

21 April 2008

2008 Draft Annual Plan Submission  
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SUBMISSION FROM THE  
CANTERBURY MANUFACTURERS'  
ASSOCIATION

ON THE

**DRAFT ANNUAL PLAN 2008/09**

**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 increasingly around New Zealand and in Canterbury. 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.

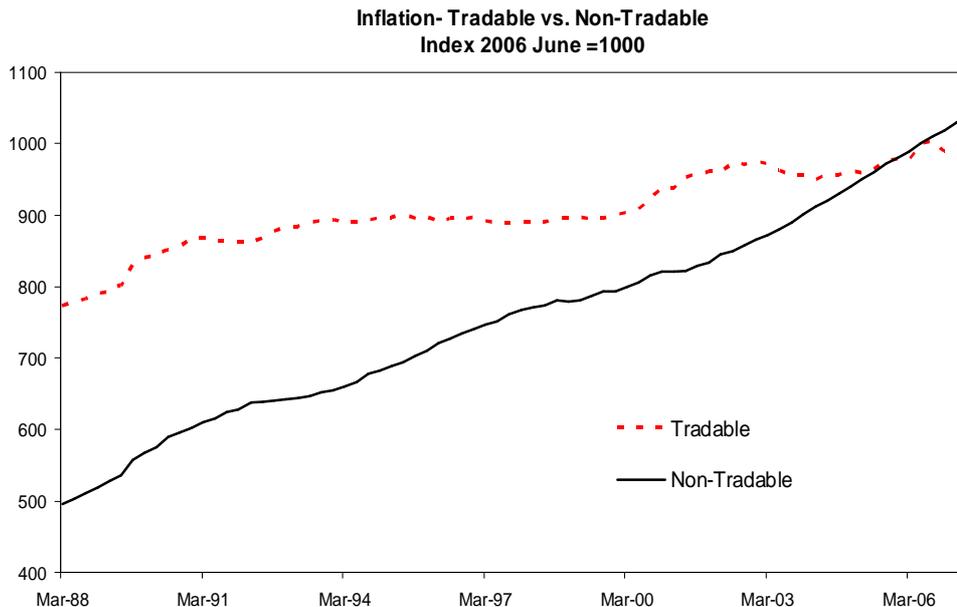
Elaborately transformed manufactures comprise over 30% of New Zealand tradeable exports at \$10billion; total national employment numbers around 170,000. The members of the Canterbury Manufacturers' Association export well over \$1billion.

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. You will all have noted that since our last submission there have been a number of high profile losses to the sector, just as significant is the erosion of activity under the headlines.

Increasingly, as New Zealand places greater dependence on the primary sector and basic manufactured goods, the profile of economic capability simplifies; that simplification is mirrored in our export profile. This trend increasingly exposes our economy and results in a loss of comparative wealth.

It is not overstating the situation to say manufacturers and exporters generally have been under pressure for several years. Of late, the rest of our economy has been rapidly feeling the same pressures. Inflation and the mechanisms chosen to resist inflation is a problem for the tradeable sector.

Tradeables are reporting a long run inflation rate of around 1%, around 2.5 times less than the domestic sector.



Increasing cost, increasing competition, the absence of pricing power, and the squeeze on margins should be noted by the Council. Yet more pressure from rating increases ultimately threatens the rating base and incomes for residents. The headline losses and downsizing are there; Bowron, Electrolux, Dynamic, and Humanware, but many more have gone or are under threat.

It is worth noting that the proposed rating increase, at almost eight times the inflation of traded goods, is very painful for manufacturers.

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

## INTRODUCTION

As in previous years 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**

Our members continue to comment 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.

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.

Again, we had very little time to involve our membership regarding comment on the 2008/09 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**

Our members continue to voice the need to set spending targets or caps on the growth of spending. There needs to be a principled basis for determining which spending programmes represent justifiable local government activity. The approach of funding the last-worthy-cause demanded by some parts of the community or other, places no effective limit on spending – a framework for setting 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 that commented on a Canadian approach in reviewing base spending.

