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2006 Draft Plan Submission
Christchurch City Council
PO Box 237
Christchurch

ccc-plan@ccc.govt.nz



SUBMISSION FROM THE
CANTERBURY MANUFACTURERS'
ASSOCIATION
ON THE
DRAFT CITY PLAN 2006

**Canterbury Manufacturers' Association
P O Box 13152 Armagh
CHRISTCHURCH**

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 represent approximately 40% of those employed by the manufacturing sector in the Canterbury region. Locally the manufacturing sector is a significant contributor to the economy, representing about 15% of employment.

Elaborately transformed manufactures comprise over 30% of New Zealand tradeable exports; sector sales total around \$30 billion and total national employment numbers around 170,000. New Zealand manufacturers face the ever increasing onslaught of global competition 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 5th in 1950 to 21st in 2003. New Zealand has grown more slowly than other countries due to the dependence on the primary sector. Other sectors of the internationally traded economy have grown much faster.

Without economic development, based on elaborate transformation of materials sold at high prices to global customers, we will increasingly see issues such as "health problems" correctly characterised as "wealth problems". The Canterbury Manufacturers' Association is of the view that provided we have a balanced and practical approach to regulation and cost allocation, we can enjoy an improving environment and a rapidly 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 or 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 jurisdictions.

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
- Specific Comments on Trade Waste and Water
- Summary

Planning Process Comments

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

When looking at the 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. The debate needs to centre on strategy rather than spending; it is spending without strategy that can lead to poor value projects and potentially low returns to the community.

Overview Comments on the Plan

There is a need to set spending targets, the Organisation for Economic Cooperation and Development (OECD) has 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 proper 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 2004 we referred to an OECD report which commented on a Canadian approach in reviewing base spending as set out in the box below.

OECD principles for evaluating value for money

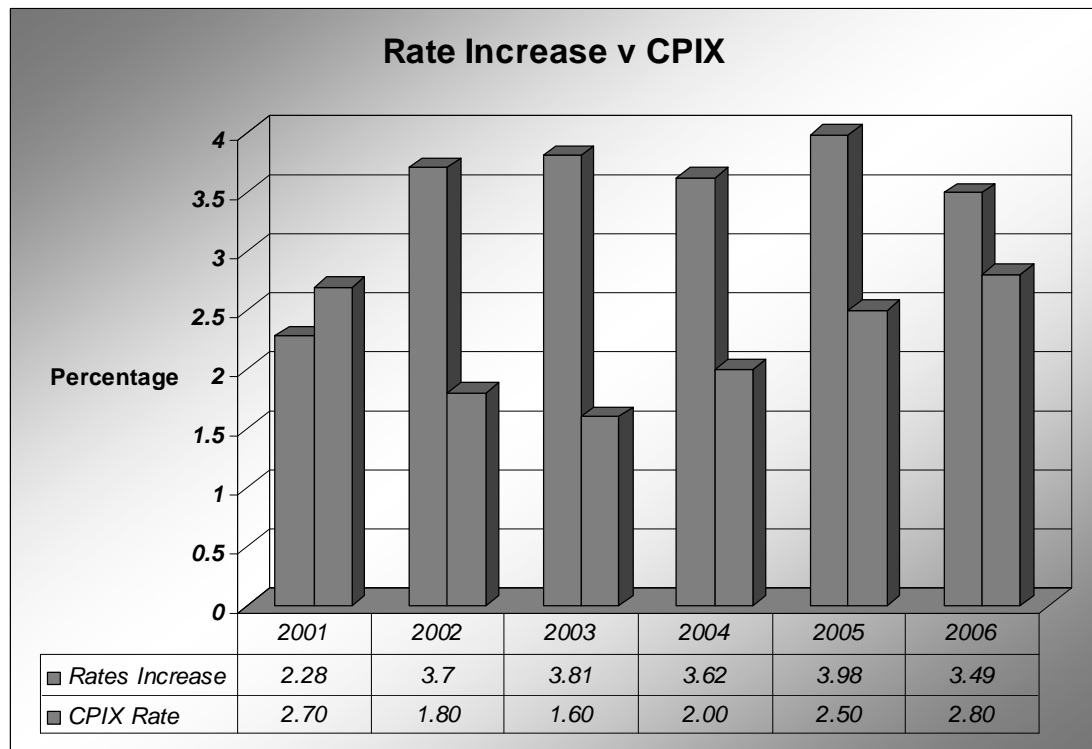
- Does the programme still serve a clearly defined public purpose that matters?
- Is this an appropriate role for government?
- Would we establish the programme today if it did not already exist?
- Is it desirable to maintain it at its current level?
- Can it be delivered more effectively or efficiently? 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 of some or all of local production is always an option. Such pressures are amplified when foreign ownership is involved. Rate increases close to or above the rate of inflation threaten jobs in the city.

