

BUSINESS ENVIRONMENT WORKSHOP BRIEF

CHRISTCHURCH ECONOMIC DEVELOPMENT STRATEGY (CEDS)

WORKSHOP: 17 May 2016

PURPOSE

The purpose of the CEDS business environment workshop is to consider interventions to ensure Christchurch has an environment that enables businesses to prosper; removing challenges to growth or reducing costs.

Refer to Appendix 1 for an overview of CEDS 2013 and Appendix 2 for a list of CEDS 2013 projects pertaining to this theme.

The business environment covers a range of factors including:

- Capability, processes and culture within a business (internal factors)
- The regulatory environment
- The economic environment
- Infrastructure availability and cost
- Business networks, connections and support
- Availability and sustainability of natural resources and risks
- Social values and behavioural norms
- Labour / skills availability (*subject of a separate workshop*)

Business environment factors can be internal to a business or external. The workshop will primarily focus on external factors as it is not for CEDS to address the issues within individual businesses. However, where there are common internal issues across multiple businesses or whole sectors, which would benefit from a coordinated local response, these could be raised.

Some external factors, for example: exchange rates, the weather, or health and safety laws, cannot be influenced at the local level because they are determined by national and/or global forces. This briefing paper provides information to stimulate thinking around factors that can potentially be influenced at the city level. It is intended to prompt thinking rather than provide a complete analysis. Furthermore the paper is not designed to identify all issues and provide answers, that's the purpose of the workshop.

SOME QUESTIONS IN PREPARATION FOR THE WORKSHOP

1. What limits or could enable businesses ability to grow and export more from Christchurch?
2. Compared to other places, what makes Christchurch a more/less attractive place to do business?
3. What unnecessary costs or legislative hurdles do businesses in Christchurch face?
4. How is earthquake recovery impacting on the business environment?
5. Do any of these issues need a collective, targeted or urgent response?

BUSINESS ENVIRONMENT FACTORS THAT CAN BE INFLUENCED LOCALLY

All businesses, in all sectors, are effected by internal and external factors, which combined make up the business environment. The environment that businesses operate within can support or hinder their activities.

To achieve economic growth goals, Christchurch needs a well-functioning business environment without unnecessary costs. The ease of doing business is important for retaining and attracting businesses, and ensuring that businesses can operate as efficiently as possible.

Providing a business environment that supports the development and growth of businesses and the economy provides Christchurch with a competitive proposition for attracting and retaining business, employment, people and investment. The business environment has many elements but for the purposes of this workshop we will focus on factors that can be influenced at the local level.

A **draft CEDS background paper** (link [here](#)) contains further information and statistics around the business environment, and is provided for further reading if desired.

ECONOMIC FACTORS

Examples of economic factors for business include: labour costs, rents and property costs, interest rates, government taxation policy, energy and logistics costs and foreign exchange rates.

Most economic factors are set at a national or international level or by environmental conditions. Over recent years volatility and caution at the international level have been common themes. This is expected to continue for some time and be a key influencer of some economic factors in New Zealand.

Factors that are, at least in part, subject to local forces include: land and property rent and property prices, local government taxes and policies. Other factors have regional variation but follow national trends such as wage rates, or can be influenced by regional planning controls and infrastructure development such as property and logistics costs.

The Canterbury earthquakes have also had a strong influence on local cost structures for business. The key areas of change were in rents, insurance costs and wages.

Commercial rents across the city have been pushed upwards due to the availability and suitability of supply. With a significant amount of stock demolished, especially in the central city, businesses were displaced and many have operated in less efficient premises. Commercial buildings are reopening but at a higher cost due to the higher quality and safety inherent in a brand new building built to modern standards.

Rents in the central business district appear to have stabilised and are forecast to remain flat for the medium term as buildings continue to become available. Rents range between \$365 to \$425 per square metre for a new building and \$270 to \$350 for B Grade. This B grade range is much higher than the rest of the country's B or C grade rentals.¹

Residential rents have also increased which impacts on the availability of labour. This is discussed in the briefing papers for the Attraction and Labour workshops being held separately.

Commercial property insurance has also become more difficult following the earthquakes. Availability is no longer guaranteed and businesses face higher costs and find less than 100% of the risk is covered. While

¹ Market Report, 2015, CBD Office, Colliers International

some insurance issues are being resolved as development continues, operating in seismically active area will mean that cost and complexity will remain high.

