which reflect different quality of houses is readily explainable whereas under a land value based system there may be no difference.'

The Rating Powers Act 1988 determines the basis on which rates can be set. The RTF was provided with a copy of the Act and accompanying commentary. In the commentary on differential rating it is noted that 'Differential rating is one of the most valuable tools available to local government. It was introduced partly as a recognition that ...valuation on its own can be inadequate as a rating base. Used responsibly, it can maintain a consistency of direction, reinforce local authority goals and planning objectives, cater for differences in the benefits received by different groups of ratepayers and ensure that all ratepayers contribute a fair share to local authority revenues.
Property values alone are often inadequate as a basis for rating, and by affecting the incidence of rates between groups (eg commercial and residential) some of these inadequacies can be overcome.'

The RTF tried to base its assessment of differentials on the benefits each sector received from individual council services. The assessment largely revolved around the number of properties in each sector. Tax adjustments were made for both GST and income tax / company tax deductibility of rates where applicable. The objective here was to equalise the net impact across sectors.

As of 23 December 1998 there were 41699 rateable properties in Hamilton. Of these 90% were residential, 7.8% were commercial, 1.1% were multi-unit and 1.1% were rural (large and small).

There are considerably more individual units in the multi-unit sector than is reflected by the number of rateable properties. In reaching recommendations, the Rating Task Force scaled the number of multi-unit properties up by a factor of 3.5. This is rather less than the true ratio but takes account of the fact that many residential properties also have more than one dwelling on them.

Tax deductibility was allowed for in the following way :

The commercial and large rural properties weightings were increased by 50% and the multi-unit weighting by 25%. In effect this means that after allowing for income tax deductibility (at a lower than maximum rate) in all cases and for GST refunds (commercial and large rural properties) the net rates incidence per property would be approximately the

same as for residential ratepayers. This means that for two properties identical in all respects except that tax deductibility applies to one, the net cost of rates would be the same in each case.

The issue of adjusting for tax deductibility has been considered in several Court cases dealing with rates and the Courts have noted agreement with the principle.

The RTF then addressed the issue of what share of the rates each sector should pay for each of several different categories of council expenditure. The weighted sum of these, normalised on the residential sector, generates the differentials that have been the subject of recent debate.

Included in this analysis were cases where a particular sector did not receive a particular service. For example rural properties do not have water supply or wastewater disposal provided, the commercial sector does not receive refuse collection services (but does have refuse disposal facilities). In these cases the sector was excluded when calculating the cost allocation.

The RTF assessed what it considered to be the relative amount of benefit received by each sector. The valuations are noted as being subjective but represent a consensus among RTF members. As examples of the assessments, the RTF considered that the commercial sector should meet 50% of the total costs of Economic Development expenditure (after tax deductions) whereas for Recreation and Leisure expenditure each commercial unit should pay the equivalent of a per household charge.

When all of these evaluations, exclusions from charges and adjustments for tax deductibility were combined the effect was that percentage charges on the residential sector ranged from 19.7% of Economic Development and Marketing expenditure (spread over 90% of ratepayers) to 92% of Refuse costs while the commercial sector percentages ranged from 2% for refuse (spread over 7.8% of ratepayers) to 75% of Economic Development and marketing expenditure.

The balance of the costs were spread across the other three sectors using the same approach.

When these components were further combined, the differential on the commercial sector was 2.09 compared to the norm of 1 used for residential ratepayers in the model that the RTF recommended to the Hamilton City Council.

This is a reduction in differential on the commercial sector compared to that previously.

Further Implications

The move from land value to capital value alone would increase rates on the commercial sector. The reduction in the commercial sector differential alone would reduce rates on the commercial sector. The net effect of the two changes, using the differentials recommended by the RTF would have been a reduction in total rates paid by the commercial sector.

At the same time there would have been some large increases in rates on some properties in the commercial sector. Rates on a significant number of commercial properties would have increased by more than 50% with some increases in excess of 200%. Some of this increase would have occurred without any change in the rating policy because new property values

were being used and some properties had increased in value significantly more than the average increase in value of properties in Hamilton.

This helps further highlight some of the difficulties and complexities there are in developing a rating policy for any local authority. Property revaluations, changes in differentials and changes between land and capital based charging all bring about changes in relative shares of rates. The changes can be in opposite directions between and within sectors. This means that even if there is a conscious decision to reduce rates on one sector of ratepayers, the effect on some individual ratepayers within that sector could be to increase their rates.

The RTF considered a number of other aspects of the rating process and made a number of other recommendations. What has been reported here are the most contentious aspects of the exercise.

Summary

The aim of the RTF was to try and achieve the 'fairest and most equitable rating system' using analysis of data, value judgements and achieving a consensus in support by the individual members of the RTF for the particular approach adopted.

At the time of writing, the Hamilton City Council has yet to finalise how rates will be assessed for the 1999/2000 financial year. Its first proposal after considering the RTF report was to adopt capital value as the basis but not to change the differentials from those used for land value based rate setting.

After considering submissions from ratepayers, the latest proposal from the Hamilton City Council is to revert to land value as the basis but to change the differentials in such a way that total rates paid by the commercial sector are reduced, total rates paid by the residential sector increased but with the opposite effect on the multi-unit sector to that recommended by the RTF. Also, using land value rather than capital value as a basis will have different effects on individual ratepayers within each sector. Some individual ratepayers will pay less rates using land value rather than capital value and other individual ratepayers within the same category will pay more in rates.

An Economic Analysis of the Matamata-Piako District

Warren Hughes

This review of the Matamata-Piako district (M-P) provides a unique statistical snapshot of a district considered to be typical of the heartland of the Waikato region. The results illustrate some of the problems faced by specialised farming and other primary producing districts that surround small townships.

