

# Setting New Zealand Apart \_\_\_\_\_

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Getting More Productive And Competitive  
A Plan for Action

# A PLAN FOR ACTION \_\_\_\_\_

## CONTENTS

01	Introduction
03	A Productivity Action Plan – Why Now?
05	Putting Productivity in the Front Seat
07	Through the Eyes of the OECD
08	Driving Productivity
10	From First Gear to Fifth Gear
11	Regulation
12	Infrastructure
14	Resource Management Act
15	Natural Resources
16	Innovation
17	Tax and Spending
18	The Hidden Costs from Local Government
19	Employment Relations
20	ACC
21	Skills
22	International Connections/Trade
23	Sustainability
24	Summary and Next Steps
25	Action Points

# BUSINESS NZ PRESIDENT

## Trevor Goodwin \_\_\_\_\_

The world economic crisis and international recession have focused the minds of business and Government in New Zealand.

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Both are taking action to address immediate issues, but more is needed to get ahead in the medium to longer term.

Business knows it needs to get more productive and competitive internationally. It is time now for a proactive plan to make it as easy as possible for New Zealand to turn productivity into a tool that gets us off the back foot against our competitors, and helps us grow and get ahead as a small nation on the world stage.

**Trevor Goodwin**  
*President Business NZ*

# BUSINESS NZ CHIEF EXECUTIVE

## Phil O'Reilly

Time has run out on discussion and debate about how New Zealand can be more productive.



As a nation we need to act. And we need to act decisively, with a clear plan and clear direction that will drive change.

The world economic crisis has brought this to a head. But there is a realisation amongst the business community that if we don't get on top of our productivity issues as a nation, growth opportunities are limited. If we want to be a wealthy nation we need to get more productive.

A lot of work by business, officials, unions and others internationally and locally has identified the benefits of increased productivity. We need to build on that work, and implement a clear, focused programme of activity that will underpin productivity and productivity growth on a sustainable basis.

The Prime Minister has said that New Zealand's productivity has suffered "death by a thousand cuts". The process to becoming more productive does not need to be tortuous, but it does need to have direction.

Since the 2008 general election, the Government has taken steps that will help remove

some roadblocks to productivity. We need the road to recovery to be as short as possible. That will only happen by actively addressing our poor productivity as a nation now in a coordinated, nationwide manner.

There are significant gaps in the Government's approach to date. This document, Setting New Zealand Apart – Getting More Productive and Competitive, is Business NZ's plan for action on productivity. It provides the Government, officials and the public with proposals and ideas needed to ensure we have a clear productivity agenda backed by a set of productivity policy initiatives.

Productivity needs to be on everyone's lips as a priority for getting New Zealand ahead, and moving out of the downturn. It's not just something that key industries such as agriculture and manufacturing to be worrying about. Adopting a productivity agenda needs to happen across all sectors of our economy.

For employers, that means reviewing business strategy and investing where it counts – in an environment supported by government policy.

For employees, that means improved employment prospects and job security, working in businesses and institutions that are continually lifting performance and productivity.

For the Government – it means building a wealthier nation, which secures our economic and social future and gives flexibility to invest in the likes of schools and health services.

For every one of us it means something very fundamental. If we crank up productivity we crank up our standard of living.

We've paid the price of a borrow and spend economy; a genuine focus on the productivity agenda will ensure we will drive change.

**Phil O'Reilly**  
*Chief Executive Business NZ*

# A PRODUCTIVITY ACTION PLAN

## Why Now? \_\_\_\_\_

Today we are dealing with the realities of the world economic slowdown and a recession at home, sparked by a global financial crisis and significant regulatory burden.

We can no longer afford to put productivity into the “nice to have” basket or “we’ll get to that” on our to-do list.

Without attention on the productivity agenda, New Zealand will be poorly placed to take on other countries in traditional markets or to seize trade opportunities in new markets like China and others opening up through free trade agreements.

### THE CHALLENGE

Improved productivity is today’s issue.

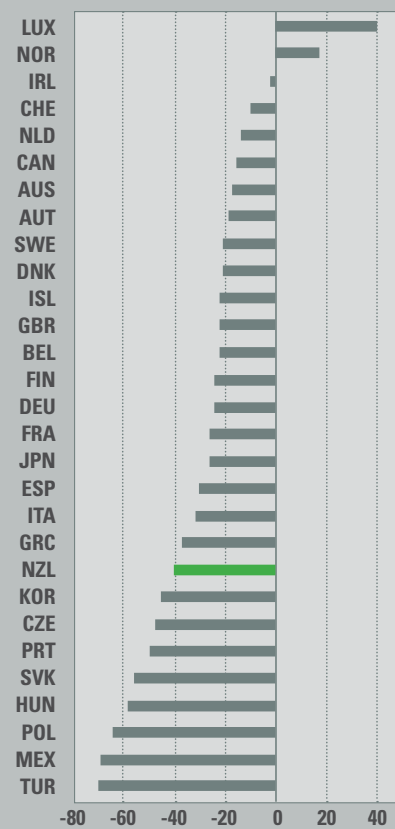
New Zealand scrapes the bottom of the OECD table for productivity growth.

The simplest illustrations of our performance can be found in the April 2009 OECD economic survey of New Zealand.

We are 22 out of 30 OECD countries when measuring GDP per hour worked.

And we rank almost the same – ninth from the bottom – in GDP per person.