Since the earthquakes there has been a high demand for labour which has led to a relatively low unemployment rate. This has caused upward pressure in wages, especially in sectors where workers could be attracted to higher wages in the construction sector. Canterbury earnings are lower generally than the national average. More detailed information on labour shortages and the impact on businesses is provided the Labour Market workshop briefing.

EARTHQUAKE AND REBUILD IMPACTS ON BUSINESS OPERATIONS

Many businesses in greater Christchurch have had to operate under unique conditions over the past five years. The earthquakes caused significant disruption to business and government processes, transaction costs and the distribution of business, their customers and workers. This has created uncertainty for many businesses, provided significant, even insurmountable, challenges for some and opportunity for others. In some cases this uncertainty may have resulted in a reluctance to invest in business growth and/or making long-term location commitments in the city.

Localised impacts such as damage to premises, road closures for infrastructure repairs or flooding associated with land movement have added costs, and at times made business operations more challenging for many individual businesses.

The loss of some facilities in the city has had an impact on businesses that relied on their availability. In some cases there is still uncertainty around the likelihood and/or timing to re-establish these facilities. This uncertainty has an effect on business confidence.

The red-zoning of large areas of residential land in the city has also impacted on the distribution of the population, with some businesses affected by a loss of local customers or labour supply. Looking forward the red-zoned land offers potential opportunity, however, with no decisions made on future use of the land this is currently adding to uncertainty in the business environment.

Visitor patterns to the city and the wider South Island were disrupted by the Canterbury earthquakes. This has impacted on tourism and hospitality businesses in particular, with flow-on impacts on other supporting businesses. Christchurch's ability to participate in many sectors of the national visitor economy was compromised by damage to visitor facilities, infrastructure, visitor perceptions and confidence. Visitor markets have adjusted to these changes and there is no reason why the new travel patterns that have established will not continue unless investments are made to positively disrupt visitor flows in favour of Christchurch.

Good progress has been made since the earthquakes in the repair of damaged infrastructure, settlement of insurance claims and the rebuild of commercial building stock. This is helping to restore confidence and allowing many businesses to make future plans.

It is expected that a return to more stable business conditions will occur over the next few years as the earthquake response transitions from recovery to regeneration and the physical building capital of the city is repaired and rebuilt. However, some elements of the business environment have been structurally altered and delays in the replacement of key facilities and infrastructure could have a longer term impact on some businesses and sectors.

LOCAL/REGIONAL GOVERNMENT REGULATION

Local government agencies have a range of responsibilities transferred from central government in recognition that some decisions are better made by local communities. This includes the development of

planning rules that determine how the land resource and other natural resources within a local authorities boundaries can be used. These plans set the geographic framework that determines where businesses can and cannot operate, and as a result how well they are connected to local supply chains and customers.

Local government also provide some key infrastructure, such as roads and water services, as well as community services such as rubbish collection. To support these activities, which can support businesses as well as households, local authorities administer property and developer tax policies. These taxes form part of the business operating costs in a locality.

Collectively the planning rules and regulatory settings put in place by local government, and the integration of infrastructure and service delivery have a significant impact on the ease of doing business within the city.

INFRASTRUCTURE PROVISION

The availability, quality and cost of infrastructure in the city impacts heavily on business efficiency, productivity and competitiveness. A lack of provision can exclude certain business activities completely if they are heavily dependent on the supply of services over one or more infrastructure platforms.

Infrastructure supports the provision of energy, transport services, communication technology and clean water to business. Infrastructure also removes waste water and manages storm water.

Infrastructure provision (and the services provided over it) are particularly important for supporting export activity. Traditionally this has meant ports, airports and access routes to them, which will remain important for exporting businesses into the future as the exit points for physical products.

The communications infrastructure that connects New Zealand to the world provides new opportunities for export. It can be thought of as a third port, in addition to sea and air ports, with digital products and professional services increasingly being traded internationally over the internet using digital technologies.

The current fibre technology installation and roll out of 4G mobile services throughout the city will raise the standard of telecommunications services significantly opening up new opportunities for businesses and the resident population.

Social infrastructure within the city (e.g. education and health facilities) also support businesses by supporting the workforce and making the city an attractive place to live.

All these factors impact on the ability of the city to attract and retain new migrants.

BUSINESS NETWORKS AND SUPPORT SERVICES

Business networks are an increasingly important vehicle to share information, ideas and even resources rather than relying on traditional channels or institutions. Well-functioning institutions and governance processes are therefore important elements for ensuring that that business community is well supported and have the information and support needed to operate well and excel in their field.