At a gross level:



It is recognised that the change in rates for 2006 are the subject of this submission. However in the period of this graph the compound increase in rate exceeds the CPIX by over 60% - this is a major cost escalation. This is not forecast to improve and rate increases above or close to the CPIX 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 what the community is about, 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.

The performance of local government has the capacity to impact economic performance 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 support the other two dependent dimensions of the triple bottom line.

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.”
- “With the reduction in size of the City Council, a new City Manager and management structure, we hope we see a strong emphasis on the separation of governance and management – for that to really happen strategy will have to be explicit.”
- “Rate increases at, or even close, to the rate of inflation is an indication of failure on cost control. Past undertakings of rate reductions / stabilisation are being broken, we need some sort of spending cap - where is the balancing value for money efforts and drive for spending reductions.”
- “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.”
- “Economic issues continue to be subservient to social and environmental issues, 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 pass on much more than inflation to my customers and even that is a struggle and my staff are demanding wage increases to offset the costs.”
- “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.”

- “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.”
- “We have a heating problem in the City, specifically the use of wood burning “wetbacks” – these are inefficient and contribute largely to the air quality problem. The long term plan should give consideration to the support for solar thermal water heating systems for domestic application.”

Economic Development

The new note 1 on the Capital Endowment Fund says:

The Council have agreed that the \$1.28m for allocation to economic development projects and that consideration will be given to the Canterbury Development Corporation, Christchurch and Canterbury Marketing and the Canterbury Economic Development Fund as potential recipients.

This note is difficult to understand, the Christchurch City Council has determined to divert funds to itself from the CEDF, and even that the CEDF itself can be a recipient of CEDF funds. This would not be supported, the intent of the CEDF was to encourage economic transformation and attract addition investment by applying a matched funding approach. This would seem to invalidate the CDC or the CEDF as recipients of funding.

The build up in funds in the CEDF is a concern and is an indication of either a “risk averse” culture in the approval of projects or a lack of good projects. We know of a few successful projects that have not been supported by the CEDF, as a result we suspect that the issue is “risk aversion.”

We believe the approach and process associated with the CEDF should be reviewed and restructured with the intent of becoming a more forceful driver of economic transformation in the City.

Trade Waste and Water Charges

The user pays approach to infrastructure charges regarding trade waste and excess water usage is approaching the end game. By this we mean that as we lose companies the remaining charges fall more and more heavily on those remaining. This means that those companies which need more water or involve trade waste discharges are being driven from the City. Companies such as Bowrons, Gelita and Independent Fisheries face these “end game” issues. At a basic level we believe the City must decide how to carry the cost of the infrastructure provision. The infrastructure will remain even when the companies are gone, along with the many entry level jobs they provide.

We would like to see this matter on the agenda for discussion in the long term plan which starts later in the year.

SUMMARY

- There is a general unease on the year-on-year rate increases, increases that continue to be above the rate of inflation.
- The need for an explicit strategy to stimulate best practice in governance and management and 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.
- Transparent spending scrutiny and surveillance will drive value for money on Council spending.
- The support and stimulation of economic transformation requires more focus. Review the culture and decision making approach of the CEDF. Do not use CEDF funds for “inwards” investment.
- Review the basis for trade waste and commercial water charges as part of the ongoing long term plan development.

- The comment on wood fired water heating suggests that support be considered to encourage the domestic installation of solar thermal water heating systems. This has energy conservation and air quality implications and should be part of the long term plan development.

John Walley
Canterbury Manufacturers' Association