PERCENTAGE GAP WITH RESPECT TO USA GDP PER CAPITA<sup>1</sup>

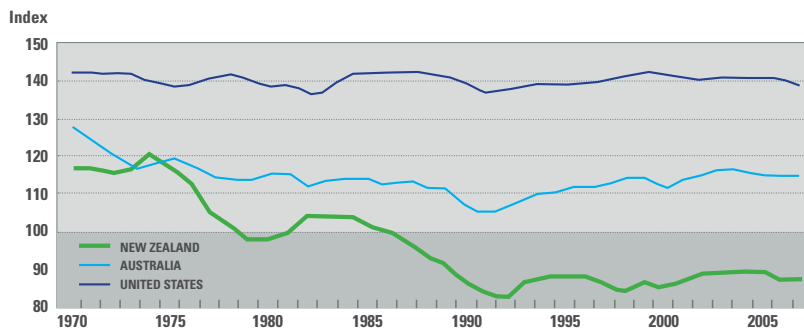


1. GDP per capita is calculated in USD at constant prices and constant Purchasing Power Parities

Source: OECD, National Accounts Database

Our real GDP per person has fallen well below the OECD average – with our friends and competitors Australia and the USA well ahead of us.

**FIGURE 1.0 REAL GDP PER PERSON<sup>1</sup>**  
OECD<sup>2</sup> =100, AT CONSTANT 2000 PURCHASING POWER PARITIES AND CONSTANT PRICES



1. GDP per capita is calculated in USD at constant prices and constant Purchasing Power Parities
2. 26 countries (excluding Czech Republic, Hungary, Poland and Slovak Republic)

Source: OECD, *National Accounts Database*

The OECD is telling us we are already behind the eight-ball. A gap has opened between our productivity and most other nations we like to compare ourselves with. The longer we leave this, the worse it will get.

Productivity is today's issue for the Government because we are facing a decade of deficits on current economic projections. Do we want to be a nation that spends more than it earns? If we want a decent standard of living and quality of life then of course we don't. The fixes open to government are stark:

1. Spend less as a Government
2. Earn more
3. A mix of both.

The most effective way back to economic growth and prosperity is option three.

Productivity is today's issue for business because to survive, prosper and compete in a world market, firms have to be looking for new ways to work to get more competitive, add value and become efficient and effective operators.

For employees it's an issue because no matter how hard or how much we work, we're still producing far less than our competitors. That puts job prospects and security at risk.

The longer we sit on our hands, the wider the gap between our productivity and economic performance and that of other nations becomes.

# PUTTING PRODUCTIVITY IN THE FRONT SEAT

## PRIVATE SECTOR

The buck stops with the private sector to generate more wealth to improve New Zealand's growth rates and our standard of living.

As a nation of small to medium enterprises we should all at least be addressing the productivity basics. These include:

1. Management investing in our own capability
2. Investing in the best and most up-to-date plant and infrastructure
3. Investing in upskilling
4. Working on running an effective and efficient organisation
5. Looking for new market opportunities, including expanding existing markets – particularly overseas.

We know a lot of businesses – across all sectors from manufacturing to tourism – are taking these steps with innovative ways of being more efficient, multi-skilling, building new plant, increasing IT capability and investing in machinery.

The private sector must and will take leadership in wealth generation. But New Zealand will see the benefits of private sector activity if it is supported by government and public sector initiatives.

Business NZ advocates this as a true “NZ Inc” position.

## THE GOVERNMENT

The Government can't turn a profit for business through productivity. But it can provide a policy framework and environment that remove barriers to, and enhance productivity.

During the 2008 general election, the current Government talked up action to develop a more prosperous, innovative economy and improve overall productivity in the longer term through its fiscal policy.

“New Zealand's economic recovery must be built on improved productivity and a better environment for investment in jobs and growth. To ensure this happens, New Zealand needs a government with a strong economic management plan. Our economic management plan will provide the needed fiscal stimulus while strengthening New Zealand's position in the longer term by boosting economic growth.”

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*John Key, 8 October 2008*

“We were elected on a platform of enterprise and growth. Our productivity initiatives fall into three broad areas: improving the business environment and removing roadblocks to growth; investment in productive infrastructure; and improving the way government works.”

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*Minister of Finance, **Bill English**, 29 May 2009  
Budget Speech.*

“This Government’s job is to revive New Zealand’s productivity so that this country can grow strongly out of the recession and into the future.”

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***John Key**, Prime Minister, 29 May 2009,  
Budget 2009 Speech*

These statements place a stake in the ground.

Business expects the Government to provide this sort of leadership.

To ensure the focus on productivity gets traction, a clear plan and direction is needed from Government which can help shape immediate policy decisions and changes, and provide the framework for future productivity related initiatives.

With a tight fiscal environment, the spotlight goes on Government policy decisions and action, how it influences and manages the wider macro-economic environment and what it can do as an employer to help truly advance the productivity agenda.

Its pledge to make its big player in the economy, the public sector, much more productive shows it can walk the talk.

As a big employer, the Government controls a big share of the market for labour, resources and services. It can show leadership in this area.

After a decade of growing faster than the rest of the economy, government agencies have been sent a clear signal: stop adding more staff and get spending under control. All public sector chief executives have been called to account for how they are delivering better value for money. Baseline funding from Government has been trimmed for most agencies – and they have been told to expect further cuts in future years. The Government’s focus is not on blanket spending cuts, but on focusing available resources on quality spending – the areas that will improve productivity and help get New Zealand moving.

Likewise, State-owned enterprises have been told to lift their game and deliver higher dividends for their shareholder, the Government. They have been told they cannot do this simply through raising prices and shifting the costs through to consumers and businesses.

Business NZ endorses these moves.

We understand the constraints Government is working under, including confidence and supply agreements with other parties, but we urge it to move further and faster to improve the productivity of the public sector and implement a productivity plan for the future.

There are real risks if the Government does not make good on its commitments to growing a more productive economy.

Internationally, countries are looking at their productivity agendas. Without an aggressive action plan – particularly in areas such as skills development, innovation and infrastructure – we will lag even further behind our competitors.

# Through the eyes of the OECD

The OECD tells it straight up – over and over – about our poor productivity performance.

It states that boosting productivity growth is the only sure way to close the substantial income gap between New Zealand and other OECD countries.