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

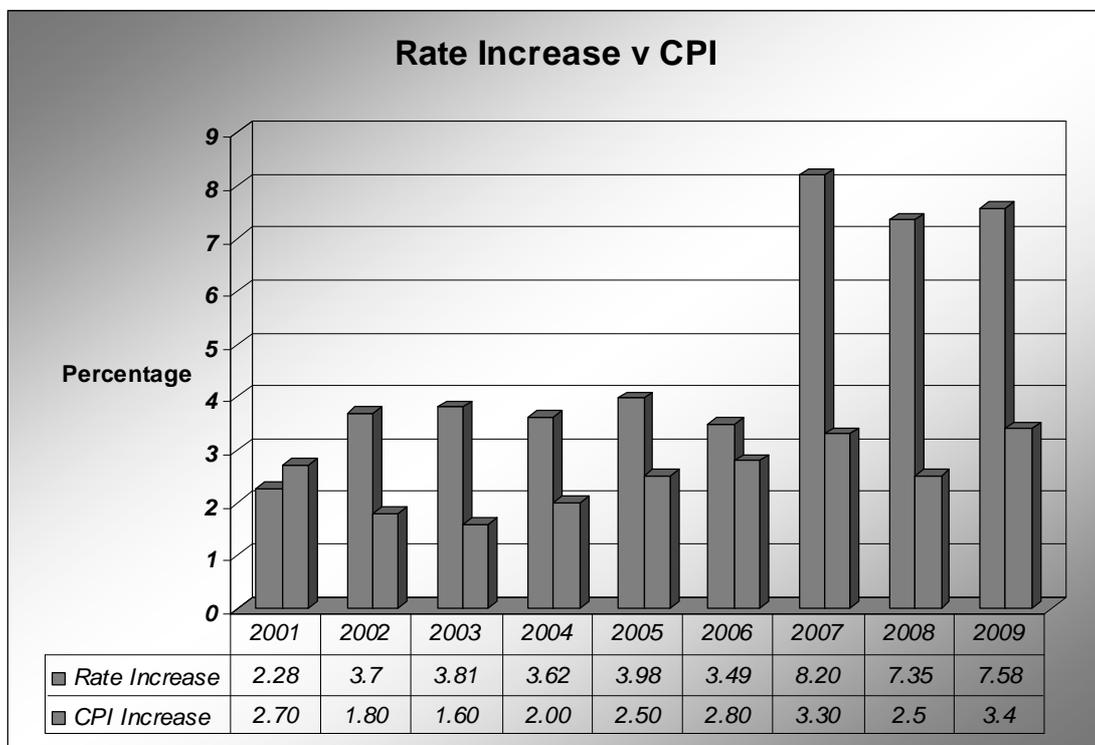
- Does the programme still serve a clearly defined public purpose that matters?
- Is this an appropriate role for government?
- Would we establish the programme today if it did not already exist?
- Is it desirable to maintain it at its current level?

- 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?

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 worth noting the compound increase in rates exceeds the CPI by more than 100% - 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.

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**

As in the past during our discussions on the plan a number of themes emerged. The sentiments expressed are accurate and have been reviewed and approved by the Canterbury Manufacturers' Association Council and CEO Forum.

- “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 Council services area. We need caps on spending and spending growth.”
- “The view that 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 minimisation of external cost allocations that shift costs from one area to another – we do not see this happening.”

- “Intergenerational equity could be improved; the financing period at 30 years is too short and the depreciation rates are too aggressive.

## **Economic Development**

### **CEDF**

We have made comment previously that the operation and focus of the CDC and the CEDF should be reviewed in some detail. It seems the CEDF is struggling to apply available funds and perhaps more effort should be placed on promoting the fund directly and via local Associations and the like.

### **CDC**

The CDC role could be more long term and aggressive. Avoiding processes that seek to pick winners – not that easy to do – instead promote and support the conditions under which winners can pick themselves.

For example, the contrast between grant based processes or intervention via the tax system on research and development tax credits. One approach is full of committees sitting in judgement on the applications submitted by firms, the other backs the decision making in the firm and no bureaucrats are disturbed in the process, other than the IRD in the appropriate way after the event. The CDC could look to the same change in focus away from “group” and towards specific firms that have the capacity to grow and develop.

We note in the plan document that measures of activity as opposed to outcomes continue to be associated with economic development efforts in the City. For example “500 business start-ups” or “1000 hours of coaching” or “400 mentor matches” these are activity measures not outcome measures. We would venture that without strong and effective outcome measures the CDC should not be involved with any programme.

The target of supporting growth in particular firms should be balanced by seeking to stimulate future economic development – this activity should be subject to an open and transparent process and some objective testing. Or at least as much objective testing that can be applied to forecast activity.

**SUMMARY**

- There is a growing 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 and more open planning process 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.

**John Walley**

**Canterbury Manufacturers' Association**