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2004 Draft Plan Submission  
City Water and Trade Waste Unit  
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SUBMISSION FROM THE  
CANTERBURY MANUFACTURERS'  
ASSOCIATION  
ON THE  
**DRAFT CITY PLAN 2004**

Canterbury Manufacturers' Association  
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CHRISTCHURCH

The Canterbury Manufacturers' Association is pleased to have this opportunity to provide feedback from our members. We appreciated the slightly delayed submission date to enable more discussion in our own governing body the CEO Forum and Council of the Canterbury Manufacturers' Association.

## **BACKGROUND**

The Canterbury Manufacturers' Association represents manufacturers predominantly in Canterbury and Westland, with some members from the remainder of the South Island; the numbers of staff employed by our members 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 16% of employment.

Elaborately transformed manufactures comprise over 30% of New Zealand tradeable exports; sector sales total around \$32 billion and total national employment numbers 170,000. New Zealand manufacturers face the full onslaught of global competition without any significant tariff 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 20<sup>th</sup> in 2002. 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
- Specific Comments on Trade Waste and Water
- Summary

#### **PLANNING PROCESS COMMENTS**

Christchurch City is a large and complex structure. The Draft Plan for the forthcoming year was placed in the public domain on the 5<sup>th</sup> April and submissions closed around the 6<sup>th</sup> May. We appreciate the small extension to enable more discussion with the Council and CEO Forum of the Canterbury Manufacture's Association, however substantive and detailed comment across the entire plan is all but impossible for commercially funded organisations. 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 is difficult to establish benchmarks or see in the documentation a clear strategy 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.

**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 close to 40% of GDP, no OECD member country has achieved high growth rates with such a high 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. A recent OECD report commented on a Canadian approach in reviewing base spending as set out in the box below.

**OECD principles for evaluating value for money**

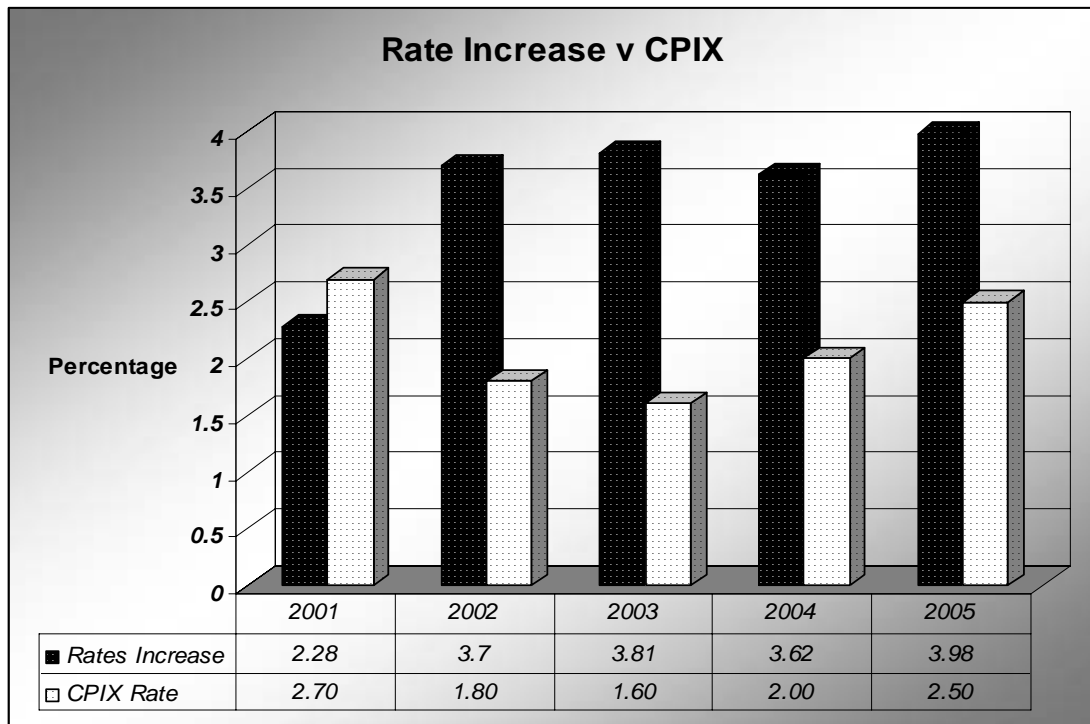
1. Does the programme still serve a clearly defined public purpose that matters?
2. Is this an appropriate role for government?
3. Would we establish the programme today if it did not already exist?
4. Is it desirable to maintain it at its current level?
5. Can it be delivered more effectively or efficiently? 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?

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

A formal review, developed to suit local government, on this sort of framework would enhance the consideration of any proposed expenditure and if approved monitor the effectiveness of the 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 world of some or all of local production is always an option. Such pressures are amplified when foreign ownership is involved.

