

Rotorua Chamber of Commerce, The Business Hub, 1209 Hinemaru Street, Rotorua New Zealand.
PO Box 385 Rotorua, Tel 64 7 349 8356, Fax 64 7 349 1388,
Email info@rotoruchamber.co.nz ; website www.rotoruchamber.co.nz
8/5/2008

Submission to the Rotorua District Council on the Draft Annual Plan July 2008 – June 2009

Thank you for the opportunity to make a submission on the above plan. The Chamber of Commerce would like the opportunity to make a verbal submission regarding this submission.

EXECUTIVE SUMMARY

The Rotorua Chamber of Commerce makes the following recommendations:

The increase in Kaupapa Maori payments be reviewed with the intent of reducing the increase to 20% - a reduction of \$50k

The recruitment of a Business Manager be deferred and the function within Council continues to be fulfilled by those who currently undertake it – a reduction of \$90k

The effectiveness of the restructuring is questioned. It would appear that the restructuring has resulted in the employment of two additional staff (assumption - \$162k = 2 FTEs). The Chamber questions the effectiveness of this restructuring if it results in an increased cost to the ratepayer. We recommend that the proposed recruitment is restricted to one FTE – a saving of \$80k

The Chamber suggests that the proposed staff increase for the Event and Venues cost centre be reviewed to provide a reduction in expenses of \$100k

The Chamber requests that the additional expenditure in direct costs on Public Gardens be reviewed with the objective of reducing the increased operational expenditure by \$50k.

The Chamber recommends that the RDC funding policy for animal control from general rates be moved from 46 per cent to 37 per cent and that this be implemented in the current years accounts to increase revenue by \$90k.

The Chamber strongly recommends returning the funding of Bright Economy to last year's level at an additional cost of \$50k.

The Chamber recommends that the operating expenditure of the Travel and Information Centre department be reviewed with the objective of reducing the cost of service by \$80k.

The Chamber further recommends that Council investigate the opportunity for the Travel and Information Centre to be operated by the private sector.

The Chamber of Commerce recommends to RDC that it convenes a working group comprising community interests, Councilors and Council Executives to review the current Rotorua District Council policy on treatment of depreciation of externally funded assets.

The Chamber suggests that an alternative such as a mini –roundabout be considered to better manage the traffic hazard at the Tutanekai / Arawa Street Intersection.

The above recommendations from the Chamber will reduce the Council expenditure by \$490k and bring the proposed increase in rates back to the level of CPI.

General Comment

We would like to acknowledge the very positive moves the Council has made in two important developments for our community. The achievement of the consent for the development of the airport towards achieving trans-Tasman air services will have a major impact on the economic development of Rotorua. The opening of the Energy Events Centre places Rotorua in the top three conference and convention destinations in New Zealand. It is the Chamber's opinion that this is already resulting in a considerable contribution to the local economy.

We also acknowledge that the projected percentage rates increase at 4.5 per cent is one of the lowest that the Council has recommended in recent years. However, The Chamber is requesting further consideration of expenditure levels to reduce the rates increase to the level of the Consumer Price Index.

We further acknowledge that the normal process for establishing the focus of Council activity and the basis against which projected budgets are compared is the Long Term Community Consultation Plan (LTCCP). The LTCCP is a valuable document in establishing community preferred outcomes and its expectations of local authority performance. However, it is a long-term plan and during the period of its currency, economic and social conditions change and the anticipated performance in terms of a short-term annual budget should be reviewed to reflect current conditions. This may result in a deferment of certain activities that are not essential to provision of the core functions of Council.

The draft Annual Plan indicates 4.5 per cent on last year (5 percent increase adjusted for an anticipated growth in rates database of 0.5 per cent). In the current economic

environment we continue to suggest to Council that any rates increase should be pegged at the Consumer Price Index (CPI) which for the year ending March 2008 was 3.4 per cent. Any reference by Council that the increase in the Rotorua rates is considerably less than many other local authorities is irrelevant. Our local authority has a unique platform of activity centres and community funded assets that contribute to a strong economic advantage.

The 4.5 percent increase is 32 per cent greater than the 3.4 percent CPI inflation rate. In dollars terms, a 3.4 per cent CPI increase in the total rates collection would be \$1,479,000; the 4.5 per cent suggested increase is \$1,958,000. The increase above the CPI inflation rate is a dollar value of \$479,000 in additional rates collection.

New Zealand is currently in a period of 'stagflation' with zero or negative growth plus continued rising inflation and interest rates. Any increase in Local Authority rates above the rate of inflation places not only an additional burden on business, but possibly a greater level of strain on those people on fixed incomes. It is placing additional pressure on all ratepayers.