Two measures economists use to estimate economic significance are Value Added (VA) or Gross Domestic Product (GDP) and full-time equivalent employment (FTE employment). GDP is the best measure of economic significance since it covers the actual value of *production* by a country, region or other economic entity. It equates to a firm's gross operating profit *before* salaries, interest, dividends, depreciation, company and indirect taxation, ACC charges, fringe benefits etc. Accordingly, GDP or value added for a firm is the total value produced by the firm that later is apportioned to employees (wages and salaries), government (taxation), lenders (interest), plant replacement (depreciation) and finally dividends plus retained profits to the owners. For a region as distinct from a country, GDP becomes Gross Regional Product or GRP. GDP or GRP per capita is the best measure of the wealth producing capability of the population in a country or region.

Full-time equivalent employment for a given sector is a good measure of the importance of that sector's activity for the region in question. In NZ, a FTE employee works 30 or more hours per week. On average, two part-time workers equate to one FTE. Currently, about 24% of NZ's workforce work part-time. Note that Value Added per FTE (VA/FTE) is the best measure of worker value or profitability for a region.

M-P is a District Council Territorial Authority within the Waikato region. The Waikato region currently comprises about 10% of the NZ economy.

TABLE 1: ECONOMIC SIGNIFICANCE OF M-P FOR THE WAIKATO REGION

	ESTIMATES	**FROM THE**	**EW MODEL**
ECONOMIC MEASURE 1998	**Waikato**	**M-P**	**M-P Percent**
Gross Regional Product or VA in $ m	9883.8	789.9	8.0 %
Gross Sales or Output in $ m	21063.8	2269.4	10.8 %
Employment in FTE persons	135,871	13,814	10.2 %

The estimates in the above table were derived from the ***Environment Waikato*** or EW model listed in the reference. Note that Gross Sales or Output in the above table are gross productive sales from all sectors in the 87-sector regional model. This includes retail sales by the *Wholesale & Retail Trade* sector which is just one of the 87 sectors in the model.

Using the measure of VA or GRP, the M-P District comprises about 8 % of the Waikato regional economy. Note this is somewhat smaller than the full-time equivalent (FTE) labour percentage. This phenomenon is to be expected for small rural districts such as M-P that border cities of the size of Hamilton. Districts such as M-P often rely on nearby cities for VA activities associated with *Health* (e.g. Waikato Hospital) and professional services from sectors such as *Law Accounting & Engineering Services.* Typically these labour intensive sectors use highly skilled and paid professionals so the rural districts do not capture their share of this VA, even though they may use these services extensively.

The prime data source for the measures reported here was the 1998 report for the Waikato region documented in the reference as Hughes (1998). That report describes the construction of 87 sector Input/Output models of the Waikato and NZ economies. Output or Sales measure total value of economic activity whereas Value Added shows value of production *within* the region of interest. For example, a vehicle sale of $30,000 in Matamata would add $30,000 to the M-P Sales total. This transaction may add only $2,000 to the M-P Value Added if this is the amount of value in getting the vehicle from the Matamata dealer to the M-P resident. Thus, most of the value in this transaction goes to the region making the vehicle (probably overseas), firms transporting the vehicle, and the Hamilton/Auckland importer or dealer that sends the vehicle to its Matamata depot. Note that if the vehicle importer were Matamata based, the Value Added attributable to the M-P District may in this case increase to say $10,000.

From a firm viewpoint, Value Added includes several production inputs. First we take an average NZ salary or wage of $35,000 p.a. as a base. To this base we must add perhaps $5,000 to $10,000 to account for typical overtime in a year, fringe benefits, employer superannuation contributions and approximately 45% of ACC payments. This gives a total gross salary/wage base of $40,000 to $45,000 per FTE. Note that some sectors use a lot of part-time labour (e.g. *Restaurants & Cafes*) so the gross wage in this case may be shared between as many as five part-time employees. Fruit or vegetable picking would be another such relatively unskilled activity. In contrast, the gross wage base for a skilled worker at the **Port of Tauranga** for example could exceed $60,000 p.a.

Whatever the gross wage base turns out to be for a particular sector, this figure is the *minimum* VA/FTE required for viable long-term operation in this sector. To this minimum base value one must add some margin for depreciation of capital equipment used up in production and a profit or return on capital for this sector. Some sectors such as *Electricity* exhibit a very large VA/FTE reflecting the large capital costs necessary for production and distribution in this sector. Perhaps a minimum reference base would be $30,000 per FTE per year for viable operation in a non-capital intensive business such as *Wholesale & Retail Trade* or *Household Services.* Note that this a gross wage value and some proportion of this gross goes to government in PAYE, company and other taxes.

Table 2 below summarises the economic profile of the M-P District in terms of Value Added and Employment.

TABLE 2: SECTOR ECONOMIC ANALYSIS FOR MATAMATA – PIAKO IN 1998

SECTOR GROUP	GDP/GRP $ millions	Percent Share of Regional Total	Employment in FTE Persons	Percent Share of Regional Total
Pastoral Farming	218.4	27.7	4550	32.9
Horticulture/Fruit	9.2	1.2	390	2.8
Agric Contracting	9.3	1.2	335	2.4
Forestry/Logging	5.3	0.7	14	0.1
Fishing	0.5	0.1	9	0.1
Mining/Quarrying	6.9	0.9	70	0.5
PRIMARY SECTORS	**249.6**	**31.5**	**5368**	**38.9**
Meat Processing	33.2	4.2	835	6.0
Dairy Processing	88.6	11.2	740	5.4
Fruit/Veg Processing	0.1	0.0	2	0.0
Other Food Processing	2.0	0.3	49	0.4
Textile Manufacturing	10.6	1.3	271	2.0
Wood Products	6.4	0.8	63	0.5
Chem/Rubber/Plastics	18.7	2.4	96	0.7
Minerals & Metals	4.8	0.6	56	0.4
Metal Products	4.8	0.6	90	0.7
Machinery	25.7	3.3	370	2.7
Electrical Machinery	0.4	0.0	6	0.0
Transport Machinery	1.5	0.2	24	0.2
MANUFACTURING	**196.8**	**24.8**	**2602**	**18.8**
Elec/Gas/Water	45.8	5.8	143	1.0
Construction	28.4	3.6	760	5.5
Trade/Household Serv.	78.1	9.9	1780	12.9
Restaurants/Accomm.	11.4	1.4	300	2.2
Transport Services	20.2	2.6	293	2.1
Business Services	90.2	11.4	990	7.2
Government Services	13.5	1.7	265	1.9
Educ/Health/Welfare	44.2	5.6	1033	7.5
Recreation & Culture	14.1	1.8	280	2.0
OTHER SERVICES	**345.9**	**43.7**	**5844**	**42.3**
DISTRICT TOTALS	**789.9**	**100.0**	**13814**	**100.0**

