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Community Plan Submission  
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SUBMISSION FROM THE  
CANTERBURY MANUFACTURERS'  
ASSOCIATION

ON THE

**Christchurch City Council, Community Plan 2006 - 16**

**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 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 over \$30 billion and total national employment numbers around 170,000. New Zealand manufacturers face the ever increasing onslaught of the cost of local regulation, 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 fall from 5<sup>th</sup> in 1950 to 21<sup>st</sup> in 2004 between Spain and Greece well into the lower middle bracket of global income per capita. New Zealand has grown more slowly than other countries due to the dependence on the primary sector. The manufactured goods sector of the internationally traded economy has grown much faster.

Without economic development, based on elaborate transformation commanding high prices from global customers, we will increasingly see issues such as "health problems" correctly characterised as "wealth problems", recent headlines on the "management" of the waiting lists is bringing this issue to the general public. The Canterbury Manufacturers' Association is of the view that provided we have a balanced and practical approach to environmental regulation and cost allocation, we can enjoy an improving environment and a 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 and 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 centres or jurisdictions.

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

## **INTRODUCTION**

It is clear that a substantial amount of time and effort has been applied to the development of the 2006 – 2016 Draft Plan. We respect and appreciate those efforts.

The prospect of rate increases many times the rate of inflation for several years has caused considerable alarm to manufacturers – a prospect of nearly 30% increase in rates over the next three years is difficult to understand. The increases will erode further the comparative advantages of Christchurch with regard to other centres in New Zealand and New Zealand in the world.

Competitive pressures on manufacturers see them unable to pass on cost increases to their customers. Cost pressures exist on rates, raw materials, labour and electricity, all of which threaten local activities. Our own survey of manufacturers has shown continuous job losses in the sector since May 2005; you will all recall headlines of losses in the past year.

Faced with competitive pressure and cost increases the only response is efficiency and productivity. It is not clear in the Draft Plan that operation efficiencies are being pursued by the CCC. Indeed in the 10 year period between 1994 to 2004, operational expenditure in Auckland and Wellington cities increased around 35%, in the same period operational expenditure increased some 58% in Christchurch City<sup>1</sup>.

There is little comfort in the level of rates on a like for like basis; rates in Auckland on similar property values are substantially lower than Christchurch. Some members

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<sup>1</sup> See [www.localcouncils.govt.nz](http://www.localcouncils.govt.nz)

who have the experience of transferring staff have commented that rates are much cheaper in Auckland, one example in Christchurch; capital value of \$512,000 translates to rates of ~ \$2200 against \$1140 on a Mount Albert property with a capital value of \$520,000. This should also be seen in the light of lower average annual incomes in Christchurch compared to other centres noted on p39 of the Draft Plan.

As noted on p40 of the Draft Plan, manufacturing is a significant employer in Christchurch and these concerns from the sector should alarm the Christchurch City Council.

We recognise that tensions exist between the desire of services and the need to fund them. Generally we perceive from the Draft Plan an “all needs first” approach that first provides for every need, and then works backwards to the point where the pain on the funding side becomes tolerable. We would prefer to see a “first start with the have to do” approach, then add in the other things with clear rating impacts at each addition.

We would also draw your attention to p115 of the Draft Plan. It is our view that economic development funds and supports **all** of the community outcomes highlighted on page 15, not only the two indicated on p115. The implicit assumption that the economy does not touch everything, one way or another, can lead to the assumption that economic activity will always be with us – that is a dangerous assumption. We forget “it’s the economy stupid” at our peril.

#### **OECD principles for evaluating value for money<sup>2</sup>**

- 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?

<sup>2</sup>Canadian Office of the Auditor General and Finance Canada

As competitiveness at the rate payer level cannot sustain the ever growing burden of cost, it is necessary to use a combination of the “start with the have to do” and then use the OECD approach. To do less is to threaten to kill the goose that provides the golden (economic) eggs.

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 CPI, the response is to look for efficiencies, divestment, investment, operations changes and finally, where possible and necessary, price increases. We look to the Christchurch City Council to mirror this approach not jump to price increase first simply because they have the statutory authority to do so.

### **Planning Process Comments**

It is clear that the strategic base of the planning process is developing and improving. We continue to hold the view that different mechanisms are needed for involvement and comment during the drafting process – over a four week period it is very difficult to canvas and develop all the opinion from our membership.