## THE OECD'S PERSPECTIVE

- New Zealand's regulatory regime has fallen relative to other OECD countries.
- A durable pick-up in productivity growth with high employment requires structural policy changes.
- Regulatory quality and uncertainty needs to be tackled.
- Government ownership should be reassessed to spur competition particularly in transport and energy.
- Beneficial infrastructure investment should be carried out.

- Fewer tax distortions to saving, investment and work incentives are needed.
- Public sector productivity needs increasing.

*Source: OECD Economic Surveys New Zealand*

The OECD prescription includes the need for New Zealand to take action to get on the front foot for productivity growth.

For that to happen we need to develop an advantage through better telecommunications, transport and electricity infrastructure.

The prescription includes improving international linkages for free trade and investment, to accelerate technological innovation and to subject our businesses to the rigours of international competition.

It recommends lowering the corporate tax rate to at least the OECD average of 26.7 percent.

The OECD wants more done in the public sector to promote productivity, and to recognise that innovation is key to getting a productivity advantage.

# DRIVING PRODUCTIVITY

The Treasury framework for improving productivity is built around five key drivers: Innovation, Enterprise, Skills, Investment and Natural Resources. Business NZ accepts and advocates these drivers. They create the framework within which Business NZ has built its 50 point Productivity Action Plan (see page 10).

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Business NZ's perspective of the five drivers of productivity is summarised below.

## 1. INNOVATION

Innovation and invention are like gas in the tank for productivity.

Building strong linkages between enterprises and research organisations, enterprise-focused support for innovation, and assistance to help enterprises absorb and apply knowledge are mission critical.

That means doing things like supporting basic research and nurturing the brilliant minds who think of original ideas to create intellectual property.

It also means access to good quality help and advice for firms, especially small and medium enterprises on how to manage and exploit the intellectual property they create.

We also have to acknowledge that there is only so much New Zealand, as a small nation, can do on the innovation front. We need to be able to connect with and utilise international innovations for our benefit.

Individuals can only do so much on their own to produce more for each hour they work.

Innovation and invention offer productivity enhancements ranging from new equipment and different components and resources through to new, faster or more efficient processes for working.

For existing businesses, innovation can mean refined or enhanced products and services. For the economy it can also mean the development of totally new products or services.

We need local ideas. But we have to remember that we also rely on overseas ideas, and need to leverage off our international connections.

## **2. ENTERPRISE**

An environment where enterprise is rewarded and competition thrives is the starting point for improved productivity.

The need for enterprising and entrepreneurial capacities in individuals and organisations is also fundamental to our future.

Open, competitive markets require firms to keep on their toes and look for opportunities to get more value out of their business and production.

Roadblocks to competition include tax policy and a suffocating regulatory regime. Barriers to trade are also problematic in this regard.

Competitive pressure drives efficiency and innovation. Competition forces firms and governments to look for ways to be more productive and ultimately more competitive.

## **3. INVESTMENT**

Lack of capital investment has limited our ability to be more productive.

Investment for productivity needs to be focused on more than just bricks and mortar, steel and ICT.

We can't afford to take a narrow focus for investment. Capital investment and investment in skills, people and innovation need to be part and parcel of an overall investment approach to productivity.

## **4. SKILLS**

The quality of the labour force is a major determinant of the competitiveness and adaptability of enterprises, workers and the economy.

Our skill levels need to rise if we are to outperform other countries in productivity improvement.

Higher skill levels give rise to a high propensity to innovate and to make the most of ideas generated by others.

Continued economic growth depends on improving the quality of the flow of skills into the workforce, as well as increasing the level and utilisation of skills in the workforce.

This means that young New Zealanders need a sound and broad education that gives them a solid basis for ongoing upskilling. Those in the workforce need new skills.

Skills development requires a strong relationship between business and the education and training sector. This covers everything from developing students and learners with the skills and knowledge to drive business forward, through to up-skilling the existing workforce and collaborative research and innovation partnerships. Particular focus needs to be paid to “stem skills” – the science, technology, engineering and mathematics skills that are closely associated with technological innovation.

- Long term productivity gains require quality early education.
- At-risk learners need support and access to education and training opportunities.
- High quality leadership and management are critical factors in successful businesses, in recognising the importance of developing the skills of their employees.

Education and skills must be strongly linked to the needs of the labour market.

## **5. NATURAL RESOURCES**

Unlocking the economic potential of natural resources while balancing environmental protection must be a focus for the future.

This includes giving attention to the access, use and stewardship of resources including minerals, marine resources, soil and water.

There is pressure on most of our natural resources, but the priority fix relates to water allocation and management.

To innovate and grow, firms must also be confident of their property rights.

From First  
to Fifth Gear

# The 50 Point Productivity Action Plan

# Regulation

## Unnecessary regulation stifles innovation, investment and economic growth by influencing how, when and what investment decisions are made.

In the past we have been ahead of the pack with our regulatory environment. In recent times that has slipped. It has become internationally recognised that our regulatory regime is not as conducive to growth or investment as it could be.

Regulation risks a business's ability to move quickly in response to opportunities.

It's estimated that the price tag on regulatory compliance alone is \$1,000 per employee per year. For a small business that cost triples, to \$3,000 per employee per year.

*Source: Business NZ-KPMG Compliance Cost survey 2008*

Compliance costs for business limit innovation and investment.

The Government's acknowledgement of regulation as a barrier to productivity and growth is positive. The focus is now needed on moving swiftly to rectify regulatory issues and keep on top of them over time.

In principle, education, self regulation and light-handed regulation should be the starting point for government.

### ON THE GO

- The Regulatory Reform Taskforce report due in September.  
Its findings and the subsequent Regulatory Responsibility Act need to respond to the challenges faced by business in understanding and complying with new legislation and regulation.
- Membership of the Australian Business Regulation and Competition Working Group.