In a business environment of diminishing margins, lessening demand, shrinking bottom lines the reality of the commercial world results in a tightening of the belt. Deferring staff appointments, reducing costs such as overseas travel, not replacing assets such as computers, postponing building programmes and more importantly looking at different and cleverer ways of doing things. It is also an unfortunate result of difficult times such as these that the first target to relieve pressure on reduced margins is discretionary costs such as staff training development and marketing.

Rather than comparing the projected budget against the LTCCP it is more relevant at this time in evaluating the level of expenditure is to use the previous year's Annual Plan as the comparative.

In compiling this submission the Chamber has become aware of a number of anomalies in the information provided in the draft annual plan on which submitters are requested to make comment.

- Page 85 of the Statement of Proposal, the prospective Cashflow statement, identifies the first column for comparison purposes as the Annual Plan 2007/2008. Our enquiries has indicated that the figures in this column are not last years annual plan. They appear to be the 2007/2008 LTCCP.
- The Statement of Proposal Draft Annual Plan for 2007/2008, this current year, on page 85, the statement of cashflows, identifies the Payments to Employees and Councilors for this year to be \$29,459K. This is the figure on which we made submissions. The final Annual Plan release for the same year (Page 84) indicates payments to Employees and Councilors to be \$30,618K. Between the draft and the final annual plan there was an increase in employee costs of \$1.1 million. The Chamber was not aware of any action resulting from the Draft Annual Plan consultation process that would have increased wages by \$1.1 million.

Enquiries to Council over both of these discrepancies have not generated a response.

The lack of comparative information has prompted the Chamber to look to previous years Annual Reports.

The Annual Plan for 2005/2006 year indicates that the payments made to Employees and Councilors (page 95) for the **2004/2005** Year were **\$23,274K**. The proposed payments to Employees and Councilors in the Draft Annual Plan for the **2008/2009** year (page 85) indicates a total of **\$31,808K**.

This indicates that over 4 years since 2004 to 2008 the payments to employees and Councilors has increased by **\$8.5 million or 37%** - a compounded rate of **increase of 8.2%** per year.

This progressive increase in remuneration is of major concern. As the following sections of the submission indicates, not all of the increase can be supported by the compliance requirements of new legislation. As can be seen from the recommendations below a major portion of the staffing increase for the current year is in management, administration and finance departments. In other areas, such as Events and Venues which includes the Energy Events Centre, the increase in remuneration costs are not matched by a corresponding and appropriate levels of revenue increase.

Evaluation of the Statement of Proposal (pages 31, 35, 51, 59, and 65) has indicated that there are large increases in net cost of service compared with last year in City Services (\$194k), Event Venues (\$796k), Public Gardens (\$205k), Pensioner Housing (\$94k) Environmental Planning (\$200k), Engineering Compliance (\$106) and Tourism Marketing (\$159k).

Further evaluation of the Draft Budget document has identified additional increases in staff costs and expenses that have increased local authority expenditure and hence rates at a time when economic circumstances suggest is inappropriate.

The Chamber of Commerce has identified that the rates take for the projected increase of 4.5 percent, is \$479,000 ahead of an increase pegged to the 3.4% Consumer Price Increase. The Chamber of Commerce submits the following changes to assist council in reducing its expenditure to within acceptable levels.

Community Leadership

Remunerative Payments

The Chamber is concerned that the increase in staffing costs in this area is 7.8 percent or \$492,000 over last year. It is of particular concern as this increase is not in the provision of direct facilities or services to ratepayers.

It is difficult to reconcile the draft operating statements (Draft Budget pages 1 to 14) with the summary commentary in the meeting papers (on page 6/3/41)

The operating statements indicate four areas of large staff cost increase over last year. These increases of 74 per cent in Kaupapa Maori (from \$103k to \$179k, an increase of \$76k), 11 per cent increase Corporate Administration (from \$921 to \$1,026, an increase of \$105k); a 24 per cent increase in Accounting (from \$646 to \$799, an increase of \$153k) and an 11% increase in records (from \$479 to \$536, an increase of \$57k). These four areas contribute to \$391 of the \$492k increase in this department.

The Draft Budget indicates planned staffing cost increases with additional recruitments of staff for IT (\$174k); Finance (\$162k); Human Resources (\$116k), a business manager (\$90k) and Customer Services Manager (70k). This is a total increase of \$622k.

