

16 April 2009

Community Plan Submission
Christchurch City Council
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SUBMISSION FROM THE
NEW ZEALAND MANUFACTURERS AND EXPORTERS ASSOCIATION
ON THE

Christchurch City Council, Community Plan 2009 - 19

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The New Zealand Manufacturers and Exporters Association is pleased to have this opportunity to provide feedback from our members.

BACKGROUND

The New Zealand Manufacturers and Exporters Association represents manufacturers and exporters from around New Zealand. The majority of members are from Canterbury and Westland. Sales by members are over \$2 billion per year, and of this total, about 50% is exported. In Canterbury the manufacturing sector is a significant contributor to the economy, representing about 15% of employment.

Elaborately transformed manufactures comprise over 18% and basic manufacturers over 12% of New Zealand tradeable exports. 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 (OECD) fall from 5th in 1950 to 23rd (down from 21st in 2004) in 2007; between Korea and the Czech Republic, and well into the lower middle bracket of global income per capita. New Zealand has grown more slowly than other countries due to our mix of export type. Until recently the manufactured goods sector of the internationally traded economy has shown the highest growth.

Economic development based on elaborate transformation, commands high prices from global customers and ultimately fund our lifestyle. Generating that cash, from exports based on ever increasing skill levels will return the lifestyles we anticipate. A failure to do so will see an ever poorer New Zealand and a widening gap between what the world has to offer and what we can afford in health, infrastructure and general consumption.

For the past several years the world has not been a friendly place for our exporters and manufacturers. Of late the economic pain has started to spread throughout the economy and intensify further. The lower New Zealand dollar has helped somewhat but as global markets fall away, margin problems are being replaced by sales volume problems. Minimising further cost pressures has never been more important than right now.

The New Zealand Manufacturers and Exporters Association wishes to be heard on this submission.

GENERAL

It is clear that a substantial amount of time and effort has been applied to the development of the 2009 – 2019 Draft Plan. We respect and appreciate those efforts.

New Zealand competes with the world and Christchurch competes with the rest of New Zealand. Rate increases beyond other local Councils reduce the competitiveness of Christchurch businesses.

The long term prospect of rate increases, even at around 4%, will represent a major challenge. Many firms are facing losses in sales and are being forced to reduce levels of operation.

Faced with competitive pressure and cost increases the best response is efficiency and productivity. There is reference but no objective measure in the Draft Plan to ensure that operational efficiencies will be pursued and implemented by the Christchurch City Council. In the three year period from 2005 to 2007, rates increased in Christchurch by 34%, this compares with 31% in Wellington, 28% in Auckland and 15% in Dunedin. The increase was many times the rate of inflation¹.

We recognise that tensions exist between the desire for services and the need to fund them. However we cannot afford to fund all community desires, and a focus on spending to provide utility, as opposed to simply spending the available budget would be welcome. Hard tests around necessity, timing and the definition of need are important in hard times; we now live in hard times and things have a significant potential to get a lot worse.

We see the community outcomes listed, and agree that these outcomes matter, but the wellspring of them is prosperity. With local businesses already suffering, new proposals must be treated with caution.

It is important to avoid the assumption that the economy will always be there to serve the community, it may not, and behaviour based on that assumption might hasten the end. In the past we have pointed to the “OECD principles for evaluating value for money”;¹ these are:

¹ www.localcouncils.govt.nz

OECD principles for evaluating value for money²

- 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?

At the ratepayer level, competitiveness cannot be easily sustained if costs continue to increase. What must be done needs to be separated from what it is nice to do – debate is necessary on the division applying the OECD discipline. Local economic activity is at stake.

Activities currently operated by the “Council” that could be readily devolved to a user pays model would also reduce the general rating burden and support competitiveness in other areas of the economy. To a large extent manufacturers are faced with many cost increases which exceed the Consumer Price Index (CPI); the response is to look for efficiencies, divestment, investment, operations changes and finally, where possible, price increases. We look to the Christchurch City Council to mirror this and make rate increases a last resort.

Planning Process Comments

It is clear that the strategic base of the planning process is developing and improving – that is to be commended. We continue to hold the view that different mechanisms are needed for involvement and comment during the drafting process – we had some difficulty getting a hardcopy of the plan and had only a very short period to read, assimilate and discuss the document with our members.

When we assess the plan it remains a challenge to establish benchmarks. Comparisons with other Councils, comments on best practice, and the decision criteria, along with any associated debate on drafts for expenditure would be useful. We would like to see more performance benchmarking against other Councils for all material expenditure, and the documentation of the alternatives considered and justification for the option selected provided in the Draft Plan.

²Canadian Office of the Auditor General and Finance Canada

Comments on the Plan

Generally we would like to see costs recovered directly from identified users coupled with a reduction in general charges imposed on ratepayers. The imposition of inequitable costs speed the loss of transferable activity and jobs locally. Low cost and low care countries compete with local manufacturers. This makes keeping costs down and buying from local suppliers important to keep a level playing field.

The Canterbury members of the New Zealand Manufacturers and Exporters Association comment that the local cost of doing business is a major concern. The transfer to other parts of New Zealand or other parts of the world of some or all of local production is increasingly an option. Such pressures are amplified when foreign ownership is involved. Rate increases close to or above the rate of inflation will threaten good jobs in Christchurch.

Christchurch Economic Development

In our view the Canterbury Development Corporation is maturing by providing a better focus on major economic transformation. The intention of doing fewer, bigger things and doing them better is encouraging. Those changes have our wholehearted support. This change will be less safe and there will be failure along the way, but real transformation is impossible without risk; we are happy to help where we can in these changes.

General Comments

We commend a focus on efficiency, although we would like to see some objective measures and see even more effort on the efficiency of service delivery to lower cost escalation.

We support:

- Increasing debt to lower current costs and a better balance intergenerational equity.
- The changes to create tax efficient structures.
- The changes in the treatment of depreciation to anticipated real asset renewal and replacement.
- The use of targeted rates wherever possible with those benefiting from the spending paying all or most of the cost.

- The use of development contributions related to the intensity of additional use of public facilities that will accrue to the development.

Surplus

We would like to understand more about the generation and management of the planned surplus.


Member Comments on the Plan

In our discussion on the Plan the usual themes emerged. As we have done before, 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 our Association's Council and CEO Forum.

- "The planning is improving but the anticipated rate increases are high, the way the world is right now."
- "I am not sure the Council really understand the economic pressure right now."
- "The focus of City Councilors on governance is welcome; as is the separation of management and governance. We do wonder why there is no explicit Audit and Risk Management by the Council."
- "It seems to be assumed that economy will find the means necessary to pay whatever bill is presented, I wish I was as certain."
- "As most of the costs are wages and salaries, what is the Council doing to really drive internal efficiencies?"
- "More of the community and recreational assets could operate on user pays basis, that would show what people are really willing to pay for and commercial practice would expose inefficiencies - reducing the general rate burden."

SUMMARY

- Although the projected rate increases are lower than they have been, there remains a great unease on the year-on-year increases, increases that continue to be substantially above the rate of inflation.
- The need to further develop a strategic vision and to stimulate best practice in the governance and management of the Christchurch City Council continues to be strongly expressed by our members.
- Keep rate increases to a minimum. Use the OECD criteria, limit surpluses on the capital accounts, divest assets, use the longest practical depreciation period, switch operating process to user pays wherever possible, and aggressively search for and apply internal efficiency improvements and introduce output based performance measure to Council operations.
- Commit to having the lowest real rates in New Zealand.
- Support and stimulate significant economic transformation.



John Walley

New Zealand Manufacturers and Exporters Association