### TO DO

1. **Establish a New Zealand Productivity Commission.** The Commission will keep on top of new regulation and review existing regulation and the impact on productivity. An active gatekeeper for regulation is needed to keep business as free as possible from unnecessary regulation and compliance. Australia is already ahead of us on this.
2. **Make regulatory bodies more accountable.** Ensure that regulators get it right first time. An investigation into the possibility of a wider merits review process would provide a strong start. This could provide a framework to safeguard against **inappropriate regulation and provide more accountability** for decisions.
3. **By mid 2010 deal to the top five areas of red tape for business.** Tax and employment related law are the largest sources of red tape. The five major contributors to compliance costs for business are: tax, health and safety in employment, the Employment Relations Act, ACC and the Holidays Act.

# Infrastructure

The Government has prioritised infrastructure investment as a key to productivity.

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Reliable infrastructure is a platform on which businesses can compete. For business, having certainty about infrastructure is key to making investment and planning decisions.

A lack of reliable, efficient infrastructure is a barrier to private sector investment. Uncertainty and delays over infrastructure provision equal uncertainty and even inertia for some businesses who know they need to get more productive to thrive.

From telecommunications to electricity and roading, New Zealand is suffering a severe infrastructure gap.

The OCED identifies infrastructure as dampening our ability to become more productive and competitive.

Business NZ agrees.

## ON THE GO

- Government has prioritised infrastructure investment.
- Its \$1.5 billion investment in broadband over the next ten years will help facilitate wider provision and contribute to a reliable and advanced infrastructure; timely application of this investment is crucial.
- Steps to streamline the consent process for nationally important infrastructure projects.
- Ministerial review of electricity governance and market design.
- National Infrastructure Advisory Board overseeing development of National Infrastructure Plan.
- 10-year ban on thermal generation removed.

## **INFRASTRUCTURE PLANNING – TO DO**

Planning principles and ‘gap’ analyses are a helpful start. Business is looking for clear signals that this is not just a repackaging of old ideas but the commencement of active engagement on how businesses can help with the step-change needed with New Zealand’s infrastructural capacity.

A national infrastructural plan needs to:

- Outline and address the factors that give rise to infrastructural market failure and the role of the private sector in providing commercial solutions to them
- Demonstrate that Government strategic thinking and responses are integrated within and across sectors
- Address barriers to efficient governance, scale and efficient decision making
- Identify policy and regulatory reforms needed to ensure timely and coordinated delivery of investment
- Reflect the richness of data that underpins well-functioning markets for infrastructure and enables businesses to take well-informed risk-adjusted investment decisions.

## **TRANSPORT – TO DO**

A national plan for transport – including roading, rail, ports, coastal shipping and public transport – will help provide certainty and clarity for businesses making medium and longer-term planning decisions. It needs to include:

- public/private partnerships
- tolling
- self-funding of different transport sectors
- co-ordination and consistency between national and local public transport projects (if still in the hands of local authorities).

## **ELECTRICITY – TO DO**

To ensure enough reliable electricity is supplied at the right price, Business NZ proposes that:

- Unnecessary regulatory barriers to the sustainable development of all sources of new generation (e.g. planning or access to natural resources) be removed
- New market mechanisms be developed that encourage generators and users to insure against the risk of energy inadequacy
- The economic regulation of network access and natural monopolies reside in one independent entity
- Improved risk management products, including new technology options and tariffs, be developed to facilitate more active demand-side participation.

## **TELECOMMUNICATIONS – TO DO**

- Shift telecommunication regulation towards light-handed regulation.
- Ensure that any regulatory steps towards changes to the ownership of telecommunications services balance property rights and investment demand with the best services and prices for homes, businesses and public services.
- Give more weight to commercial solutions by the major players, rather than a ‘regulate first’ approach. Getting an outcome that creates a win-win-win for consumers, business and government should always be the top priority in an industry that continues to move quickly with new products and technology.

# Resource Management Act

## ON THE GO

Phase One – legislation addressing the worst of the bureaucracy, costs and delays connected with the Resource Management Act.

Work is underway on Phase Two, including looking at ways to improve aquaculture infrastructure, urban design and water management and developing the functions of the Environmental Protection Authority.

## TO DO

1. Phase two of the RMA – a stronger focus is now needed on the substance of resource management issues:
  - Appoint a technical experts group to deal with water issues, including quantifying water available
  - Refocus on a better balance between enablement and restriction, environmental and economic concerns, and benefits and costs
  - Reduce the range of activities that need consents
  - Allow contestable processing of consents
  - Strengthen the right to compensation for the removal of property rights or restrictions on land use
  - Allow for takings or other reduction in property rights on the basis of clear public need only and with adequate compensation.

# Natural Resources

## The Government has expressed a commitment to unlocking New Zealand's energy potential.

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That means looking at innovative ways to protect natural resources AND promote economic growth.

It also means ensuring secure and transparent property rights.

Business NZ supports the shift to accessing natural resources as an input into economic growth.

A particular focus is needed on water. As an increasingly scarce resource, policy and market tools are needed to ensure fair and efficient access and allocation. Certainty of access to water opens opportunities to innovate.

### ON THE GO

- Commitment to freeing up crown minerals.
- A \$20-million injection into government-funded seismic data acquisition.
- Provision for a five year continuation of exemption from tax on the profits of non-resident operators of offshore rigs and seismic vessels until 31 December 2014 to further encourage exploration of New Zealand's offshore hydrocarbon basins.
- Review of management of fresh water to look at water quality, allocation and storage.

### TO DO

1. Include property rights in a Bill of Rights Act. New Zealanders are less protected from the possibility of their Government taking or reducing the value of their property than the citizens of most other countries, reducing the incentives to invest in economic development.
2. Ensure decisions that may result in access to resources being closed off have the value of their future use explicitly recorded as part of their cost-benefit analysis.
3. Develop innovative governance arrangements to facilitate economies of scale in accessing natural resources.
4. Ensure the water review addresses:
  - Amendment of the RMA to more clearly establish the security and allocation of water rights for time periods that are fit for purpose where capital investment is involved, e.g. hydro generation or industrial process plant
  - The ability to trade water rights
  - Establishment of systems for assessing the amount of water available for allocation and metering its use.