The Chamber would strongly question these increases in administration costs and would recommend that these recruitments be re-considered. We would ask for assurance that these recruitments have not already been confirmed prior to authorisation by approval of the Annual Plan.

The Chamber would recommend that

The increase in Kaupapa Maori payments be reviewed with the intent of reducing the increase to 20% - a reduction of \$50k

The recruitment of a Business Manager be deferred and the function within council be continued to be fulfilled by those who currently undertake it – a reduction of \$90k

The effectiveness of the restructuring of finance department is questioned. It would appear that the restructuring has resulted in the employment of two additional staff (assumption - \$162k = 2 FTEs). The Chamber questions the effectiveness of this restructuring if it is at a cost to the ratepayer.

We recommend that the proposed recruitment in finance is restricted to one FTE – a possible saving of \$80k

The result of these actions would reduce the increase in corporate leadership remuneration payments by \$220k. The increase would be considerable whichever report was used as comparison.

Social and Cultural Group

Civic Theatre

We applaud Council for deferment of the Civic Theatre refit until 2009 / 2010. The Chamber refers back to its submission on the 2007 / 2008 Annual Plan in which we recommended this deferment. Whatever, the reason for deferment we suggest that this is a wise move and wil enable the evaluation of the usage of both the Energy Events Centre and the Civic Centre towards developing appropriate conference and convention facilities to grow the market.

Events and Venues

The Chamber fully supports the establishment of the Energy Events Centre. Anecdotal comments from Council indicate a considerable increase in the number of events and increasing occupancy of the facility. We also acknowledge that the Energy Events Centre is only one of five venues under the Events and Venues operation.

The Chamber is concerned that contradictory to anecdotal reports all of the six individual functions of Event Venues are projecting to show a cost of service to the community.

Appendix 1 shows the extracted data from the draft budgets correcting back for the costs of depreciation and finance and the revenue of subsidies.

The operational performance of each individual venue is indicating a cost to the ratepayer. Contrary to anecdotal comments the cost of operating the Energy Events Centre is showing a deterioration from 2007/08 to 2008/9

	2007/8	2008/9
Convention Centre	-600	-538
Energy Events Centre	-172	-187
Sounshell	-83	-26
International Stadium	-514	-433
Te Runanga	-77	-76
Events	-566	-788
	-2012	-2048

The Statement of Proposal for the Draft Annual Plan document (page 35), although difficult to reconcile with the corresponding operating statements in the draft budget, similarly indicates the increased cost of service to the ratepayer:

Event Venues	2007/8	2008/9
Revenue	1753	1928
Operating Expenditure	5548	6519
Cost of Service	3795	4591

The Chamber acknowledges the restructuring of the accounts to show the centralisation of administration and marketing under a separate cost centre with an allocation to the activity centres. This is an advantage in separating operating costs from administration and marketing. Administration and Marketing staff costs are approximately 60% of total expenses in this area.

Appendix 2 shows a comparison of wages to revenue across all six functions of Events and Venues. This indicates a high wages to revenue percentage for both last year and this year. The commentary (Statement of Proposal) also indicates that an additional \$300k in wages offset by increase trading. As shown above revenue appears to have increased from \$1,753k to \$1,928 (+ \$175k) (Statement of Proposal) or \$1,465 to

\$1,748 (\$283k) (Draft Budgets). Neither of these figures support a \$300k increase in staffing costs.

The Chamber suggests that the proposed staff increase for the Event and Venues cost centre be reviewed to provide a reduction in expenses of \$100k

Public Gardens

There has also been a considerable increase in direct costs in public gardens and general reserves of \$410k over last year. This is a considerable increase in excess of 8.2 percent. There is no reference to this increase in any of the commentaries.

The Chamber requests that this additional expenditure in direct costs on Public Gardens be reviewed with the objective of reducing this increased operational expenditure by \$50k.

Environmental Group

Animal Control

In the submission on last year's annual plan, the Chamber of Commerce recommended that the animal control fee structure be reviewed with the intent of moving this activity area to full cost recovery. Counter-argument suggested that the low fees were an incentive to ensure full legislative compliance by animal owners. Anecdotal evidence gained through media reports throughout the year suggests that non-compliance continues to be a problem. It would appear therefore that the strategy of reduced fees is not successful.

The Chamber also notices that there a planned recruitment of an additional pound officer indicating that the work loading has increased

The current RDC funding policy is that 46 per cent of this activity be funded from general rates. The Chamber again strongly suggests that this general rates funding be progressively reduced to zero, and the RDC investigate alternative methods of reducing non-compliance.

A 9 percentage points movement of the funding policy would result in a potential increase in revenue of \$90k.