Global value chains and short innovation cycles mean an ongoing and rich flow of information is required between the end user and the components of the (often global) value chain to ensure products and services can quickly evolve and adapt to changing consumer expectations. This trend makes good networks and relationships increasingly important.

International connectedness is highly correlated with strong productivity growth. International connectedness allows businesses and cities to specialise and maximise the economic return from their ideas and activities, and facilitates the flow of ideas, people and capital which are the foundations of economic growth.

Digital connectivity is increasingly important in supporting relationships between people locally, across New Zealand and in other countries. Digital networks are also now essential platforms supporting international trade for managing business relationships, making sales and enabling collaboration.

New Zealand is the most isolated developed country in the world. International research has estimated that New Zealand's geographical isolation and small scale contributes around 50% of the gap between New Zealand's GDP per capita and the OECD average. Digital technologies (and the third wave of industrialisation that they are creating) could reduce the relevance and impact of geographical distance for Christchurch.

MANAGEMENT OF NATURAL RESOURCES/RISKS

Christchurch is located on predominantly flat, coastal land at the centre of the South Island. The Port Hills to the south formed by two extinct volcanoes provide a natural harbour and recreational opportunities for residents and visitors. The Canterbury plains to the west of the city provide some of the most productive land in New Zealand. The wider South Island provides spectacular landscapes and outdoor experiences that draw tourists from around the world.

Following the earthquakes around five years ago, the cities building stock is now significantly more resilient to future earthquakes and the replacement buildings in the central city still being built will provide a modern central city environment. Understanding around natural hazards in the city has increased enormously, and the business community and residential population have first-hand experience on how to respond in periods of adversity caused by natural disaster, making them better prepared for future shocks.

The control of the use of land and water resources in Canterbury is currently undergoing a period of significant change. This is to ensure that economic productivity gains made by using land and water resources more effectively or efficiently are achieved alongside the protection of ecosystem services, energy security, cultural values and recreational opportunities.

Christchurch currently enjoys a drinking water supply of very high quality, untreated water supplied from the aquifers that run underneath the city. Because of the purity of the groundwater, treatment is not required meaning that this water has low processing costs and is inexpensive to produce for residents and business consumers compared with other cities in New Zealand and the rest of the world. The purity of the water is an important factor for some industries, such as brewing or food processing operations.

Because the city does not meet the national air quality standard for particulates (PM₁₀) there are controls on activities that would create further particulate air pollution in the city.

OPPORTUNITIES AND CHALLENGES FOR THE BUSINESS ENVIRONMENT

The overarching business environment goal is to have a business environment which **enables business growth, retention and attraction**.

The following themes, challenges and opportunities will be discussed during the workshop.

Themes	Challenges	Opportunities
Improve the business environment	<p>Processes to amend regulatory settings are slow</p> <p>Disruption during earthquake repair (business premises or supporting utilities)</p>	<p>Temporary powers under Greater Christchurch Regeneration Act</p> <p>New fast broadband networks</p> <p>Emergence of new investment models e.g. crowd funding, peer-to-peer lending</p>
Achieve greater business growth	<p>Limited business management capability for larger firms due to high number of SMEs</p> <p>Leadership and culture among majority of SMEs is not growth focussed</p> <p>Christchurch has a high proportion of SMEs – capability issues; risks/costs of growth; lack of economies of scale</p> <p>Geographically isolated, small domestic economy</p>	<p>Increase ability within businesses to access capital investment</p> <p>Utilise partnerships</p>
Increase the value of exports	<p>Christchurch has a high proportion of SMEs – capability issues; risks/costs of growth; lack of economies of scale</p> <p>Requires a shift from predominantly commodity exports to products further along the value chain</p> <p>Geographically isolated, small domestic economy</p>	<p>Free trade agreements reducing tariff barriers</p> <p>Utilise partnerships with overseas firms</p> <p>Digital trading platforms reduce distance barrier for exporting from new Zealand and enable instant trade of electronic products and services</p> <p>Diurnal time difference and seasonality offset with majority of the world's population</p>
Attract and retain businesses	<p>Geographically isolated, small domestic economy</p> <p>Perception issues – rebuild, broken, isolated, small?</p>	<p>Vacant land</p> <p>Better promote Christchurch as a business location locally and externally</p> <p>Specific business attraction opportunities</p> <p>Long tail of rebuild means higher than historic economic activity for a number of years</p>

APPENDIX A - CEDS OVERARCHING CONTEXT/GOALS

CDC prepares and reviews the city’s economic development strategy on behalf of the Christchurch City Council. The Christchurch Economic Development Strategy (CEDS) was released in April 2013. It was updated in April 2014, mainly to reflect project progress. Here is a link to the [strategy](#).