Note that the GDP/GRP totals do not add exactly due to rounding of millions of dollars. The 87 individual sectors have been grouped appropriately in the above table. For example, *Pastoral Farming* includes sheep, dairy, beef and mixed (horses, goats, deer etc.) farming. In total, these activities comprise about one third of total employment in the District. The regional economy is then broadly divided into three main segments labelled *Primary*, *Manufacturing* and *Other Services*.

For the *Primary* sectors we see that the Employment percentage at 38.9 % significantly outweighs the GDP percentage at 31.5 %. In recent years, commodity prices and/or exchange rates have conspired to lower the returns (and VA) to these sectors. Better world prices and the lower NZ dollar should see these percentages converge in future years. Note that the

reverse imbalance for the *Manufacturing* sectors is almost entirely due to the relative profitability of *Dairy Processing*. The *Construction* sector is seen to be delivering Value Added below capacity in 1998. This sector should increase Value Added output in future years if the expected upturn in primary commodity prices leads to increased production-related construction on dairy, beef etc. farms.

Sectors such as *Wholesale & Retail Trade* and *Restaurants & Cafes* typically use a lot of part-time labour. Even when these employees are aggregated into FTEs, total wages are almost certainly lower than would be paid to full-time employees in sectors requiring more skilled labour as in dairy and meat processing. Other components of salary Value Added such as fringe benefits, superannuation contributions, holiday pay, ACC levies etc. may also be lower in the relatively unskilled sectors. Sectors such as *Electricity/Gas/Water* are very capital intensive so their Value Added percentages far outweigh their Employment percentage. This reflects the high depreciation component in Value Added for these sectors.

The five most valuable sectors in terms of Employment and Value Added for the M-P District are shown below in Table 3.

TABLE 3: FIVE MOST IMPORTANT SECTORS FOR THE M-P ECONOMY

	EMPLOYMENT		**TOTAL VA**
SECTOR	**FTE Persons**	**SECTOR**	**In $ millions**
Dairy Farming	4050	Dairy Farming	195.3
Wholesale & Retail Trade	1580	Dairy Processing	88.6
Dairy Processing	740	Wholesale & Retail Trade	70.6
Meat Processing	460	Electricity	45.4
Ham & Poultry Processing	375	Financial Services	29.3
Percentage of Above 5		Percentage of Above 5	
Sectors for M-P District	48.8 %	Sectors for M-P District	54.3 %

Dairy Farming shows a VA/FTE of just over $48,000 per year, whereas the corresponding figure for *Dairy Processing* is $120,000. Taken together, dairying is the most profitable activity in the M-P regional economy. By comparison, *Wholesale & Retail Trade* has a VA/FTE of $45,000.

The sectors shown in Table 3 reflect the reality of the importance of primary production and processing for the M-P economy. Over 50% of the M-P Value Added or GRP is accounted for by just five sectors. This is a potentially worrisome feature of the economy since it means the District is not diversified enough to cope well with negative shocks to the dairy and meat sectors. In earlier times, dairy and meat plants would typically be located close to the farms supplying the milk or stock. Today's emphasis on low cost production from large-scale plants means that small districts like M-P can no longer rely on these jobs being located in their District. Inevitably, smaller districts desiring to increase or diversify their employment base must compete amongst themselves to secure a mega-site or plant for their region.

Reference

W.R. Hughes. *An Economic Model of the Waikato Region and 1998 Regional Economic Outlook,* **Environment Waikato,** July 1998, 28 pages.

Socio-Economic Gaps Between Māori and Non-Māori in the Waikato

Sheryl Chase and John Gibson

Introduction

The Ministry of Māori Development (Te Puni Kokiri) recently reported on an extensive comparison of national social and economic indicators for Māori and non-Māori. This review suggested that Māori are participating more in education at all levels and have increased their levels of self employment. However, many other social and economic indicators for Māori have not changed or are deteriorating, relative to non-Māori. Many other reports have also documented the low socio-economic attainment of Māori, with low incomes, high sole parenthood, high unemployment and poor health some symptoms of this. The reasons for the ongoing Māori disadvantage remain controversial and may well differ between areas of New Zealand given the differing histories of local Iwi.

It is therefore interesting to see whether the trends in the relative social and economic attainment of Māori that emerge at the national level also occur in the Waikato region. People of Māori ethnicity make up 21 percent of the Waikato population (compared to 15 percent nationally). Furthermore, Waikato Māori are growing rapidly, with almost one-half aged less than 20 years, whereas under one-third of non-Māori in the region are aged less than 20 years. Given the relative importance of Māori in the Waikato region, any ethnic gaps in economic and social attainment could result in serious problems for the region.

In this report we review regional evidence obtained from the Census of Population, from the Ministry of Education and from the New Zealand Qualifications Authority. In addition, we obtained information on health and on criminal offending, but there is some uncertainty about the reliability of these other data. Statistical information broken down by ethnicity and by region is relatively scarce in New Zealand, which makes it difficult to monitor some of the broader dimensions of social and economic progress for Māori (or other ethnic groups). The on-going collection of such data may be a topic for regional authorities to consider.

Education

In 1997 Māori students were 2.7 times more likely to leave Waikato schools with no formal qualification than were non-Māori students (Table 1). This gap is almost identical to that which occurs nationally, but it is an improvement since 1991 when Māori students were 3.5 times more likely than other students to leave Waikato schools with no formal qualifications. Mirroring this decrease in the risk of Māori students leaving with no qualifications has been the rise in the proportion leaving with either sixth or seventh form qualifications, although this proportion is still less than two-thirds as high as for other students.