The Chamber recommends that the RDC funding policy for animal control from general rates be moved from 46 per cent to 37 per cent and that this be implemented in the current years accounts to increase revenue by \$90k.

Building Control, Inspection and Environmental Planning

The Chamber notes that although the legislative requirement has required additional resourcing particularly in staffing costs, the net increase in funding for this activity has

only increased by \$115k or 2.3 per cent over last year. The Council is to be applauded for its strong financial management of this difficult function.

Economy Group

Economic Development

The Chamber observes that the net cost of service of Economic Development has decreased by \$46k. It acknowledges that there is a projected reduction in the funding to Retail Promotion of \$107k, and confirms that there has been discussion between Economic Development and the Chamber regarding this reduction.

However, we are concerned at the reduction of the funding for Bright Economy. The Chamber considers that the BEAB is an essential forum for the investigation and, in some cases, facilitation of improved economic growth.

The Chamber strongly recommends returning the funding of Bright Economy to last year's level at an additional cost of \$50k.

Tourism Marketing

The Chamber notes an increase in funding of Tourism Marketing. The net cost of service has increased by \$100k (5.3 per cent) over last year. Although this above the recommended benchmark, the Chamber recognises the window of opportunity to optimise market incursion through the trans-Tasman capability of the airport. Marketing for tourism has a considerable lead time and investment now will generate a return in future years. The Chamber therefore considers this increase acceptable.

Travel and Information

The Chamber has been consistent in its view that there are several functions currently undertaken by RDC that could be operated by the private sector. The Chamber has observed in the draft budgets a progressive deterioration in the operating statement of Travel and Information. The cost of service has risen from \$81k in 06/07, to \$339k in 07/08 to a projected cost of service of \$417k in 08/09. The deterioration in the 08/09 budgets is mainly in increased operating expenditure.

The Chamber recommends that the operating expenditure of the Travel and Information Centre department be reviewed with the objective of reducing the cost of service by \$80k.

The Chamber further recommends that Council investigate the opportunity for the Travel and Information Centre to be operated by the private sector.

Infrastructure Group

Airport

The Chamber acknowledges the considerable investment that is being made in the airport to develop trans-Tasman capability.

Water, Transport, Drainage, Sewerage and Waste Management

The Chamber also acknowledges the strong management of the development and maintainance of essential infrastructure by this group and the minimal increase in cost of service to the community.

Depreciation

The Chamber considers the treatment of depreciation an ongoing issue. Depreciation is included as an operation expense in the Cost of Service Statement. It is the cost of service to the community on which the rates are based. The Chamber acknowledges the capital expenditure and funding activity statements included in the draft budgets.

However, recent years have seen a number of projects that have been funded by a number of agencies external to the local authority – central government, regional government, trusts and funding organisations, local businesses and residents. This will continue in the immediate future with the ongoing development of the airport, the extensions to the museum, sewerage schemes and Lakes water quality projects.

The Chamber of Commerce considers that the inclusion of a depreciation expense in the annual budgets for the establishment of rates could be viewed as a double dipping by local authority on an investment made by the community.

This current generation has, through whichever of the means mentioned above, already contributed substantially to the development of the assets through funding the cost of the projects. To require those that have funded the projects to again meet the cost, through depreciation, of future replacement is inappropriate.

There are some authorities that suggest that if an asset has been funded by Central Government then there is a probability that its replacement will be similarly funded.

There is also another methodology that acknowledges current generation contribution by deferring any depreciation charge on the portion of external funding for the first 20 years.

The Chamber of Commerce recommends to RDC that it convenes a working group comprising community interests, Councilors and Council Executives to review the current Rotorua District Council policy on treatment of depreciation of externally funded assets.

Roading Works

Tutanekai Street / Arawa Street Intersection

We note the Councils intention to create a median strip in the centre of Tutanekai and Arawa streets intersection. This will prevent the right turn option from Arawa Street. This will further inhibit traffic movement around the city. There is currently a challenge with the City Focus in creating confusion for many of the visiting drivers. This will add to this confusion.

Previous recommendations to install a similar median strip in this area attracted a very strong response from retailers . This resulted in the decision being rescinded.

We support the retailers view on this issue.

The Chamber strongly suggests that an alternative such as a mini –roundabout be considered to better manage the traffic hazard at the Tutanekai / Arawa Street Intersection.