# Innovation

## Innovation is the fast route to a more prosperous future.

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Three of the most pressing challenges facing New Zealand are:

1. More effectively linking our world class ‘basic science’ and other science coming from universities and CRIs to business success
2. Creating science systems that are more customer-centric
3. Growing the size and number of high-technology firms and the export value they create.

Research and development spending in New Zealand is low compared to the OECD average. The Government’s decision to take R&D tax credits off the table creates a significant hole in the country’s innovation agenda.

Business NZ advocates increased private sector innovation, but there must also be stronger connections between thinkers and innovators within universities and Crown Research Institutes and businesses that need to innovate to do better.

There is a role for the Government to help facilitate links between scientists, researchers and those at the leading edge of ideas development and how these can be applied on the factory floor or in the workplace.

We need to connect better with international innovation and developments, with the right mechanisms and incentives in place to capture and utilise world innovations and apply them to our firms’ way of working and production.

Innovation and R&D are a means to an end, helping to further drive added value and product differentiation.

Without innovation we risk having quality infrastructure without smart minds and smart products to use it.

### ON THE GO

1. The Government has appointed a Chief Scientist.
2. The Government is conducting a review of business assistance programmes.

### TO DO

1. The Government must accept that it has an active role in helping promote and encourage investment in research and development and innovation. Business expects the Government to develop a replacement for the scrapped R&D tax credits.
2. The development of a national innovation strategy, including innovation priorities (including national science priorities) to identify and harness innovation opportunities to ratchet up the economy.
3. Incentives for stronger links between public research organisations and the private sector. This includes actively improving collaboration between private firms and CRIs, universities, the Tertiary Education Commission, FRST and MORST.
4. Simplify the current funding system, minimise the bureaucracy and make funding more transparent.
5. Better coordinate publicly funded research for commercial application. This includes amending the Performance Based Research Fund to encourage more commercial research and encouraging close links between ForST (especially the TechNZ scheme) and NZTE.
6. The tax review working group needs to examine the role tax can play in promoting private sector expenditure and investment in innovation.
7. Support for basic applied research.
8. Relax co-funding requirements for government grants.

# Tax and Spending

## FOR BUSINESS

Tax levels and compliance issues can be a handbrake on productivity.

Low productivity growth can be perpetuated if taxes are inconsistent or unduly high.

The compliance requirements of taxation regimes divert focus and attention from growing the business.

## INTERNATIONALLY

Creating an investment and innovation environment requires taxes to be at a level that promotes investment and a level playing field with international competitors. Our taxation regime must help make us internationally competitive in the hunt for investment funding.

Australia is carrying out the Henry Review – a comprehensive review of the Australian taxation system. There is a risk New Zealand will be further shunted behind our trans Tasman neighbour.

The taxation system also influences whether business and individuals remain here or find the business and taxation environments in other countries more attractive. Our system must contribute to keeping businesses and individuals in New Zealand.

The OECD and IMF recommend lower taxes and controls on spending. Business NZ supports these recommendations.

## ON THE GO

- Company and personal tax rates have been reduced over the last few years. However, ongoing reductions for both will still be needed.
- Establishment of a Tax Working Group, reporting by the end of 2009, with a one-day conference in December 2009 to generate debate and discussion around the group's findings. It will need to report on:
- New Zealand's company tax rate compared with Australia's.

- The fiscal framework, structure of personal income tax, corporate tax, GST and tax integrity.

Business NZ welcomes the Tax Working Group and urges it to focus on delivering the optimal tax settings for New Zealand businesses to compete with the rest of the world as they come out of recession.

## TO DO

1. Restrain Government spending to allow for tax reductions.
2. Act on tax review recommendations that are consistent with increasing productivity, including achieving the Government's medium-term goal of a 30 percent top personal tax rate.
3. By mid 2010 develop a tax policy framework that addresses issues from the Henry tax review in Australia.
4. Introduce mutual recognition of imputation and franking credits with Australia.
5. Cut tax compliance costs.

Smaller firms are the hardest hit by compliance with tax rules, and they're suffering; tax compliance rates top of the table as their most pressing compliance issue. *Source: Business NZ-KPMG Compliance Cost survey 2008.* Steps announced by the Government in response to the world economic crisis are a start to reducing tax compliance costs.

The focus needs to be maintained in this area, and can be as simple as making the internet a more powerful tool for business when grappling with tax compliance requirements. For example, a one-stop online shop for businesses, managing and processing tax, social policy, student loan and Kiwisaver obligations where they are able to access their accounts, confirm payment and complete transactions online.

# The Hidden Costs From Local Government

Rates and some local government activity can unnecessarily impinge on businesses' ability to be more productive by imposing additional cost and compliance requirements.

Variations in how rates are set, the amount, what local authorities do and what they invest in all impact on business planning and investment.

## ON THE GO

- New Auckland local government governance arrangements to streamline administration, coordinate planning and decision making and increase efficiency.

## TO DO

- Keep rate rises low by sticking to core activities.
- Review the list of non-rateable categories of land in Part 1 of Schedule 1 of the Local Government (Rating) Act 2002 with a view to making the rating system broad-based and low-rate.
- Encourage the phasing out of business differentials except on the basis of specific services provided.
- Encourage a review of ownership of non-core assets.
- Encourage local authorities to replace land value rating with capital value or annual value rating.

# Employment Relations

Reviewing aspects of the Employment Relations Act and other workplace-related Acts will ensure employment relationships are fit for purpose for the future, and will also help workplaces become more productive.

