

Submission

By



to the

Commerce Committee

on the

New Zealand Productivity Commission Bill

9 September 2010

PO Box 1925
Wellington
Ph: 04 496 6555
Fax: 04 496 6550

NEW ZEALAND PRODUCTIVITY COMMISSION BILL
SUBMISSION BY BUSINESSNZ¹
9 SEPTEMBER 2010

1. INTRODUCTION

- 1.1 BusinessNZ welcomes the opportunity to comment on the New Zealand Productivity Commission Bill (referred to as ~~the~~ the Bill).
- 1.2 We have long advocated the establishment of a New Zealand Productivity Commission (NZPC). During meetings with Ministers and officials over recent years, we have consistently stated that the establishment of an NZPC was one of the key changes that would help ensure New Zealand improves its overall quality of regulation and overall productivity in order to boost economic growth.
- 1.3 Overall, BusinessNZ supports the Bill. While there are a few issues we raise in this submission, we hope that the Bill will be supported by almost all parties in the House to send a signal that the NZPC has cross-party support and a long-term future in New Zealand.

2. SUMMARY OF RECOMMENDATIONS

- 2.1 BusinessNZ **recommends** that:
 - a) **The Bill proceeds;**
 - b) **Cause 9 is amended to state: The principal purpose of the Commission is to provide advice on improving productivity in a way that is directed to supporting the overall well-being of New Zealanders;**
 - c) **The NZPC is adequately resourced in terms of both staff and budget in the near future to ensure it can undertake inquiries and research studies where warranted;**
 - d) **The establishment of an NZPC is viewed as one part of the regulatory solution;**
 - e) **The NZPC ensures strong links are established with the Australian Productivity Commission (APC) where warranted; and**
 - f) **The NZPC is formally reviewed by an independent private sector group after five years in operation.**

3. BACKGROUND

- 3.1 One of the primary reasons why BusinessNZ has supported an NZPC has been the excellent work undertaken by the APC, established in 1998. We have been involved in consultation with the APC on a range of Trans-tasman

¹ Background information on BusinessNZ is attached in the appendix.

issues over the last ten years, and have found its reports to be comprehensive, well thought through and above all independent, performing its own analysis and making its own judgements.

- 3.2 Overall, we view the establishment of an NZPC as an ideal opportunity for organisations such as BusinessNZ to build a much deeper engagement process concerning our most critical performance indicator . productivity. Therefore, BusinessNZ supports the Bill and the formal establishment of the NZPC on 1 April 2011.

Recommendation: That the Bill proceeds.

- 3.3 Notwithstanding our overall support, there are a few issues that we would like to raise.

4. PURPOSE & FUNCTIONS OF THE NZPC

Purpose of the New Zealand Productivity Commission

- 4.1 Clause 7 of the Bill states that:

The principal purpose of the Commission is to provide advice to the Government on improving productivity in a way that is directed to supporting the overall well-being of New Zealanders’.

BusinessNZ believes this is a fairly simple and clear-cut principal to work under, although given productivity involves both the private and public sector, a simpler principal purpose might be:

The principal purpose of the Commission is to provide advice on improving productivity in a way that is directed to supporting the overall well-being of New Zealanders’.

While we would not expect the NZPC to provide advice at an individual level on how to improve productivity (i.e. business processes), the removal of the words “to the Government” sends a signal that the NZPC will be as important to the private sector via improving productivity and growth as it will be to the Government.

Recommendation: That clause 9 is amended to state: The principal purpose of the Commission is to provide advice on improving productivity in a way that is directed to supporting the overall well-being of New Zealanders.

- 4.2 When looking at purpose statements, one could argue that the APC approach of including a number of legislative instructions should be included to ensure the NZPC undertakes all its expected duties. However, our preference is that its main purpose should not become complex or restrictive.
- 4.3 We would also like to point out that the explanatory notes outline the scope of productivity-related inquiries, reviews and research undertaken by the NZPC, and that these already encompass a wide range of issues to be undertaken.

These issues emphasise the catalyst role the NZPC will take in achieving wide buy-in and linkages across the economy to improve productivity.

Functions of the Commission

- 4.4 Clause 9 of the Bill outlines the NZPC's main functions, including those on referral to the Commission by the Minister responsible for the administration of the Act and also those carried out on its own initiative. Clause 9 also stipulates that the NZPC must act independently when performing its functions. BusinessNZ supports these functions, and we hope that the NZPC will have adequate resources to effectively undertake the matters set out in clause 9(1)(b).