Signed on behalf of Rotorua Chamber of Commerce

Roger Gordon, Chief Executive Officer

Appendix 1

Comparison of Net Cost of Service for Venues and Events correcting back for Finance, Depreciations costs and Subsidies and Grants

2007/2008

	Revenue excluding Subsidies and Grants	Operating Expenditure	Add back Finance Costs	Add back Depreciation	
Convention Centre	433	1444	91	320	-600
Energy Events Centre	763	1598	17	646	-172
Sounshell	65	212	10	54	-83
International Stadium	172	1203	143	374	-514
Te Runanga	17	108	5	9	-77
Events	15	590	0	9	-566
	1465	5155	266	1412	-2012

2008/2009

	Revenue excluding Subsidies and Grants	Operating Expenditure	Add back Finance Costs	Add back Depreciation	
Convention Centre	459	1350	55	298	-538
Energy Events Centre	943	2065	25	910	-187
Sounshell	131	220	6	57	-26
International Stadium	167	1085	92	393	-433
Te Runanga	32	146	27	11	-76
Events	16	812	0	8	-788
	1748	5678	205	1677	-2048

Appendix 2

Comparison of Events and Venues revenue and wages 2007/8 to 2008/9

	2008/9		2007/8			
	Revenue excluding Subsidies and Grants	Staffing Costs	Revenue excluding Subsidies and Grants	Staffing Costs		
Convention Centre	459	128	433	356		
Energy Events Centre	943	175	763	293		
Sounshell	131	21	65	66		
International Stadium	167	0	172	151		
Te Runanga	32	21	17	55		
Events	16	119	15	201		
Events and Venues		751		0		
	1748	1215	69.51%	1465	1122	76.59%

Appendix 3

Comparison of 2008/2009 wages with 2007/2008

Democracy		889		930		4.61%	41
Kaupapa Maori		103		179		73.79%	76
Policy & Strategic Direction		472		388		-17.80%	-84
Corporate Administration		921		1026		11.40%	105
Accounting		646		799		23.68%	153
Treasury		818		830		1.47%	12
Human Resources		615		678		10.24%	63
Information Management		287		298		3.83%	11
Records		479		535		11.69%	56
Land Information Services		295		293		-0.68%	-2
Information Technology		711		774		8.86%	63
Property Management		61		59		-3.28%	-2
			6297		6789		7.81%
Aquatic Facilities		1239		1242		0.24%	
City Services		202		212		4.95%	
Parking		115		123		6.96%	
Civil Defense		58		66		13.79%	
Community Halls		18		19		5.56%	
Community Policy		639		574		-10.17%	
Event Venues		0		751		#DIV/0!	
Convention Centre		356		128		-64.04%	
Energy Events Centre		293		175		-40.27%	
Sounshell		66		21		-68.18%	
International Stadium		151		0		-100.00%	
Te Runanga		55		21		-61.82%	
Events	1122	201	1215	119		-40.80%	8.29%
Recreation Programme		0		58		#DIV/0!	
Parks Admin		1018		1037		1.87%	
Public Gardens		108		0		-100.00%	
Nursery		365		403		10.41%	
Public Library		1461		1515		3.70%	
Museum		941		978		3.93%	
			7286		7442		2.14%
Animal Control		448		489		9.15%	
Building Control		1124		1225		8.99%	
Environmental Planning		484		526		8.68%	
Planning Implementation		870		755		-13.22%	
Inspection		205		210		2.44%	
Environmental Administration		437		439		0.46%	
Health		312		316		1.28%	
Parking Enforcement		386		400		3.63%	
			4266		4360		2.20%
Economic Development		303		316		4.29%	
Tourism Marketing		659		664		0.76%	
Information Centre		894		908		1.57%	
			1856		1888		1.72%
Development Engineering		460		458		-0.43%	
Trade Waste		245		259		5.71%	
Laboratory		299		268		-10.37%	
Engineering Administration		537		564		5.03%	
Graphic Solutions		389		417		7.20%	
Asset Management		183		131		-28.42%	
Engineering Strategic Planning		0		111		#DIV/0!	
Public Utilities		1324		606		-54.23%	
Hydrus Engineering Consultants		0		769		#DIV/0!	
Works Overheads		593		608		2.53%	
Rural Fire		45		38		-15.56%	
Transport and Works General		0		46		#DIV/0!	
Transport (Road Safety)		96		115		19.79%	
Transport State Highway		85		89		4.71%	
Waste Management		32		31		-3.13%	
Landfill		2		2		0.00%	
Waste Water		715		732		2.38%	
			5005		5244		4.78%
Business Unit Catlecorp		5555		5806		4.52%	
Fleet		358		380		6.15%	
			5913		6186		4.62%
		30623		31909		4.20%	