We are advocating a pragmatic approach to aspects of the legislation.

It is six years since the OECD rang alarm bells about New Zealand's inflexible employment relations structures.

Back then the OECD reported that multi-employer wage bargaining was likely to lower productivity.

Employer and employee interests must come first. How parties bargain should be a matter of choice; whether that be collective or individual bargaining.

## ON THE GO

- The 90-day probationary period should help smaller employers with the difficult task of selecting the right person for the job.
- A review of the Holidays Act and its unnecessarily complex 'relevant daily pay' formula.

## TO DO

Legislative change:

### 1. Remove:

- The *productive workplace relationships* focus in the current law and focus instead on *productive workplaces*
- The emphasis on union interests over the interests of employers and employees
- The preference for collective over individual bargaining
- The ability to obtain multi-employer agreements through strike action.

### 2. Allow:

- Collective agreements to end at their expiry date
- Employees not covered by a collective agreement to have the same terms and conditions as those of the collective
- Voluntary negotiation of multi-employer agreements
- The hiring of temporary replacement employees in the event of strike action
- Appeals to the Court of Appeal on questions of fact and law; appeals to the Supreme Court should be with leave, and only on questions of law
- The transfer of listed public holidays to a day not specified in the legislation as a public holiday.

### 3. Revise Health and Safety legislation:

- To ensure 'serious harm' is not triggered merely by the duration of absence from work
- To prevent accidents caused solely by employee carelessness from imposing strict liability on employers
- To encourage a culture of workplace safety by removing sections implying health and safety are the responsibility of a health and safety officer or committee only, and replacing them with sections that make it clear that health and safety is everyone's responsibility.

# ACC

The financial and compliance costs of the current accident compensation regime can straightjacket some firms, hindering their ability to develop and innovate for greater productivity.

The risk of managing the liabilities and assets of ACC accounts and offer of treatment and rehabilitation services should be open to the private sector, while retaining a risk-based, 24-hour universal no-fault system.

Monitoring and enforcing minimum standards for service and delivery should be done by the Government.

## **REMOVE:**

- The current prohibition of private sector involvement in accident compensation and injury prevention management.

## **ALLOW (IF A STATE MONOPOLY IS RETAINED):**

- The reinstatement of experience rating within the Work Account either as a stand-alone system or in conjunction with the Workplace Safety Management Practices (WSMP) scheme
- The introduction of experience rating in the Earners' and Motor Vehicle Accounts
- The introduction of an objective work capacity test
- An independent assessment of the principles underpinning premium setting, premium smoothing, cross subsidies and risk margins
- All pre-1999 residual claims to be funded out of general taxation.

# Skills

## Human capital is central to innovation and productivity, and skills enable firms to thrive.

Any efforts to lift individual firm productivity will fail unless business can access the right people with the right skills at the right time. That means our education and training system must deliver skills when and where they are needed.

A sustained and focused effort on our skills infrastructure is crucial if we are to realise the full contribution skills can make to raising productivity.

The focus needs to be on improving the quality of the flow of skills into our workforce, and on raising the level and utilisation of skills in our workforce.

To realise our productivity goals immediate attention is needed on literacy and numeracy, the low skilled and on management and leadership skills.

The Government needs to actively develop a framework for the development of skills policy that is business- and economy-friendly. It also needs to ensure that tertiary education providers respond to the needs of businesses and employers.

In the longer term, our education system must provide quality education and lifetime learning opportunities. That means starting with early childhood education and continuing once an individual is in the workforce, regardless of occupation, profession or particular job.

Immigration is important to the future of New Zealand in terms of population growth, access to skills, capital investment and international linkages.

### ON THE GO

- Raising literacy and numeracy standards in schools.
- Refocusing the Tertiary Education Commission.
- Providing support for workplace literacy and numeracy.

### TO DO

1. Develop a comprehensive approach to skills development policies. This is lacking now. Policies need to reflect business needs, current and future, and contribute to maximising the productivity agenda.
2. Raise awareness of the importance of literacy and numeracy, and management and leadership skills within the workforce and ensure policies and funding are focused on meeting those needs.
3. Shift tertiary investment to qualifications focused on business and economic needs. Particular focus needs to be paid to “stem skills” – the science, technology, engineering and mathematics skills that are closely associated with technological innovation. Government needs to send strong signals to providers if this response is to be realised. This also involves preparing providers and other organisations involved in skills transfer for working directly with business and employers.
4. Incentivise education providers to be responsive to the leadership and management needs of business and employers, and innovation’s need for “stem skills”.
5. Raise school leaver qualifications at all levels.
6. Incentivise providers of Youth Guarantees and Trade Academies to reflect in their delivery and content the needs of business and employers.
7. Make available good quality, relevant, timely careers information, advice and guidance.
8. Undertake research and develop an evidence base on cost-effective approaches to workforce literacy and numeracy skills.
9. Promote greater use of performance measures by tertiary education providers, including those relating to labour market outcomes.
10. Promote greater use of recognition of prior learning and existing skills.
11. Adopt a more integrated approach to immigration and the flow of people to encourage entrepreneurial and innovative people to locate in New Zealand.
12. Streamline the process of selecting and managing immigrant labour.

# International Connections

Trade is vital for New Zealand's future. As a nation with a small population and therefore a small domestic market for our goods and services, New Zealand's prosperity will increasingly depend on selling goods and services into overseas markets.

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Moves to make New Zealand goods and services more internationally competitive depend squarely on increased levels of productivity.

## ON THE GO

- New and developing free trade agreements.
- Review of business assistance.
- Advocacy against protectionist measures, including food miles and subsidies.