VISION AND GOALS

The CEDS vision for the economy of Christchurch is that in 2031 Christchurch is recognised as the best place for business, work, study and living in Australasia.

To achieve the vision, by 2031 the goals of CEDS are:

- Christchurch has the best economic ranking against Tier Three cities in Australasia. Quality of living matches a Tier Two city in Australasia.
- Total GDP has grown by 54% to \$15.4bil (GDP per capita by 27%).
- Exports to China have increased by 140%, reaching \$719mil by 2031.
- In 2031, 20% of the working age population is employed in current high-growth sectors: High Value-Added Manufacturing; Technology; Professional Services; AgriTech and Health Research and Development.
- The proportion of the working age population with a post-high school qualification has increased from 40% to 45%. The proportion of the working age population with a Bachelor qualification or higher has increased from 20% to 26%.

The CEDS development process in 2012-13 identified five large-scale opportunities which have the potential to step-change the economy – ‘The Big 5’.



In addition, there is a longer list of development initiatives which are required to ‘Keep the City Competitive’ with other cities and regions.

INITIATIVES THAT KEEP THE CITY COMPETITIVE WITH OTHER CITIES

Cities, much like organisations, need to find ways to continuously improve their operating environment to remain competitive and create periods of competitive advantage over other cities. Large step-changes in GDP are unlikely to result from these initiatives, but they are important in terms of retaining a competitive proposition for businesses and the labour force.

<p>Workforce</p> <p>Addressing the ageing population, developing solutions for local labour and skills shortages and increasing workforce productivity</p> 	<p>Supporting Innovation</p> <p>Supporting innovation and commercialisation and enhancing the linkages between the research community and business community</p> 	<p>Making it easier to do business</p> <p>Ensuring regular dialogue between the private and public sector to ensure the regulatory environment and process is as easy as possible to engage with</p> 	<p>Investment Vehicles</p> <p>Improving access to capital for local businesses</p> 
<p>Infrastructure</p> <p>Ensuring infrastructure and land use decisions support economic growth</p> 	<p>Connections and Business Networks</p> <p>Improving Christchurch's connectedness at a local, national and international level, enhancing the ability to do business and share ideas</p> 	<p>Sector Development</p> <p>Developing growth sectors within the economy (Technology, Health, High Value-Added Manufacturing, International Education, Professional Services and AgriTech) and managing sector level market failures in the economy</p> 	<p>Business Development</p> <p>Creation, growth, capability, retention and attraction of business to the region</p> 

APPENDIX 2 – EXISTING PROJECTS /PROGRAMMES

CEDS 2013 PROJECT LIST

The following table lists the projects that CDC is currently monitoring for the delivery of CEDS that impact on the business environment (excluding workforce activities as these are the subject of a separate workshop).

Here is a link to a [progress review](#) which provides more detail on progress against CEDS 2013.

Project List	Lead Agencies	Status
Undertake a gap analysis on export capability development services in Christchurch	CDC	Complete
Accelerate the recovery effort by enabling improved sharing and use of location-based information; Canterbury Spatial Data Infrastructure programme	LINZ	Complete
Develop an integrated domestic and international terminal at Christchurch International Airport	CIAL	Complete
Establish the southern delivery arm of the National Health Innovation Hub	CDHB	Complete
Establish a safe haven for 20 technology companies displaced by the Canterbury earthquakes and in doing so prototype a new type of entrepreneur community (EPIC Sanctuary)	EPIC Innovation	Complete
Complete the business case and secure funding for the pilot plant for Food Innovation South Island (FISI)	Callaghan Innovation/ CDC	Complete
Establish a co-working space that provides innovative early-stage and start-up businesses with affordable accommodation in the Christchurch Innovation Precinct.	CDC	Complete
Set up and run a business capability development programme for owner/managers of emerging companies with high growth potential	CDC	Complete
Set up and run a Lightning Lab accelerator for early stage digital startups.	CDC	Complete
Prepare a Land Use Recovery Plan to provide certainty about future land use patterns in greater Christchurch	Environment Canterbury	Complete
Develop and implement an international education marketing strategy and support marketing and regional brand development	Christchurch Educated / Education NZ	Complete
Establish the Precision Agriculture Association to identify the critical enabling technologies that influence profitable land based production outcomes and ensure commercialisation of appropriate technologies	CDC	Complete