Table 1: Percentage of Students Leaving Waikato Schools With Various Qualifications

	Māori		Non-Māori	
	1991	**1997**	**1991**	**1997**
No formal qualifications	43.0	36.1	12.3	13.0
Sixth or seventh form qualifications	35.2	42.6	69.7	68.1

Source: Ministry of Education 1991-1997.

This rising success in secondary schooling is also causing a corresponding increase in participation in post-compulsory education and training by Māori students in the region. In 1998 the percent of Māori students who left school the previous year and entered post compulsory education in the Waikato region was 28 percent, up three percentage points since 1994. The corresponding enrolment rate by non-Māori students was 40 percent, so substantial progress is being made at closing this educational gap, although a significant gap still exists.

Despite these positive trends, there are some areas within the educational sector that need substantial attention if Māori achievement is to mirror that of non-Māori. In particular, Māori students have a much higher likelihood of either suspension or expulsion from school than do other students. Three-quarters of the students suspended or expelled from Waikato schools in 1997 were Māori, despite Māori students being only 28 percent of enrollees in that year. Performance in external examinations is also worse for Māori students. In 1997 only 13 percent of Māori students sitting School Certificate obtained A or B grades, while over 30 percent of non-Māori students achieved these grades. This gap in achievement of high grades regionally is slightly smaller than the corresponding gap found nationally, but has changed little over the last six years.

Employment

People of working age (15-64 years) in the Māori ethnic group in the Waikato are less likely to participate in the labour force than are other people in the region, as illustrated in Table 2. In contrast to non-Māori, there was a substantial fall in the labour force participation rate for Māori in the region between 1986 and 1996, and this mirrors the trend apparent in national data as well. One likely source of this dropping out of the labour force by Māori is "discouraged workers" who cease active job searching because they believe that the prospects of employment are so dim. Hence, the unemployment rate (which is calculated just over those actively job searching) may underestimate the true extent of Māori unemployment. Despite this potential for understatement, the unemployment rate for Māori is over three times higher than for non-Māori in the region and increased by three percentage points between 1986 and 1996. The rise in the Māori unemployment rate in the region between 1986 and 1996 is slightly greater than the rise that occurred nationally.

Table 2: Labour Force Participation and Unemployment Rates in the Waikato Region

	Māori		Non-Māori	
	1986	**1996**	**1996**	**1996**
Labour force participation rate	65.8%	62.7%	66.4%	66.8%
Unemployment rate	16.8%	19.9%	5.7%	5.8%

Source: Statistics New Zealand, Census of Population and Dwellings, 1986 and 1996

Although the trend in many labour market statistics for Māori is negative, one area that can be considered an improvement is self-employment. The proportion of full-time employed Māori in the Waikato who were self-employed increased from 7.1 percent to 9.6 percent between 1986 and 1996. There was almost no increase over the same period for non-Māori in the region, although non-Māori are still 2.8 times more likely than Māori workers to be self-employed.

Incomes

The rise in unemployment and fall in labour force participation appears to have adversely affected the real incomes of Māori in the Waikato. There was a drop of almost $1,500 dollars in the real average annual personal income of working age people in the Māori ethnic group in the region between 1986 and 1996. In contrast, annual incomes of non-Māori in the region grew by an average of approximately $1,000. Consequently, the average personal income of Māori in the Waikato was only two-thirds of the regional average for non-Māori in 1996 whereas ten years earlier, Māori average incomes were over three-quarters of the non-Māori average in the region.

Table 3: Average Annual Personal Incomes for the Working Age Population, 1996 Dollars

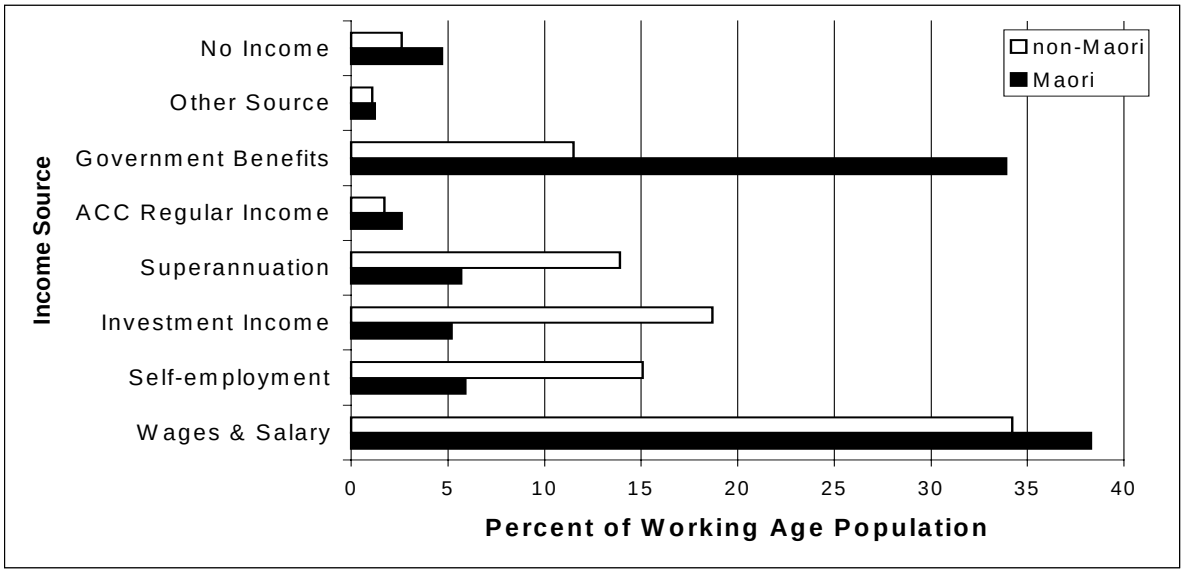
	Māori		Non-Māori	
	1986	**1996**	**1996**	**1996**
Waikato region	$17,200	$15,800	$22,600	$23,600
New Zealand	$18,100	$17,000	$22,800	$23,200

Source: Statistics New Zealand, Census of Population and Dwellings, 1986 and 1996.