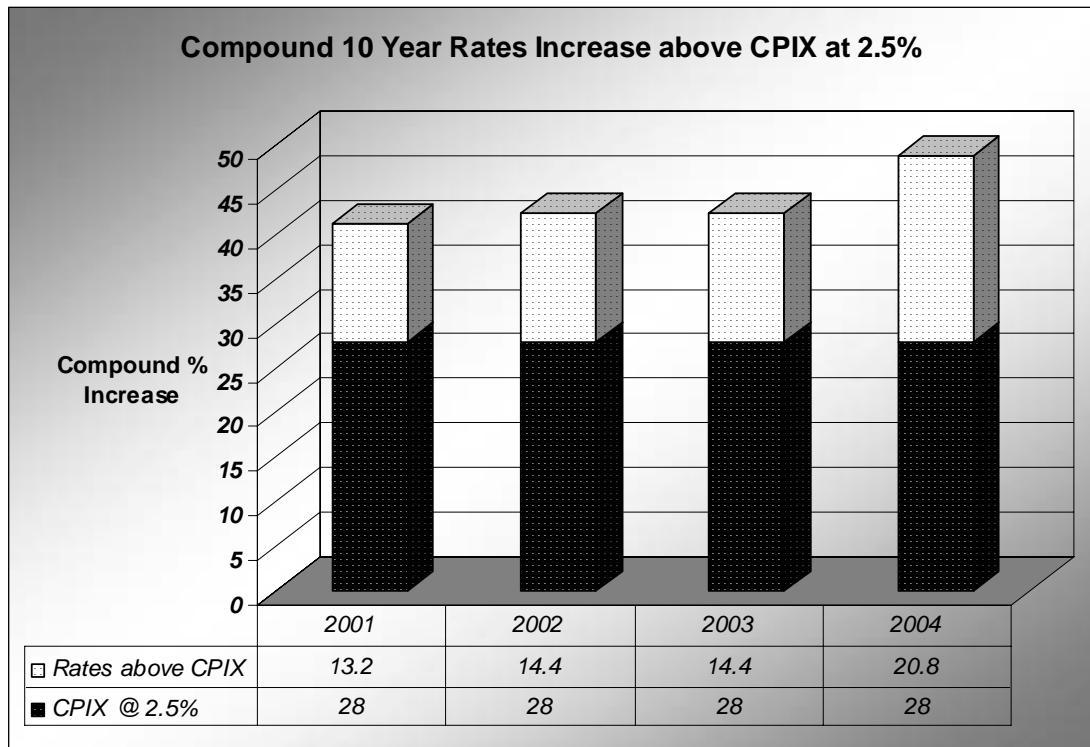
At a gross level:



It is recognised that the change in rates for 2004 are the subject of this submission and that 2004/5 are forecasts at this point. However in the period of this graph the compound increase in rate exceeds the CPIX by nearly 70% - this is a major cost escalation. This is not forecast to improve and rate increases close to twice 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. The 2004 plan indicates a significant increase on the 10 year compound forecast over previous projections in the plan since 2001.



The enticing mantra of the triple bottom line requires some modification. 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. This does not come out strongly in the “Summary of Community Outcomes” in section one of the plan.

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 spurious. Christchurch has few of the topographic problems that, Auckland and Wellington simply have to live 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 increase of 3.62% (higher for commercial property) against an inflationary background of nearly half that and labour cost increases of around 2.2% are a further indication of a cost plus

mentality. I can't pass on much more than inflation to my customers and even that is a struggle."

- "The 3.62% increase is quite surprising against current and forecast inflation, local economic growth, growth in the volume and value of the rating base. Rates should be rising at a pace much less than the rate of inflation."
- "Investment in infrastructure is important, we would like to see the depreciation on any given infrastructure asset type tracked and measured to show that depreciation of asset class X is not normally reinvested/transferred to asset class Y or expense elements of the budget – that is, the minimum investment on infrastructure assets should be the depreciation. Effective infrastructure is vitally important to the manufacturing sector."
- "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."
- "Development of a transport long term strategy is welcome; however decisions must be made on real data and real world behaviour not how the converted feel people should behave. One member commented a case in Belgium where public transport was fully funded by the local authority and bicycle usage fell as people transferred from bicycles to buses, car usage did not change."
- "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."



- “I understand that the capital initiatives are provisions at this point in time, but it is hard to imagine any firm rationale for the new Civic Offices when strategy, structure and staffing have not yet been sorted out.”
- “On the Botanic Gardens if the upgrade happens has everything been done to drive the operation commercially to ensure user revenues are maximized and the facility is managed against a best practice model – not much in the plan about that?”
- “Flat water development why do it? Why do we need it? Isn't there a better way to provide this facility?”
- “We have seen no justification for the change in water charges; the reduction in the water volume allowance of about 30% and an increase of charges of 15% if usage exceeds that reduced allowance. This cost transfer will have a substantial impact – many times the inflation rate - on large water users.”
- “In times of low unemployment the programmes of the CDC should be directed towards the adding value to employment by supporting economic transformation.”
- “There still is major exchange rate pressure on export returns, costs are increasing everywhere. It is impossible to get prices up much more than inflation, increases here of twice the inflation rate and much higher in some specialist areas are crazy if we really want to grow exports.”

**SPECIFIC COMMENTS - TRADE WASTE AND WATER CHARGES**

The Canterbury Manufacturers' Association has made a separate submission directly to the Trade Waste Sub Committee on proposed changes to the costs associated with the suspended solids and BOD<sub>5</sub> element of trade waste discharges.

**RECOMMENDATION**

That the proposed elimination of the Suspended Solids and BOD<sub>5</sub> offset should not proceed.

If the offset is eliminated then it should be introduced on the principle of the six (6) year moving average. This creates a "no surprises" introduction process that we all can plan for and that can be communicated to our customers and owners.

The changes to water charges have been given no rationale. The changes shift costs onto commercial water users. Some will have a substantial impact and the change represents at least a 15% increase in this charge.

**RECOMMENDATION**

That the proposed reduction in the prepaid water volume allowance, and increased excess usage charges should not proceed.

If the change is implemented it should be introduced the principle of the six (6) year moving average. This creates a "no surprises" introduction process that we all can plan for and that can be communicated to our customers and owners.

**SUMMARY**

- There is a general unease on the compound year-on-year rate increases in long term forecast.
- There is a concern of the immediate level of rate increases well over current rates of inflation.
- The need for explicit strategy to stimulate best practice in governance and management 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.
- In times of full employment Increase the activity encouraging Economic Transformation and reduce efforts in employment programmes.
- No change to trade waste and commercial water charges.

John Walley

Canterbury Manufacturers' Association