## TO DO

1. Government's policy programme to make business more internationally competitive needs to incorporate components of this productivity action plan, including action on regulation, skills development, innovation and understanding where market opportunities lie.
2. Maximise the benefits from free trade agreements and provisions by ensuring exporters are engaged in the development and negotiation process.
3. Business assistance needs to give priority to innovation and exporting. NZTE should exit programmes and service delivery contracts aimed outside of these priority/target areas.
4. Government business assistance should complement private sector training, not compete with or duplicate it.
5. Criteria for NZTE Globally Competitive Firms assistance should be clear, consistent, credible and transparent. Globally Competitive Firms should be required to make a financial contribution to all support other than advice and facilitation.
6. The Single Economic Market between Australia and New Zealand should be fast-tracked to remove barriers to the free flow of people, goods and services.

# Sustainability

Sustainable business makes good business sense – it is about growth, not additional cost.

It is also about giving value to the business, customer, citizen, environment and economy.

The ‘greening’ of business and trade is real. Businesses and business organisations across the world accept this now as a fact of today’s trading environment. A price on carbon forms only part of the response.

New Zealand business is developing a strong understanding of the international markets for sustainable business and products. It wants to embrace these opportunities and show leadership. Business-led activity is underway and needs to be nurtured in key areas such as:

- Green design
- Innovation
- International markets
- Adopting and driving sustainable business practice.

## **THE RISK OF OVER-REGULATION – WHAT GOVERNMENT CAN DO**

Regulation is not what is needed.

Government is adopting a range of general sustainability initiatives including the bio fuels subsidy, insulation grants package and the removal of road user charges on electric cars.

What’s missing is an overall strategy for climate change and sustainability.

A strategic framework needs to be charted, then Government needs to let business take leadership and allow it to pursue the potential of sustainable business practices confident of the Government’s support for this approach.

Certainty and predictability in the climate change and sustainability environment are needed for business to invest with confidence. Business NZ looks to the Government to provide this, particularly in relation to any commitments to action made internationally.

## **TO DO**

- Support green innovation and technology, and support business in complying with global standards.
- Ensure the Environmental Protection Authority follows successful international models and promotes coherent relationships internationally.
- More actively engage with business over the development and negotiation of any international sustainability or climate change commitments.
- Take a stronger leadership role in developing the international response to challenges and opportunities in our areas of comparative advantage, such as from agricultural related climate change.

## **EMISSIONS TRADING SCHEME**

A significant risk to our international competitiveness is the shape of a New Zealand Emissions Trading Scheme. At the very minimum the scheme must align with our trading partners, and be in keeping with any international negotiations.

A well-designed scheme should ensure that New Zealand complies with its Kyoto commitments at least cost to the New Zealand economy.

## **TO DO**

- Delay the introduction into the trading scheme of the obligation on the stationary energy and industrial process sectors to surrender emission units.
- Better calibrate the transitional design characteristics of the scheme to avoid undesirable economic impacts at a time when New Zealand’s economy is at its most vulnerable.
- More closely align the core design features of the NZETS with those of the Australian emissions trading scheme, while ensuring that the specific economic characteristics of the New Zealand economy are accommodated.
- Ensure the NZETS is subject to a rigorous Regulatory Impact Statement.

# SUMMARY AND NEXT STEPS

Business NZ's 50-point Productivity Action Plan deliberately:

- Captures a range of required policy and legislative changes
- Includes strategic initiatives to ensure the approach to productivity is coordinated, consistent and focused
- Details specific actions to be implemented as part of the productivity response.

The plan shows the depth and breadth of initiatives needed if we are to start turning out more productive firms and industries.

## **MINISTERIAL PRODUCTIVITY COMMITTEE**

Business NZ recommends a Ministerial Productivity Committee be established to oversee the development of the policies, strategies and law changes contained in this plan.

It should report quarterly to the public.

Consultation with the business community during the policy work is crucial.

The Government will need to move quickly to start setting a more robust productivity agenda.

A summary of the 50-Point Productivity Action Plan is detailed below.

# ACTION PLAN

## 50 POINTS –

## SUMMARY

### REGULATION

1. **Establish a New Zealand Productivity Commission** to keep on top of new regulation and review existing regulation.
2. **Make regulatory bodies more accountable.** Ensure that regulators get it right first time. An investigation into the possibility of a wider merits review process would provide a strong start. This could provide a framework to safeguard against inappropriate regulation and provide more accountability for decisions.
3. **By mid 2010 deal to the top five areas of red tape for business.**

### INFRASTRUCTURE

4. **Develop a national Infrastructural Plan.**
5. **Develop a national Transport Plan.**  
The national plan needs to include:
  - Public/private partnerships
  - Tolling
  - Self-funding of different transport sectors
  - Coordination and consistency between national and local public transport projects (if still in the hands of local authorities).
6. **Electricity**  
To ensure enough generation and supply at the right price, Business NZ proposes the following:
  - Remove unnecessary regulatory barriers to the sustainable development of all sources of new generation (e.g. planning or access to natural resources).
  - Develop new market mechanisms that encourage generators and users to insure against the risk of energy inadequacy.
  - Place the economic regulation of network access and natural monopolies in one independent entity.
  - Develop improved risk management products, including new technology options and tariffs, to facilitate more active demand-side participation.

### 7. **Telecommunications**

- Shift telecommunication regulation towards light-handed regulation.
- Ensure any changes to the ownership of telecommunications services balance property rights and investment demand with the best services and prices for homes, businesses and public services.

### RMA

### 8. **Phase two of RMA**

- Appoint a technical experts group to deal with water issues, including quantifying water available for allocation.
- Achieve a better balance between enablement and restriction, environmental and economic concerns, and benefits and costs.
- Reduce the range of activities that need consents and allow contestable processing of consents.
- Strengthen the right to compensation for the removal of property rights or restrictions on land use.
- Allow for takings or other reduction in property rights on the basis of clear public need only and with adequate compensation.