Table 3 shows the decline in personal incomes for Māori in the Waikato in both absolute terms and relative to non-Māori, exceeds the declines which occurred nationally for Māori. Thus, whereas incomes in the Waikato are similar to the New Zealand average for non-Māori, Māori incomes in the Waikato were about eight percent less than the national average for Māori in 1996 and this gap had increased since 1986. Other provincial regions such as Taranaki also have Māori incomes that are below the national average for Māori, while incomes for non-Māori are similar to the national average. But in urban areas like Auckland and Wellington, Māori incomes exceed the national average by more than do non-Māori incomes. Thus, the relative decline in incomes for Māori in the Waikato may be part of a larger trending affecting provincial New Zealand.

In addition to differences in average personal incomes, there are substantial differences in the sources of personal income between Māori and non-Māori in the Waikato. Figure 1 indicates that Māori are significantly less likely than non-Māori to receive income from investments, from self-employment and from superannuation (partly reflecting their younger age structure). Māori are slightly more likely than non-Māori to receive income from wages and salaries or to receive no income and are substantially more likely to receive income from government benefits (mainly unemployment, domestic purposes, sickness, and invalid's benefits).

Figure 1: Main Sources of Personal Income for Māori and non-Māori in the Waikato for 1996



Source: Statistics New Zealand, Census of Population and Dwellings, 1996

The relatively high reliance by Māori on government benefits as a source of income grew between 1986 and 1996. In 1986, 24.4 percent of working age Māori in the region were in receipt of government benefits, compared with a non-Māori rate of 7.1 percent. In 1996 the comparable rates were 33.9 percent and 11.6 percent. The trends at the national level for each group are fairly similar to the trend apparent in the Waikato.

Conclusions

There appear to be substantial socio-economic gaps between Māori and non-Māori in the Waikato. Although some of these gaps are narrowing, notably in the area of education and self-employment, others are widening. Of particular concern is the decline in employment rates and average personal incomes for Māori in the region and the consequent high reliance on government benefits as a source of income.

It is possible that statistics to 1996 overstate some of these gaps because the economic recovery had not run its full course by that time, so there may have been a further pick-up in Māori employment and incomes that is not recorded here. Unfortunately, the required data to make these comparisons of socio-economic progress more up-to-date are not readily available on an annual basis, so reliance has to be placed on a five-yearly Census. Given the importance of Māori in the region and the size of the gaps described here, it may be worthwhile for regional authorities to consider the on-going collection of data that will allow socio-economic progress in the region to be monitored. Such assessments can then help to identify the best approaches to closing these gaps in socio-economic attainment.

Quality of Governance in Local Government as Perceived By Waikato Councillors

Stuart Locke and Frank Scrimgeour

Introduction

Recent research has highlighted deficiencies in governance as it is practiced throughout many countries. Considerable attention has focused on the governance of publicly listed companies. However, there is concern for enhancing the effectiveness in not-for-profit enterprises and state sector enterprises. Best practice is being refined in codes of practice for directors. The gap remaining in the picture is in the perception of what ought to be happening and how participants see it occurring.

It is appropriate to consider the experience and practice of governance for a broad selection of entities by sector and size. It is important to identity the major sources of difficulty experienced by those involved in governance. An analysis of the impact of the perceived difficulties upon good governance will assist in developing programmes designed to advance competency in knowledge and abilities to overcome the perceived difficulties.

Corporate Governance

Corporate governance as terminology has only been used in the business literature for the past few decades. There appears to be no universally accepted definition for corporate governance. Monks and Minow (1996) suggest that a corporation is defined as a 'body of persons granted a charter legally recognising them as a separate entity having its own rights, privileges, and liabilities distinct from those of its members. Corporate governance, according to them, is "the way corporate entities are governed".

Before proceeding to examine research results for Waikato local government it is helpful to review the concept in the public company, not-for-profit and state sectors.

Public Companies

In the company sector corporate governance, in general, is seen as being concerned with issues arising from interactions among the board of directors, senior management, shareholders, and other stakeholders of a corporation. Corporate governance addresses corporate performance through participation in strategy and policy formulations primarily through supervision of top management and accountability to stakeholders. It attempts to provide mechanisms to regulate the performance of both directors and managers so that they act in the best interests of the company.

Corporate governance deals with the roles, responsibilities, and rights of directors. The terms of corporate governance are continuously evolving. Corporate social responsibility, for example, is a relatively recent addition under the ambit of corporate governance.

Tricker (1994) and Kilmister (1993) have attempted to clarify the difference between governance and management, which are frequently confused. According to Tricker (1994) governance is concerned with the nature, purpose, integrity, and identity of the institution, while management is focused on specific goal achievement over a time frame and prescribed manner. While the shareholders elect a board of directors to 'govern' the company, the board of directors in turn chooses the corporate management to 'manage' the tasks necessary to

serve the shareholders interests. Hence, while corporate governance is the process, structure and relationship through which the board of directors oversee the functioning of the corporate executives, corporate management is the process and structure through which corporate executives attempt to achieve the goals of the company.

Corporate governance has evolved through two fundamental theories of corporate philosophy: the *stewardship theory* and the *agency theory* (Tricker, 1994). The stewardship theory arose from a simple belief that humans are essentially trustworthy or fiduciary and would act with honesty and integrity in the interest of others. The directors to whom the larger shareholding public delegated responsibility of governing were expected to serve the shareholders faithfully. However, in practice this is not necessarily the case. In organizations where the ownership and management are separated there are conflicts of interests between the two groups. While the owners expect profit maximization and efficient use of their resources, the managers often place their personal interests above that of the owners. This has necessitated the owners devising mechanisms of monitoring the activities of the management. Such a governing mechanism, of course, is achieved at a cost to the owners. This is called agency cost and the underlying theory is *agency theory*.

