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2025 Task Force
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By email to secretariat@2025taskforce.govt.nz

Dear Don

Closing the Income gap with Australia/ Raising productivity

Firstly can I say how much the Committee applauds the Government's intention to close the income gap with Australia by 2025. I also appreciate your invitation to comment.

NZ sits in a competitive environment with fierce rivalry between nations and particularly cities seeking to attract investment, people and economic opportunities; it is our ability to attract these which will lift our earnings and enhance productivity. There is ample evidence that it is cities which are at the forefront of this competition.¹

Our invitation to the Task Force is to see Auckland as a solution for New Zealand in the race with Australia. There are three issues for cities and productivity – the economy, the attractiveness of the place, and talented people.

Cities matter too

By 2025, about 1.2 billion people will live in Commonwealth cities. These cities will double in size in a generation. New Zealand is unusual amongst these countries, not for being highly urbanised - 87.5% of our people live in urban areas already, nor for urbanising very fast - third fastest in the OECD after Turkey and Mexico and faster than Australia and Canada, but because so many New Zealanders live in one city, Auckland.

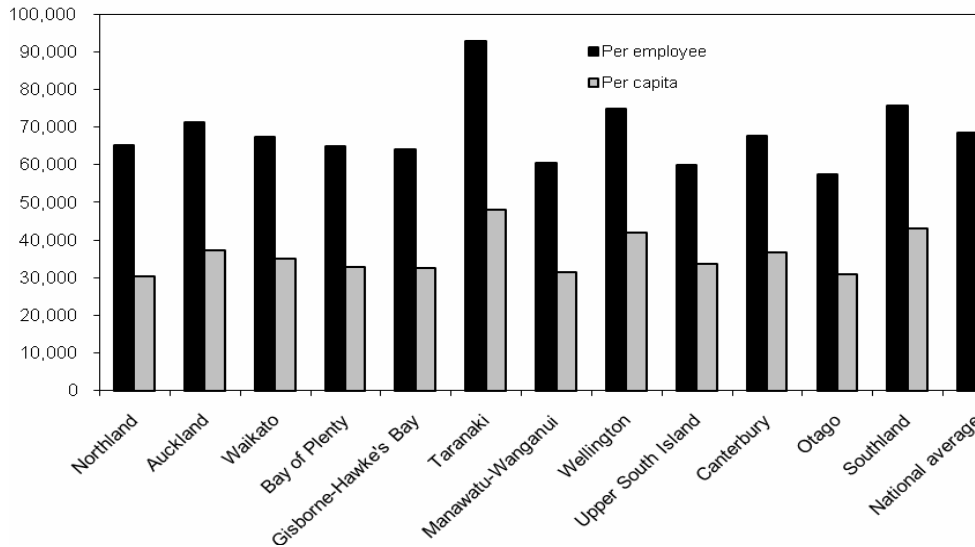
This matters to the 2025 Task Force because this one city is earning 36% of the nation's GDP. Few other countries have so great an opportunity to influence the wealth generated by one place. London earns over 31% of the UK's GDP and makes systematic efforts to lift its performance and that of the UK as a whole. London's work led the Committee for Auckland to examine London First's 'Keeping the UK Competitive' and in turn we can tell a similar story. 'Growing Auckland Growing New Zealand' is enclosed under separate cover.

Cities compete

In today's globally competitive environment where capital, events and talents are footloose, it is cities rather than nations which compete.

Therefore our recommendation is to consider the role of NZ's cities in achieving income parity through increased productivity. We make the case for Auckland because this city we know best, but the same arguments will hold true for Christchurch and Wellington, and we support initiatives that progress productivity and wealth generation in these places too. Cities are highly productive.

GVA per employee and per capita (dollars)



Source: NZIER 2009 to Committee for Auckland

However Auckland should contribute more than 36% of GDP from 35% of the country's population. Its productivity has been limited by dispersed leadership, underinvestment in infrastructure, and scattered attention to the labour market.

The Task Force's work should include a cities component.

