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2007 Draft Annual Plan Submission  
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SUBMISSION FROM THE  
CANTERBURY MANUFACTURERS'  
ASSOCIATION

ON THE

**DRAFT ANNUAL PLAN 2007/08**

**Canterbury Manufacturers' Association  
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The Canterbury Manufacturers' Association is pleased to have this opportunity to provide feedback from our members.

## **BACKGROUND**

The Canterbury Manufacturers' Association represents manufacturers predominantly in Canterbury and Westland, with members from the rest of the South Island and Auckland. The numbers of staff employed by our members in Canterbury represent approximately 40% of those employed by the manufacturing sector in the region. Locally the manufacturing sector is a significant contributor to the economy, representing about 14% of employment.

Elaborately transformed manufactures comprise over 30% of New Zealand tradeable exports at \$10b; total national employment numbers around 170,000. The members of the Canterbury Manufacturers' Association export around \$1.2b. New Zealand manufacturers face the ever-increasing onslaught of the cost of local regulation, and global competition from low cost countries without any significant support and protection. The Canterbury region has a disproportionately high number of high value elaborately transformed manufacturers who have significant export sales when compared with all the other regions of New Zealand.

The historical reliance that New Zealand has placed in the primary sector and basic manufactured goods has seen the position that New Zealand has in the rankings of the Organisation of Economic Co-operation and Development fall from 5<sup>th</sup> in 1950 to 22<sup>nd</sup> in 2006, between Spain and Greece, well into the lower middle bracket of global income per capita. New Zealand has grown more slowly than other countries due to the dependence on the primary sector. The manufactured goods sector of the internationally traded economy has grown much faster.

Without economic development, based on elaborate transformation commanding high prices from global customers, we will increasingly see issues such as "health problems" correctly characterised as "wealth problems", recent headlines on the "management" of the waiting lists is bringing this issue to the general public. The Canterbury Manufacturers' Association is of the view that provided we have a balanced and practical approach to environmental regulation and cost allocation, we can enjoy an improving environment and a growing economy.

Perhaps more than any other form of enterprise, the elaborate transformation of materials involves new and sometimes difficult to quantify environmental issues. In this sector the poor application of good regulation, or poor regulation and inequitable cost allocation, has the capacity to wipe away any comparative advantage, threatening jobs, businesses and economic growth as businesses do not develop or relocate to take the advantages offered by other centres or jurisdictions.

It is not overstating the situation to say manufacturing and exporters – but for high commodity prices and a little lower cross rate on the Australian dollar – would be facing ‘a perfect storm’ from an overvalued currency and low cost imports. Our members are facing pressure that has never been seen before.

The Canterbury Manufacturers’ Association does wish to be heard on this submission.

## **INTRODUCTION**

This submission will be in several parts as follows:

- Planning Process Comments.
- Overview Comments on the Plan.
- Member Comments on the Plan.
- Economic Development.
- Summary.

## **Planning Process Comments**

We continue to hold the view that the planning process needs an explicit and well developed strategic base, and a number of different mechanisms for involvement and comment during the drafting process.

When looking at the Annual Plan, even in the light of the Long Term Plan, it remains a challenge to establish benchmarks or see in the documentation a clear strategic light against which any particular projected expenditure can be assessed. We believe debate needs to centre on strategy rather than spending. Spending without strategy will lead to poor value projects and potentially low returns to the community.

We had very little time to involve our membership regarding comment on the 2007/08 plan. We need to be involved in the process or more time is needed after publication of the draft to enable adequate consultation with our members.

### **Overview Comments on the Plan**

There is a need to set spending targets or caps on the growth of spending, the Organisation for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF) have suggested that high levels of Government spending in New Zealand is not properly reviewed. Total Government spending is over 38% of GDP, no OECD member country has achieved high growth rates with such a high government burden on the economy.

There needs a principled basis for determining which spending programmes represent justifiable local government activity. The approach of funding the last worthy cause places no limits on spending – a framework for such limits is required.

Beyond such a strategic framework, improved surveillance and scrutiny of expenditure and associated performance will help ensure that the community receives value for money. This is helped by open and transparent reporting coupled to clear accountabilities in the activity delivery. In the past we have referred to an OECD paper which commented on a Canadian approach in reviewing base spending, as set out in the box below.