Not-for-Profit Organizations

Nonprofit organizations do not have shareholders to govern and the members of the governing body do not get paid. Nonprofit organizations usually originate as small enterprises due to the enthusiasm of one person or a small group of individuals (Tricker, 1994). Governance is informal and self-regulating with reliance on goodwill of members. However, as the organization grows over time greater formalization of rules and structure occurs with appointment of professionals. The governing board takes a formal structure with almost exclusively non-executive members mostly drawn from a wide range of unrelated professions. Conflicts may arise in succession if owners retain much power in such formal governing structures.

Corporate governance in nonprofit organizations differs from commercial or profit oriented business firms in several other ways (Kilmister, 1993). CEOs in nonprofit organizations participate in most deliberations of the board except the person has no voting rights. Another important difference is the predominantly voluntary nature of board members. While some are deeply committed to the cause of the organization, others may not exhibit such commitment or behave less professionally (Kilmister, 1993). For the same reason, the board members do not bring any expertise in organizational management unlike in profitable businesses.

Tricker (1994) lists the following as special characteristic of nonprofit organizations:

- Absence of profit measure
- Tendency for service
- Less dependence on clients for finance
- Tradition of inadequate management control
- Political influences
- Constraints on strategies and goals

State Enterprises

Corporate governance in State enterprises differ significantly from private and public companies in many respects (OECD, 1998). The most important difference is the ownership. In contrast to the multiple ownership of public companies, governments are the complete or

majority owners of State enterprises. The common corporate governance problems associated with these organizations are:

- Insufficient incentives and disciplinary mechanisms
- No threat of bankruptcy, takeover or replacement of incumbent management
- Shareholder exit is not possible
- Lack of economic motivation
- Corporate governance exercised by a chain of agents
- Accounting standards and disclosures are not properly followed

Governance is exercised through many layers – voters; government; civil servants; and public sector managers. Civil servants have limited incentive to monitor the performance of State enterprises. According to Shleifer and Vishny (1996) politicians and political process set the objectives and targets, which are often unrealistic. They are also frequently changed with change in political parties in power. Strong employee unions, absence of takeover threat, assured funds from the government, and frequent political interference are common features of public sector company corporate governance (OECD, 1998).

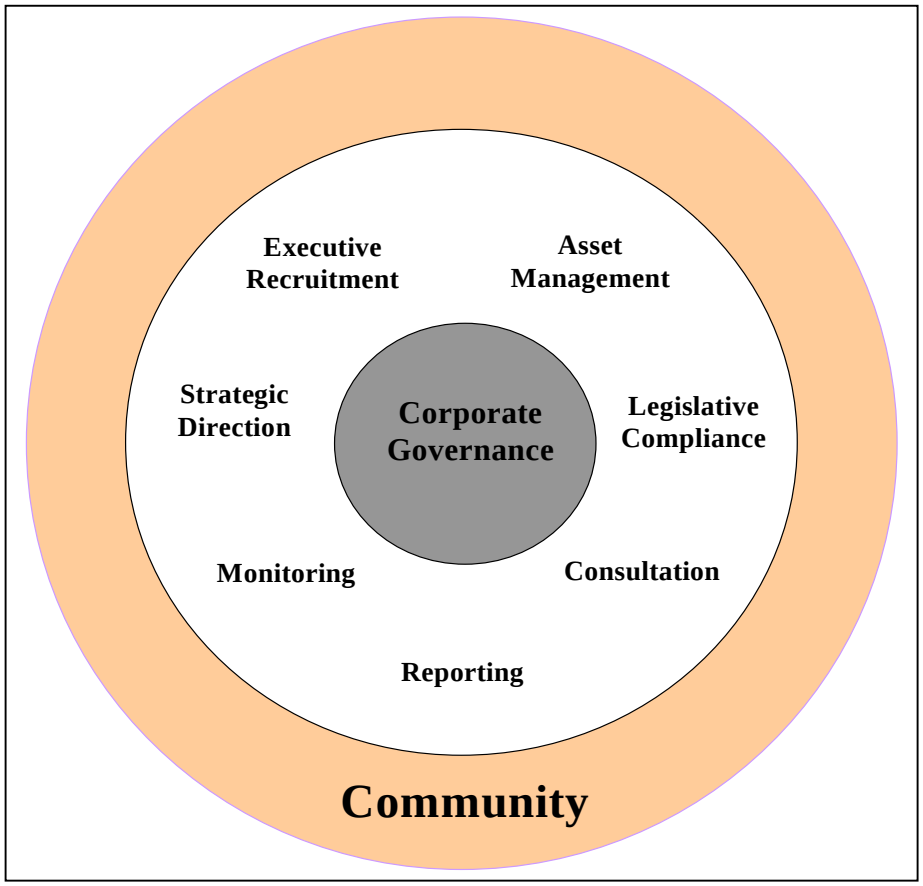
Local Government

Reforms in local legislation, in New Zealand, have impacted upon the division of responsibilities between elected councillors and management. It would be surprising if all that is meant to happen did suddenly happen just because Parliament said it should. Nevertheless, there have been considerable advances in the practice of governance under the legislation.

The broader relationships of local government are depicted in Figure 1. It is from these that key issues which need to be operative are deduced. These are in essence similar to those that will be faced by any organization as it endeavors to develop a governance framework. Five key areas determine the way governance is worked out within respective local authorities. The primary foci of attention relate to these matters:

- How Council is organized and operates.
- How Council determines its broad direction.
- How the Council directs its strategy and structure.
- How the Council delegates to management.
- How the Council handles its responsibility to citizens and other stakeholders.

Figure 1: Local Government Governance Framework



Research Method and Results

The approach adopted was to develop a questionnaire asking elected Councillors for their view on each of these five major themes. The questionnaire was then mailed to each sitting councillor in the Waikato area. The responses were tabulated and analysed. It is intended to extend this to a nationwide survey later in 1999.

The first set of questions concerning how the councils are organized showed concern over aspects of the operational level of governance. In particular the power of various groups within Council and the way in which reporting, monitoring and evaluation occurs.