5. FUNDING FOR THE NZPC

- 5.1 Although not outlined in the Bill, details in the 2010 Budget allocated funding for the NZPC of \$2.4m in 2010/2011, increasing to \$5m per year by 2012/13. The funding is sourced from the baselines of various government departments and agencies, coming to 29 in total. We support this approach, given all these agencies either influence national productivity in some way, or are involved in productivity related policy. We also endorse the Government's general stance of beginning the NZPC on a modest basis and providing the opportunity to build credibility through the soundness of its work.
- 5.2 Staffing requirements for the NZPC look to be 3-4 part-time Commissioners (as outlined in clause 10 of the Bill), along with support of approximately 21 FTE staff once the annual budget of \$5m is reached by 2012/13. If we were to examine total funding based on staff levels, the budget equates to funding of around \$217k per FTE (assuming four Commissioners). If we were to compare the funding of the NZPC with the APC, across the Tasman their current structure shows around 30 people working for the organisation, with a total budget in the 2008/009 of AUS\$32m, or roughly AUS\$1.1 per staff member.
- 5.3 Examining the funding difference from another perspective, based on the populations of each country this would equate to AUS\$1.40 per Australian citizen, compared with NZ\$1.1c per New Zealand citizen. Looking ahead, we question whether this will be adequate. The Government has repeatedly discussed the objective of catching up with Australia. When looking at global comparisons, the Global Competitiveness Index² has seen New Zealand slip from 20th in 2009 to 23rd in 2010. Australia also slipped, but only one place to 16th, seven places ahead of New Zealand. While New Zealand scores well for basic requirements we receive low rankings in areas such as infrastructure, business sophistication and innovation.
- 5.4 If the NZPC is to be one of the flagships for boosting productivity and economic growth to catch Australia, then one could argue investment by the Government into an NZPC needs to be relatively more than what the Australian government invests into the APC.

² <http://www.weforum.org/documents/GCR10/index.html>

- 5.5 Therefore, BusinessNZ believes overall funding for the NZPC will most likely need to be significantly revised upwards in the near future, assuming the NZPC is able to show its value through quality research and breadth of the investigations/inquiries undertaken. For the NZPC to be truly effective, we would want the NZPC adequately resourced in future years so that budgetary constraints do not hamper its ability to undertake significant research into key areas of productivity. In addition, if we want the best and brightest from both the public and private sector to work for the NZPC, the Government needs to ensure remuneration levels are high enough to attract those who would be best to undertake the kind of research and investigation contemplated.

Recommendation: That the NZPC is adequately resourced in terms of both staff and budget in the near future to ensure it can undertake inquiries and research studies where warranted.

6. OTHER ISSUES

New Zealand Productivity Commission – Part of the Regulatory Solution

- 6.1 Like our submissions on the Regulatory Responsibility Bill, we believe the establishment of an NZPC would go a long way towards improving the overall quality of regulation in New Zealand as it will have the capacity to conduct regulatory reviews as outlined in clause 9. However, an NZPC by itself may not be enough to ensure a significant step-change for improving regulation.
- 6.2 In previous submissions on the quality of regulation issues, we have stressed the need to avoid the search for one solution to solve a complex problem. Instead, we believe there are a myriad of mechanisms required to create sufficient change to improve regulation. The establishment of an NZPC is a step in the right direction, but on its own may not be enough to ensure the improvement in the quality of regulation is as high as envisioned. Therefore, we believe that in terms of improving the quality of regulation, the establishment of an NZPC is viewed as only part of the solution.

Recommendation: That the establishment of an NZPC is viewed as one part of the regulatory solution.

Links with the Australian Productivity Commission

- 6.3 Prior to the formation of the Bill, BusinessNZ was aware of views that the NZPC should just be part of the APC to create some form of Australasian Productivity Commission. While there would be some advantages (such as minimising back office staff and having established staff immediately) we do not favour this outcome. While there is much we share with Australia, a stand alone NZPC is in the best space to examine issues for New Zealand. Therefore, we are pleased that the NZPC will be a separate organisation and not part of the APC or any existing department, structure or work programme.
- 6.4 However, this does not mean the NZPC should treat an agency like the APC as entirely apart. We believe a strong relationship with the APC is essential,

particularly in the first few years as the NZPC begins to find its feet. In this respect, we would support initiatives such as secondments both ways, the joint organising of events or activities, joint research and complementary investigations where warranted.

Recommendation: That the NZPC ensures strong links are established with the APC where warranted.

- 6.5 In addition to initiatives with the APC, we would also like to note that there should be opportunities for the NZPC to work with various private sector think tanks within New Zealand, including research institutes and organisations. While the NZPC should be viewed as a leading agency in terms of examining productivity, it should also look to complement rather than compete if existing private sector groups have already invested resources into certain areas or have the capability to examine similar issues.

Review of the NZPC after Five Years

- 6.6 An NZPC must stand up to the same scrutiny as any other agency or piece of regulation to ensure its worth. Therefore, we would support a review of the NZPC after five years. However, any review must in itself be independent and not simply a chance for a future Government administration to radically change the operating principles of the NZPC for its own political gains.

Recommendation: That the NZPC is formally reviewed by an independent private sector group after five years in operation.

7. APPENDIX

Background Information on BusinessNZ

- 7.1 Encompassing four regional business organisations (Employers & Manufacturers Association, Employers Chamber of Commerce Central, Canterbury Employers Chamber of Commerce, and the Otago-Southland Employers Association), its 57 member Major Companies Group comprising New Zealand's largest businesses, and its 76-member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, BusinessNZ is New Zealand's largest business advocacy body. BusinessNZ is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.
- 7.2 In addition to advocacy on behalf of enterprise, BusinessNZ contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.
- 7.3 BusinessNZ's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). It is widely acknowledged that consistent, sustainable growth well in excess of 4% per capita per year would be required to achieve this goal in the medium term.