Undertake research to understand sector constraints and enablers to improve sector planning	CDC	Complete
Ensure issues over availability of insurance and resolution of claims do not hinder investment or slow the rebuild, and on-going insurance cover is provided under the new risk profile	CERA / EQC	In progress
Provide an easier path through the building consent system	MBIE	In progress
Redevelop suburban centres and towns in Christchurch	CCC	In progress
Reclaim 10ha of land utilising recycled hard fill from earthquake demolition activities for critical port infrastructure at Lyttelton Port of Christchurch	LPC	In progress
Increase the exposure of New Zealand companies to appropriate markets in China by establishing a network to improve the co-ordination of China delegations	LGNZ	In progress
Develop a set of guidelines for Business Friendly Cities, based on the Core Cities research, to assist in benchmarking and information sharing between cities to improve council services	LGNZ	In progress
Work with Councils to develop planning and consenting processes that are easy to follow and business friendly	CERA	In progress
Implement an internal customer service project to improve consenting processes and business engagement	CCC	In progress
Construct the Christchurch Motorway Projects	NZTA	In progress
Prepare a South Island Freight Plan to guide public and private sector planning and investment decisions in relation to transport and logistics	NZTA	In progress
Connect schools, hospitals and 90% of businesses to ultra-fast broadband by 2015 and the remaining 10% of businesses and all homes in urban Christchurch by 2019	Enable	In progress
Deliver broadband to rural homes and businesses in Canterbury	Chorus / Vodafone	In progress
Develop an inland port at Rolleston	LPC	In progress
Investigate how the Open Sky Policy for Christchurch International Airport can be utilised by the region	CIAL	In progress
Review the Christchurch district plan within a compressed timeframe to provide a solid foundation for Christchurch during the rebuild and into the longer-term	CCC	In progress
Benchmarking analysis of costs of production in business pre-quake and 2 years post-quake	CDC	In progress

Rebuild the University of Canterbury	UC	In progress
Take a strategic approach to rebuild procurement considering demands on the construction sector, housing, workforce, supply chains and cost escalation	CERA / MBIE / Treasury	In progress
Deliver the Canterbury District Health Board's facilities redevelopment project: including the Christchurch Hospital acute services building and the Burwood health campus	CDHB	In progress
Implement the Canterbury Water Management Strategy – develop and deliver the Regional Implementation Plans (ZIPs) and the Canterbury Land & Water Regional Plan	Environment Canterbury	In progress
Develop and implement opportunities for digital content and capability improvements that accelerate and leverage ultra-fast broadband uptake	CDC / Enable	In progress
Implement the central city blueprint	CCDU	In progress
Deliver Anchor Projects as per the cost share agreement between the Crown and the CCC: The Frame, Convention Centre Precinct, Stadium, Metro Sport Facility, Bus Exchange, Avon River Precinct, Earthquake Memorial, Health Precinct, Retail Precinct, Justice and Emergency Service Precinct, Innovation Precinct, Residential Demonstration, Te Puna Ahurea Cultural Centre, The Square (joint with CCC)	CCDU	In progress
Deliver Anchor Projects as per the cost share agreement between the Crown and the CCC: Performing Arts Precinct, Central Library, Cricket Oval, The Square (joint with CCDU)	CCC	In progress
Develop a collaborative project between Lincoln University and the Lincoln based Crown Research Institutes to focus on Agritech innovation (Lincoln AgriScience Hub)	Lincoln University	In progress
Capital Cluster, increases the level of investment available to targeted high growth potential businesses; assist these businesses in building robust investment cases and connect them with appropriate expertise to prepare business cases	CDC	In progress
Implement the greater Christchurch Visitor Sector Recovery Plan	CCT	In progress
Identify opportunities to increase value from improved production in the rural sector to lift greater Christchurch GDP and support recovery	MPI	In progress
Realign the tertiary education sector to support the wider economy by making smart investments into the recovery of the sector	TEC	In progress
Support suburban economic development with analysis and insights that inform suburban policy, rules, private investment and suburban networks towards common goals	CDC	In progress

Benchmarking analysis of costs of production in business pre-quake and 2 years post-quake	CDC	In progress
Rebuild the city's earthquake damaged roads, fresh water, wastewater and storm water networks (horizontal infrastructure)	SCIRT, CERA, CCC & NZTA	In progress