ISSUE	NO	YES			
How Council is organized and operates: Is there a clear framework, of which you are aware and which is relied upon, that:		**Very Well**	**Well**	**Poorly**	**Miserably**
defines the scope of Council's powers, roles and responsibilities	7	34	52	6	2
specifies the powers and responsibilities delegated to individual Councillors	15	24	44	16	0
specifies the power of the :mayor	27	25	36	11	2
specifies the power of the Chairpersons of Committees	16	20	48	12	5
establishes, maintains and develops reporting and meeting procedures for the Council and its Committees	5	47	40	8	0
Reviews regularly the quality of the Council's decisions, advice received and its actions.	36	18	30	11	5

The second set of issues relate to the broad direction of the Councils. The way in which the stated mission is translated into operational tasks is not well done. There appears to be a lack of method which in deed is potentially reflecting a degree of ad hocary in the way proposals come forward without strong linkages to previously agreed strategic outcomes.

ISSUE	NO	YES			
How Council determines its broad direction: Is there a clear framework, of which you are aware and which is relied upon, that:		**Very Well**	**Well**	**Poorly**	**Miserably**
establishes an accepted set of Value, Mission and Values against which policies and decisions are checked for appropriateness	16	24	44	11	3
requires reviews of Council actions to check that they are consistent with the vision, mission and values	21	21	37	18	2

The third set of issues follows on from the previous matters highlighting the strategy and structure aspects of Council. The major difficulties again lie around the way in which policy is implemented and supporting structures to ensure there is efficacy in this implementation. The extent to which management may do its own thing without accountability is apparently a substantive matter to be addressed.

ISSUE	NO	YES			
How the Council directs its strategy and structure: **Is there a clear framework, of which you are aware and which is relied upon, that:**		**Very Well**	**Well**	**Poorly**	**Miserably**
facilitates review and evaluation of present and future opportunities, threats and risks in the external environment; and current and future strengths, weaknesses and risks relating to assets of the business	15	24	49	12	0
facilitates determination of corporate and financial strategic options, review and selection of those to be pursued, deciding the resources, contingency plans and means to support them	5	34	44	17	0
facilitates the determination of operational strategies and plans to implement the strategic plan	8	30	48	12	2
ensures the organizations structure and capability is appropriate for implementing its chosen strategies	20	31	43	7	0

The fourth set of issues relates to delegation to management. The administrative minuting appears satisfactory with larger levels of concern over accountability for results. Performance monitoring is not as strong as needed.

ISSUE	NO	YES			
How the Council delegates to management: **Is there a clear framework, of which you are aware and which is relied upon, that:**		**Very Well**	**Well**	**Poorly**	**Miserably**
determines performance measure and systems with which Council monitors the implementation of strategy, policies, plans and legal and fiduciary obligations	10	28	49	11	1
ensures internal control procedures provide reliable and valid information for monitoring operations and performance	7	25	49	20	0
records the delegation of authority to management and monitors, evaluates and reports upon such delegation	7	23	56	14	0
ensures that senior management's successes and failures are communicated to Council and ensures that appropriate rewards, sanctions and training are implemented.	22	26	29	16	7

The final matters investigated relate to the Council and its external relationships. Responses in this area indicates that significant work needs to be done to improve the framework.

ISSUE	NO	YES			
How the Council handles its responsibility to citizens and other stakeholders: Is there a clear framework, of which you are aware and which is relied upon, that:		**Very Well**	**Well**	**Poorly**	**Miserably**
takes into account the legitimate interests of groups and individuals who have an direct interest in the activities of the organization	12	27	50	12	0
ensures that the communication with citizens and other stakeholders is effective	8	19	45	28	0
monitors citizens and other stakeholders reactions to policies and decisions by the prescription, use and evaluation of appropriate information	20	18	44	17	0

Summary

The Waikato Councils have responded to the questions in a frank and timely manner. There is obviously a concern over the level of governance currently in place and, given the degree of co-operation received in this survey, a desire to improve matters. The benefits will go not just to Councillors but to the communities that they serve.

The key governance deficiencies highlighted by the study relate to reviewing the quality and consistency of Council decisions, defining the responsibilities of committee chairpersons, monitoring senior management, monitoring responses to decisions, policies, and appropriate structures. This can be seen in the answers to the following six questions, which received the highest level of negative responses.

- Is there a clear framework, of which you are aware and which is relied upon, that reviews regularly the quality of the Council's decisions, advice received and its actions? (36% answered no)
- Is there a clear framework, of which you are aware and which is relied upon, that specifies the power of the Chairpersons of Committees? (27% answered no)
- Is there a clear framework, of which you are aware and which is relied upon, that ensures that senior management's successes and failures are communicated to Council and ensures that appropriate rewards, sanctions and training are implemented? (22% answered no)
- Is there a clear framework, of which you are aware and which is relied upon, that requires reviews of Council actions to check that they are consistent with the vision, mission and values? (21% answered no)
- Is there a clear framework, of which you are aware and which is relied upon, that monitors citizens and other stakeholders reactions to policies and decisions by the prescription, use and evaluation of appropriate information? (20% answered no)
- Is there a clear framework, of which you are aware and which is relied upon, that ensures the organizations structure and capability is appropriate for implementing its chosen strategies? (20% answered no)

There is a need for assistance to Councils on ways and means that they can improve their governance frameworks. Ongoing research will support both training and individual consultancy assistance programmes. The Waikato Management School initiatives at **The University of Waikato** need to be available to local government throughout New Zealand to improve the servicing of our local communities.

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Regional Indicators and Outlook

Warren Hughes

The *Economic Statistics* section of the current issue shows the region to be struggling to emerge from its recessionary state. Construction activity throughout the entire region is down 15% in the year to June over the same period in 1998. Furthermore, the Working Age population in the Waikato has fallen 2.9% in the year to June. This result does not bode well for regional retail sales, and our retailing expectations below remain subdued.