#### **OECD principles for evaluating value for money**

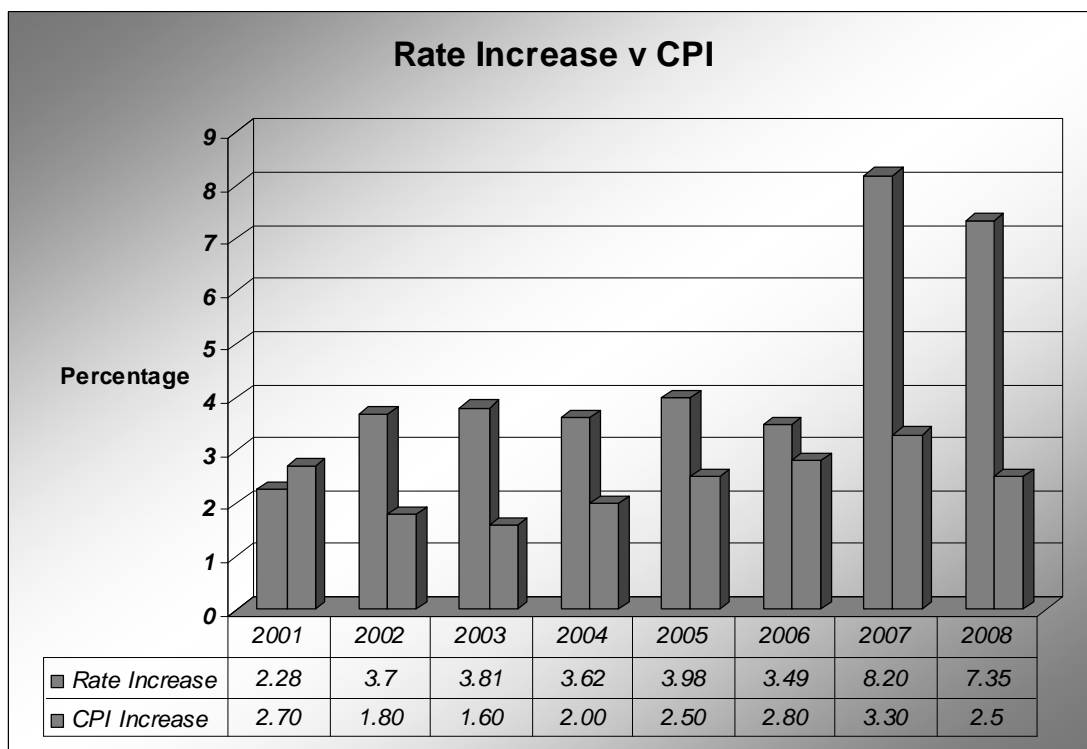
- Does the programme still serve a clearly defined public purpose that matters?
- Is this an appropriate role for government?
- Would we establish the programme today if it did not already exist?
- Is it desirable to maintain it at its current level?
- Can it be delivered more effectively or efficiently? Have there been changes (in the service environment, infrastructure, technology, etc) since the programme's inception that would now permit an alternative means of achieving its objective with greater economy, efficiency, or effectiveness?

*Source: Canadian Office of the Auditor General and Finance Canada.*

A formal review, developed to suit local government, on this sort of framework would support a more informed consideration of any proposed expenditure and if approved, monitor the effectiveness of that spending.

From the standpoint of the members of the Canterbury Manufacturers' Association, the cost of doing business is a major concern as the capacity to recover increased costs from customers, particularly international customers, is limited. Equally the transfer to other parts of New Zealand or other parts of the world, some or all of local production is always an option. Such pressures are amplified when foreign ownership is involved, or economic conditions are less than helpful, and increases in local government rates, well above the rate of inflation, threatens local jobs. This has been adequately demonstrated in recent months.

At a gross level:



It is recognised that the change in rates for 2007/8 are the subject of this submission. However in the period of this graph the compound increase in rate exceeds the CPI by nearly 75% - this is a major cost escalation. This is not forecast to improve and rate increases above, or close to, the rate of inflation should never be seen as a success.

Nor is it reasonable to quote the relative costs of rates with respect to other city councils in New Zealand. Earnings, incomes, capital values, rating base and the cost of delivering service have significant differences across New Zealand.

Environmental and social outcomes are community concerns, but delivery of these outcomes is dependent on the quality of our economic performance. Or put another way, sustainability has a core dependency on economic performance.

Local government has the capacity to impact economic performance in two ways; one to remove obstacles of local regulation and cost, the other to encourage economic transformation. Demonstrably reducing costs and effectively stimulating higher added value in the local economy are key contributions that the Christchurch City Council can make to economic performance and thereby support social and environmental outcomes.

### **Member Comments on the Plan**

In our discussion on the plan a number of themes emerged. They are presented here as direct quotes, in some cases the actual words were not strictly said however the sentiments expressed are accurate and have been reviewed and approved by the Canterbury Manufacturers' Association Council and CEO Forum.

- “The CCC plan still has no explicit strategy or process against which to test discretionary spending, decisions lack context, linkages or integration of activities; proposals are essentially stand alone.”
- “Rate increases at more than twice the rate of inflation, is an indication of poor cost control. We need to see more user pays in the Council services area. We need caps on spending and spending growth.”
- “The argument that Christchurch rates are lower, than say Auckland, is not that convincing. Christchurch has few of the topographic problems that Auckland and Wellington simply have to deal with. To grow quickly, Christchurch needs every bit of comparative advantage it can get.”

- “The economy pays for all social and environmental outcomes, there appears to be a view that once we decide what to do then somehow the money will be found. The view that an average rate increases above the rate of inflation are OK is a cost plus mentality. I can’t even pass on inflation increases.”
- “Costs are increasing everywhere there seems to be no end to increases flowing from government.”
- “The operation and development of community recreational assets should be based on best commercial practice, contestability, transparency, devolution of management and the minimization of external cost allocations that shift costs from one area to another – we so not see this happening.”
- “Most of the plan is nuts and bolts, essentially management issues for a large city. The remainder is discretionary spending both expense and capital – the strategy and debate should centre on these discretionary items, these should be explicitly separated out along with any specific cost transfer changes year on year.”

### **Economic Development**

We have made comment previously that the operation and focus of the CDC and the CEDF should be reviewed in some detail. Both could be a much more powerful force for change but they need a more risk tolerance and entrepreneurial thinking then the funds available might be applied.

The measures of economic development presented on page 30 are inadequate and focused on activity not outcomes. Measurement should be outcome focused on real economic activity added by CDC and CEDF investments.

### **SUMMARY**

- There is a general unease on the year-on-year rate increases, increases that continue to be substantially above the rate of inflation.

- The need for an explicit strategy to stimulate best practice in governance and management. This continues to be strongly expressed by our members.
- The introduction of a cap to operating revenue and an associated operating revenue growth rate, geared to some fraction of prevailing inflation or local economic growth, would help stimulate best practice and value for money implementation.
- The support and stimulation of economic transformation requires more focus. Review and upgrade the culture and decision making of the CDC and CEDF.

John Walley  
Canterbury Manufacturers' Association