Invest where productivity is high already

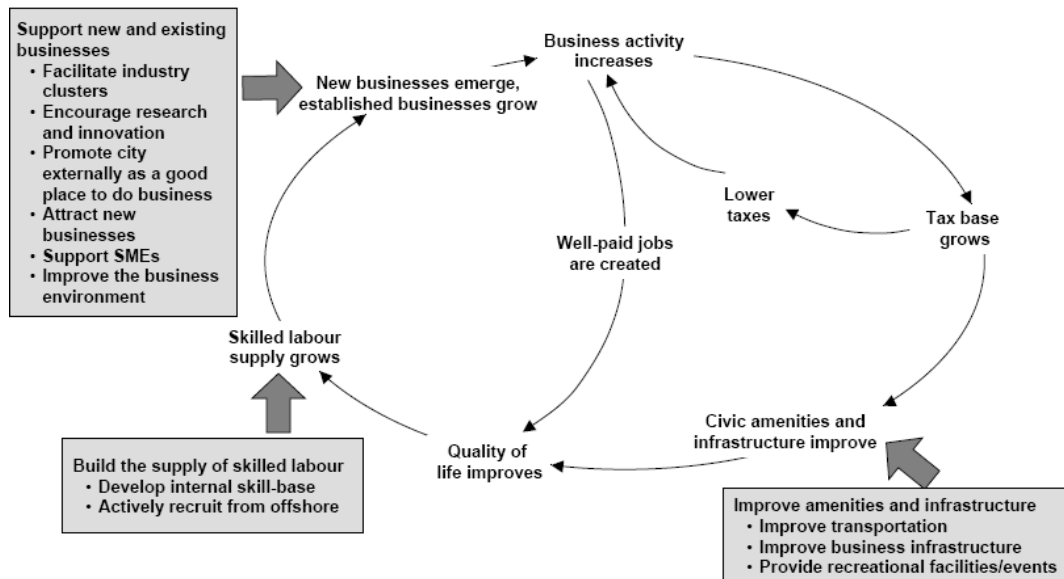
There is ample evidence of the benefits of dense concentrations of capital and talent in cities and the impact this makes to increased productivity. US research describes an increase of 6% in labour productivity by doubling employment density (Ciccone and Hall 1996) and this work is being updated. We note new work within the Ministry of Transport calibrating agglomeration benefits in a New Zealand context². It makes sense then to invest carefully in cities and sectors where agglomeration benefits create higher productivity, and where growth is fast already. The trick is to understand how agglomerations work and to back those actions which deepen its benefits.

The Government's plan of infrastructure led growth and the plans of the Infrastructure Plan are helpful, as is the recognition of a broad definition of infrastructure. However the Task Force could add weight to an agreed method of assessing productivity enhancing investment, such as the methods used to determine the wider economic benefits of the Waterview Connection. Government will have to say no to some things; not all infrastructure is equal.

Create a virtuous cycle

A virtuous cycle of city success aimed at lifting productivity and wealth for Auckland was described first by Competitive Auckland in 2000, and we continue to follow this model.

INTERNATIONALLY, CITIES ARE UNDERTAKING INITIATIVES IN THREE AREAS TO BUILD A VIRTUOUS CYCLE



Source: City Economic Development Strategies, phone interviews
200106-AUC-GEN-44114-00 Strategic Overview.ppt

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Competitive Auckland addressed three pillars – skilled labour (people), amenities and infrastructure (place), and a dynamic business environment (economy). A plan of action aimed to lift Auckland’s GDP/cap by 5% year on year, with the effect of increasing standards of living for Aucklanders by 30%. Even these efforts brought Auckland to parity with Sydney’s then *current* incomes by 2010.

What was important was that interventions in each pillar leveraged off each other for compound benefit rather than a silo based approach. Likewise, the Task Force should seek to design a ‘handful’ of income creating investments and initiatives with maximum leverage.

Accelerate investment in high growth industries

Auckland has consistently identified its high growth industries -Tourism, Food and Beverage, Marine, ICT, Biotechnology and Education. They are important for lifting productivity not only in Auckland but for the benefit in the value chain up and down the country. One barrier to higher growth in these sectors is not the quality of the growth plans, but the decision- taking process. It is slow.

(i) Marine

Growth in the marine sector is highly lucrative for Auckland and for the industry spread around NZ. It is estimated to grow at 6% annually. Despite this potential, it has taken the best part of a decade to make firm commitments to space and infrastructure dedicated to the industry on Auckland’s waterfront. Recent progress is good. However without certainty, investment by the marine sector has been variable.

(ii) Visit Economy

In the tourism sector or visitor economy, decisive investment in specific visit infrastructure was demonstrated to yield \$7.21 billion for Auckland over a decade. An internationally competitive exhibition convention centre is needed. It will yield \$85million in GDP year on year. Despite this contribution, the exhibition convention centre has been a decade in discussion. A case study by the Committee for Auckland for the Royal Commission on Auckland Governance documented the path.

Investing in cruise ship infrastructure has been more swift but nevertheless this is now the beginning of the third summer since discussions began in earnest about quality cruise liner infrastructure for cruise liners hubbing in Auckland.

Make a new deal for growth

Auckland's governance changes are important, but there is a need to overhaul the decision-taking and establishment pathways for wealth generating infrastructures and initiatives in general. These often require national investment where a silo based approach needs to be overcome.

The Government's goal is also important. The Task Force has a role to play in making the 2025 target compelling, tangible and binding. The Task Force might consider 'incentivising' decision-takers to achieve the 2025 goal through actions by governments, in cities and sectors.

One option might be that the Councils negotiate a funding / investment envelope from central government which is directly linked to a numeric target for higher productivity. Some elements of Australia's competition policy appear to work in this way. Canada's New Deal for Cities followed these lines. The Auckland governance reforms provide a realistic opportunity for this approach.