Table 1 summarises the current outlook more precisely. First we consider past forecast performance. Our retail sales projections in the December 1998 issue were a little on the pessimistic side, although the June 99 forecast was spot on. For Building Consents, we are now using a new series. The values shown from now on will be *new buildings in Hamilton City*. Previously, we showed all new building for the Hamilton Urban Area that includes Cambridge and Te Awamutu. Unfortunately this more comprehensive series has been discontinued by **Statistics NZ**, so we cannot report on the accuracy of our projections for this series as outlined in the previous issue. We do show the most recent data and projections for the new series out to the June 2001 quarter. Note that construction in Hamilton City would be a good indicator of overall regional confidence.

As noted in previous issues, in forecasting construction it is very difficult to get the allocation of values between quarters as accurate as one would wish due to the many factors (interest rates, climate, business confidence etc.) that impact on construction intentions. If one adds four quarters together and then compares this projected total with that for the past year, the percentage gain (or loss) may be a better general indicator of where building activity is headed. This percentage is shown in the table for individual quarters so an average of these percentages for the relevant period could be useful for planning purposes.

TABLE 1: PROJECTIONS FOR REGIONAL RETAIL SALES AND HAMILTON BUILDING CONSENTS

	Regional Retail Sales				**Hamilton Building Consents**			
Quarter	$ m Actual	$ m Projected	% Error	% Change over Previous Year	$ m Actual	$ m Projected	% Error	% Change over Previous Year
Dec 98	994.1	954.1	-4.0	2.1	43.2			-3.4
Mar 99	926.6	897.3	-3.2	0.6	37.7			19.3
Jun 99	878.3	877.4	-0.1	1.5	46.3			29.0
Sep 99		875.6		1.4		44.9		22.0
Dec 99		999.8		0.6		52.5		21.5
Mar 00		940.8		1.5		46.4		23.1
Jun 00		887.9		1.1		55.3		19.4
Sep 00		883.8		0.9		53.7		19.6
Dec 00		1013.8		1.4		61.5		17.1
Mar 01		949.8		1.0		55.2		19.0
Jun 01		899.6		1.3		64.2		16.1

The percentage errors for the most recent regional retail sales forecasts show actual sales slightly ahead of our forecasts in the previous issue. Hopefully, this pattern will continue into the rest of 1999 and the year 2000, with actual sales continuing to surpass our somewhat pessimistic projections. Basically, these projections show only a 1% gain over the previous

year's quarter. This increase barely compensates for the current inflation rate indicating no real gains in retail sales for the region.

Construction projections, however, are definitely more optimistic. Gains in beef, forestry and horticulture should balance the more subdued outlook for dairying, although this last sector is very important for the Waikato region. If our projections are accurate, the construction sectors can look forward to gains of around 20% over the previous year's activity. However, activity in the region's construction sectors has been quiet for sometime. Accordingly, gains of this magnitude are required to get sector activity back on track for the region.

Implicit in this forecast is an election result that generates confidence in the NZ economy generally. Any inkling that a complete change in economic direction may eventuate could be fatal. A decisive result with some resulting clear leadership is required for economic confidence. Unfortunately, this does not seem likely on current polling. It seems more likely that some months following the election will be required before a majority or minority government assumes power. Consequently, construction and other plans by decision-makers may be delayed until the fog clears. Inevitably, any slow-down in construction etc. will engender layoffs and further subdued spending in the region. If big projects like the Casino and the Stadium do commence, this will go someway to restoring business confidence in the regional economy.

Another requirement is that the Asian countries continue their recovery. It is now looking more likely that Japan is at last re-emerging as a major force in the world economy. This is of direct import for our region, and additionally, vital for the US economy. Over recent years, the US economy has pulled the rest of the world along with resulting problems for the US balance of payments and ultimately, the US dollar. If Japan's recovery can provide another rapidly expanding market for world goods, this will be welcomed by US authorities and a so-called "soft-landing" can be engineered for the US economy. Both the US and Japan are very important for NZ exporters, so continued growth in these economies is vital for NZ's export performance.

Economic Statistics

REAL GROSS DOMESTIC PRODUCT *($ Millions, 91/92 prices for quarter ended)*	**June '98**	**June '99**	**% Change**
Agriculture	1295	1249	-3.6
Forestry, Fishing & Mining	530	543	2.5
Manufacturing	3860	3853	-0.2
Total Gross Domestic Product	21968	22407	2.0

RETAIL SALES *($ Millions for year to date)*	**June '98**	**June '99**	**% Change**
Auckland Region	12652.3	12831.0	1.4
Waikato Region	3605.6	3662.8	1.6
North Island	29553.2	30087.3	1.8
South Island	9151.5	9615.2	5.1
All New Zealand	38704.7	39702.5	2.6

BUILDING ACTIVITY *(Work in place $m to year ended)*		**June '98**	**June '99**	**% Change**
Dwellings:	All New Zealand	4139.1	3638.2	-12.1
	Sth Auckland Statistical Area	823.0	697.1	-15.3
Total:	All New Zealand	6810.6	6243.6	-8.3
	Sth Auckland Statistical Area	1182.3	1019.5	-13.8

LABOUR MARKET		**June '98**	**June '99**	**% Change**
All New Zealand:	Unemployment Rate %	7.6	7.0	-7.9
Waikato Region:	Unemployment Rate %	7.8	8.1	3.8
All New Zealand:	Labour Force ('000)	1856.9	1866.9	0.5
Waikato Region:	Labour Force ('000)	165.8	166.6	0.5
	Working Age Population ('000)	262.4	254.9	-2.9
	Participation Rate %	63.2	65.3	3.3

PRICES	**Sep '97**	**Sep '98**	**% Change**
Consumer Prices (June '99 = 1000)	1004	1000	-0.4
Producer Prices (Dec '93 = 1000)	1196	1213	1.4

INTEREST & EXCHANGE RATES & RESERVES	**Aug '98**	**Aug '99**	**% Change**
Reserve Bank Base Rates (% p.a.)	11.05	8.36	-24.3
Trade Weighted Exchange Rate (Jun '79 = 100)	57.20	56.70	-0.9
Total Official Reserves ($ millions)	8170.90	6919.80	-15.3

Postscript

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