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

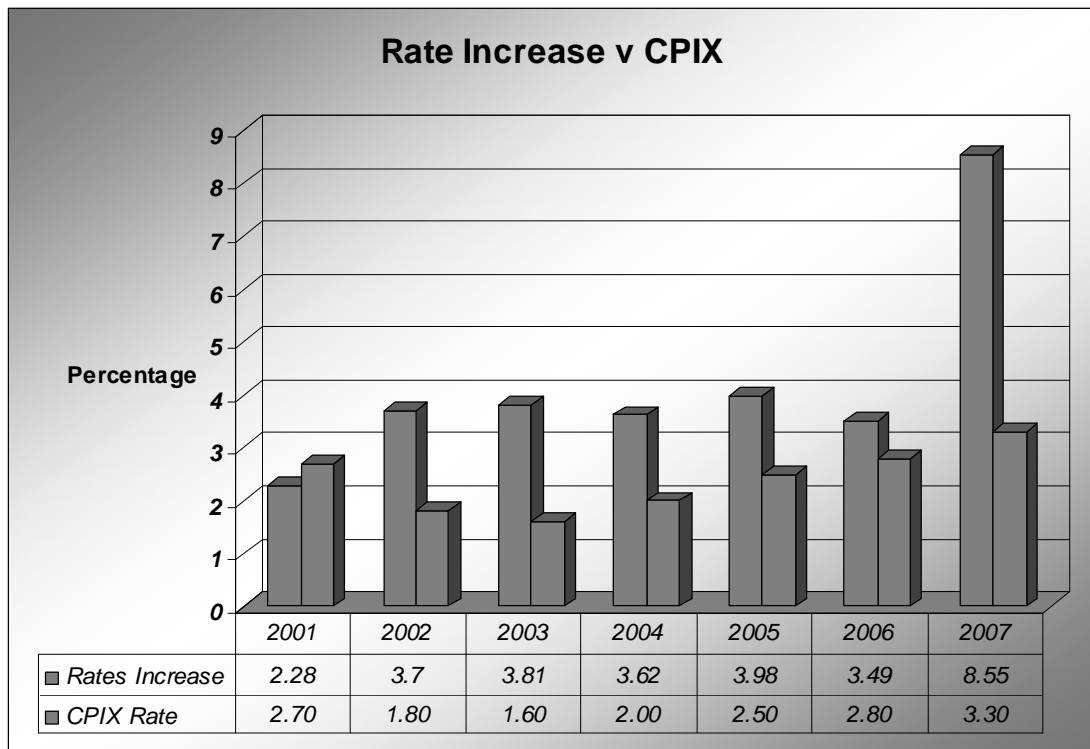
### **Overview Comments on the Plan**

Generally we would like to see increasing cost recovery directly from users coupled with a reduction in general charges imposed on ratepayers. Manufacturers compete with other centres and jurisdictions in the New Zealand market and export markets. The imposition of inequitable costs speed the loss of manufacturing activity and jobs locally. The dark satanic mills might be long gone here in New Zealand, but they still exist in low cost countries. Those same countries that compete with local

manufacturers; make things too difficult, increase costs, erect too many unnecessary barriers and the playing field tilts more and more, reducing local investment and threatening local jobs and ultimately the rating base.

For 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 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 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.

At a gross level:



The long term plan should also look backwards at what has been done in the period of this graph; the compound increase in our rates is nearly double that of the CPIX - this is a major cost escalation. This is not forecast to improve. Rate increases above or close to the CPIX should never be seen as a success. The claims in the Draft Plan that the CPI does not apply to the Christchurch City Council cost drivers is true, the same applies to many businesses but may must find a solution beyond massive price rises. The Christchurch City Council should look to do the same.

The performance of 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 from the Christchurch City Council.

### **Christchurch Economic Development**

In our view the CDC could become a much stronger force in economic transformation. Currently the CDC operates in the safe areas, close to where the market could largely provide that which the CDC chooses to supply free to participants. This brings with the danger that the efforts of the CDC will displace market based activities – public money displacing private provision. This is a waste of resources that could be used to better outcomes.

We believe the upgrading of the CDCs efforts in economic transformation requires substantial debate and discussion – the CMA is ready and willing to support that work.

### **Trade Waste**

There are no comments on the review of the basis for trade waste and commercial water charges as part of the ongoing long term plan. As the number of companies paying trade waste charges fall, a different allocation method needs to be considered.

### **Capital Spending & Depreciation Charges**

Average depreciation rates of 20 years seem to be too short and increase the burden to current rate payers. The CMA Council and CEO Forum was of the view that this should be increased to at least 30 years.

It is difficult to comment on the “essential projects” and discretionary priority projects plus the \$132m for Banks Peninsula; are they being approached on the most cost effective basis, that is, user pays and targeted rates if they really must be done and no other way exists. For example, the fit out of new Civic Offices could be leased not purchased. Why is it necessary to own the Civil Defense building when it could be leased?

We support the use of targeted rates wherever possible with those benefiting from the spending paying all or most of the cost, for example the City Mall, at least 70% should be targeted to those who benefit.

We support the use of development contributions related to the intensity of additional use of public facilities that will accrue to the development. We do not support arbitrary charges of any kind – policy should be open to public scrutiny and debate.

### **Savings**

The savings outlined are minimal; they can be made by cuts in service and increases in efficiency and performance. More effort is needed in this area, benchmarking to best practice and outcome performance indicators need to be put in place and used to manage performance of Council activity. With close to \$500m projected spending in 2006/7, savings of at least 2 or 3% year on year should be possible.

### **Surplus**

Recognising that the surplus is growing and that it is said to be “capital” in its nature and cannot be directly offset against rates – why? Rates include a capital element and building surplus on the City balance sheet, whilst rate payers struggle under the burden of significant rate rises does not make any practical sense.

### **Member Comments on the Plan**

In our discussion on the plan a number of 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 the Canterbury Manufacturers' Association Council and CEO Forum.

- “The planning is improving but the anticipated rate increases are huge. Does the Council take the economy seriously?”
- “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.”
- “When we have staff on transfer to and from Auckland the rates there seem about half what we have in Christchurch.”
- “As ever it is assumed that somehow the economy will find the means necessary to pay whatever bill is presented. As most of the costs are wages and salaries, what is the Council doing to drive internal efficiencies?”
- “More of the community and recreational assets should be operated on user pays commercial practice to expose inefficiencies and reduce the general rate burden.”

#### **SUMMARY**

- There is great unease on the year-on-year rate increases, increases that continue to be substantially above the rate of inflation.
- The need to focus on strategic development and stimulate best practice in 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, 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.
- The support and stimulate of economic transformation.
- Review the basis for trade waste and commercial water charges as part of the ongoing long term plan development.

John Walley

Canterbury Manufacturers' Association