Tackle the talent issue

The short fall in engineering and science graduates is a serious issue, given both the plan for infrastructure led growth (who will design and deliver this?) and NZ's ability to earn foreign exchange through its design and advisory services. Companies such as Beca sustain compound growth of 15% per annum. Without graduates, this growth is constrained.

A new exploration³ of productivity and the number of graduates in the workforce might suggest that even though many NZers are highly qualified, further investment in university and tertiary institutions may be warranted in the interests of innovation and productivity.

An intervention in the UK's recovery plans is to direct more graduates toward setting up new businesses based on their intellectual endeavours. Positions in the corporate world are limited in recessionary times. What can be done to ensure a pipeline of young entrepreneurs from university into their own enterprises? The University of Auckland SPARK competition is an example of one pathway.

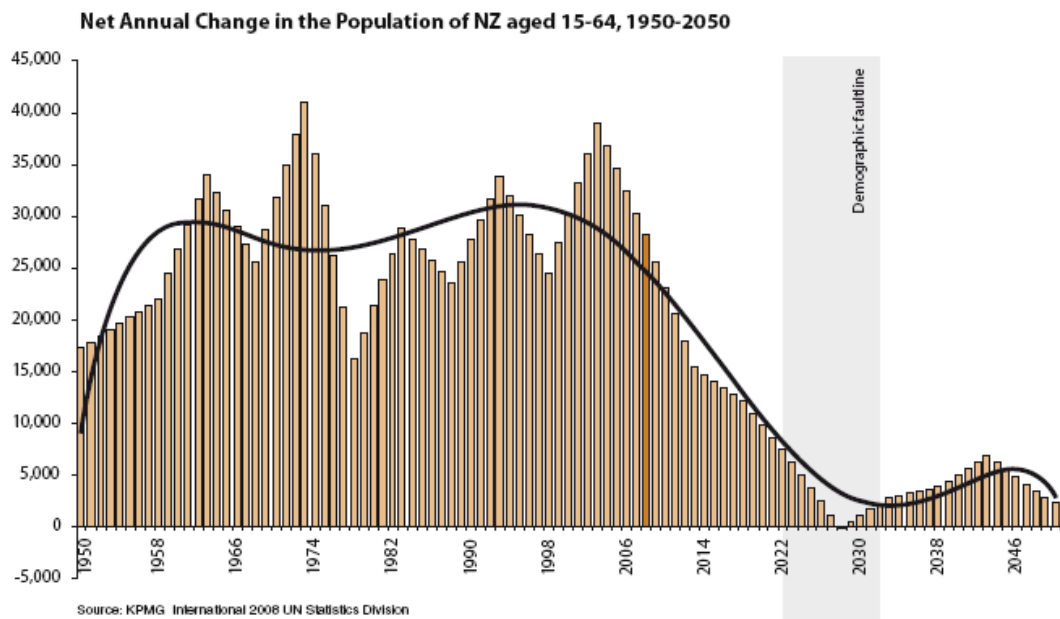
Develop tomorrow's labour market

Auckland's future labour market will look very different. Today, 24% of New Zealand's Maori population & 67% of the Pacific population live in Auckland. By 2016 Auckland's talent pool will be about half European and half will be Asian, Pacific and Maori people. However in 2002, the OECD's Innocenti Report showed that New Zealand had the second worst rate of relative educational equality in the OECD. For instance, in decile 10 schools, A and B Bursaries are obtained by 80 per 100 Year 9 entrants. In low decile schools, there were none.

There are also disparities in achievement between European students, and Maori and Pasifika students. Just to compound the issue, Maori and Pacific students make up the majority of the school rolls in many of Auckland's low decile schools. Lifting educational outcomes in lower decile schools is critical to workforce participation and productivity. Effort needs to be targeted to Auckland since 29% of New Zealand's decile 1 schools and over half the country's decile 1 students are in Auckland. The Auckland labour market, and Auckland's productivity, can be lifted by developing this potential.

Appreciate the demographic faultline

The skill levels of people entering the labour market between now and 2025 are vital for another reason. In 2025 there is no growth in the labour market.



There is a pressing need to continue to attract international talent. Auckland is an attractive destination with 1 in 3 Aucklanders born offshore. The Committee's work in Omega has however shown marked unemployment and underemployment amongst graduate talent admitted to the country. The potential uplift in the economy through integrating internationally trained professionals has been assessed in the billions in Canada⁴. Here in Auckland, Omega's 180 matched mentors and mentees have resulted already in a double benefit; 80% who complete the business mentoring programme get jobs that match their skills, and leave an unskilled job free for others. A systematic approach to integrating talent in the labour market will lift productivity and also deliver on New Zealand's promise to the people it attracts.

Success will come from unity of purpose

The Committee for Auckland does not underestimate the Task Force's challenge. Regrettably this paper raises more issues than solutions. However we do commend a process of cross-sector collaboration as both a way of harnessing wisdom and experience, and to unite people around a common goal.

Our Members are very interested in your mission, would be prepared to assist in any way you see fit, and wish you well.

Yours sincerely

Ron Carter
Chairman
KPMG