### NATURAL RESOURCES

9. **Include property rights in a Bill of Rights Act.**
10. Ensure that decisions that may result in access to resources being closed off have the value of their future use explicitly recorded as part of their cost-benefit analysis.
11. Develop innovative governance arrangements to facilitate economies of scale in accessing natural resources.
12. Amend the RMA to more clearly establish the security and allocation of water rights for time periods that are fit for purpose where capital investment is involved, e.g. hydro generation or industrial process plant.
  - Allow for trading of water rights
  - Establish systems for assessing the amount of water available for allocation and metering its use.

## INNOVATION

13. Develop a replacement for the scrapped R&D tax credits.
14. Develop a national innovation strategy, including innovation priorities.
15. Develop incentives for stronger links between public research organisations and the private sector.
16. Better coordinate publicly funded research for commercial application.
17. Ensure the tax review working group examines the role tax can play to promote private sector innovation expenditure and investment.
18. Offer support for basic applied research.
19. Relax co-funding requirements for government grants.
20. Simplify the current funding system, minimise the bureaucracy and make funding more transparent.

## TAX AND SPENDING

21. Restrain Government spending to allow for tax reductions.
22. Act on tax review recommendations that are consistent with improving productivity, including achieving the Government's medium-term goal of a 30 percent top personal tax rate.
23. By mid 2010 develop a tax policy framework that addresses issues from the Henry tax review in Australia.
24. Introduce mutual recognition of imputation and franking credits with Australia.
25. Cut tax compliance costs.

## **26. Local Government**

- Keep rate rises low by sticking to core activities.
- Review the list of non-rateable categories of land in Part 1 of Schedule 1 of the Local Government (Rating) Act 2002 with a view to making the rating system broad-base and low-rate.
- Encourage the phase out of business differentials except on the basis of specific services provided.
- Encourage a review of ownership of non-core assets.

## EMPLOYMENT RELATIONS

Legislative change:

### **27. Remove:**

- The *productive workplace relationships* focus in the current law and focus instead on *productive workplaces*
- The emphasis on union interests over the interests of employers and employees
- Preference in employment law so that it is a matter of choice, whether collective or individual bargaining
- The ability to obtain multi-employer agreements through strike action
- The requirement to seek leave to appeal from the Employment Court to the Court of Appeal
- The current definition of relevant daily pay so it becomes standardised across every working day.

### **28. Allow:**

- Collective agreements to end at their expiry date
- Employees not covered by a collective agreement to have the same terms and conditions as those of the collective
- Voluntary negotiation of multi-employer agreements
- The hiring of temporary replacement employees in the event of strike action

- Appeals to the Court of Appeal on questions of fact and law. Appeals to the Supreme Court should be with leave, and only on questions of law
  - The transfer of listed public holidays to a day not specified in the legislation as a public holiday.
- 29. Revise Health and Safety legislation:**
- To ensure ‘serious harm’ is not triggered merely by the duration of absence from work
  - To prevent accidents caused solely by employee carelessness from imposing strict liability on employers
  - To encourage a culture of workplace safety by clarifying health and safety are the responsibility of everyone in the workplace, not of a health and safety officer or committee only.
- 30. ACC**
- Remove the current prohibition of private sector involvement in accident compensation and injury prevention management.

## SKILLS

31. Develop a comprehensive approach to skills development policies including literacy and numeracy.
32. Shift tertiary investment to qualifications focused on business and economic needs.
33. Incentivise education providers to be responsive to the leadership and management needs of business and employers.
34. Raise school leaver qualifications at all levels.
35. Incentivise providers of Youth Guarantees and Trade Academies to reflect the needs of business and employers in their delivery and content.
36. Make available good quality, relevant, timely careers information, advice and guidance.
37. Undertake research and develop an evidence base on cost-effective approaches to workforce literacy and numeracy skills.
38. Promote greater use of performance measures by tertiary education providers, including those relating to labour market outcomes.
39. Promote greater use of recognition of prior learning and existing skills.
40. Adopt a more integrated approach to immigration and the flow of people to encourage entrepreneurial and innovative people to locate in New Zealand.
41. Streamline the process of selecting and managing immigrant labour.

## INTERNATIONAL CONNECTIONS

42. Ensure Government’s policy programme incorporates components of this productivity action plan to help make business more internationally competitive. This includes action on regulation, skills development, innovation and understanding where market opportunities lie.
43. Maximise the benefits from Free Trade Agreements and provisions by ensuring exporters are engaged in the development and negotiation process.
44. Ensure business assistance gives priority to innovation and exporting. NZTE should stop funding programmes and service delivery contracts aimed outside of these priority/target areas.
45. Ensure Government business assistance complements private sector training, and does not compete with or duplicate it.

46. Ensure the criteria for NZTE Globally Competitive Firms assistance are clear, consistent, credible and transparent.
47. Require Globally Competitive Firms to make a financial contribution to all support other than advice and facilitation.
48. Fast track the Single Economic Market between Australia and New Zealand to remove barriers to the free flow of goods and people, in areas such as customs and passport control.

#### **SUSTAINABILITY**

49. Support green innovation and technology, and support business in complying with global standards.
- Ensure the Environmental Protection Authority follows successful international models and promotes coherent international relationships.
  - More actively engage with business over the development and negotiation of any international sustainability or climate change commitments.
  - Take a stronger leadership role in developing the international response to challenges and opportunities in our areas of comparative advantage, such as from agricultural related climate change.

#### **50. Emissions Trading Scheme**

- Delay the introduction into the trading scheme of the obligation on the stationary energy and industrial process sectors to surrender emission units.
- Better calibrate the transitional design characteristics of the scheme to avoid undesirable economic impacts at a time when New Zealand's economy is at its most vulnerable.
- More closely align the core design features of the NZETS with those of the Australian emissions trading scheme while ensuring that the specific characteristics of the New Zealand economy are accommodated.
- Ensure the NZETS is subject to a rigorous Regulatory Impact Statement.

Business NZ welcomes dialogue on any of the points raised in this publication.  
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