

Treasury Report: New Zealand Productivity Commission Initial Inquiry
Terms of References: Referral Letter

Date:	29 March 2011	Report No:	T2011/610
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Sign the enclosed letter	30 March 2011
Associate Minister of Finance (Hon Simon Power)	Note the contents of this report	30 March 2011
Associate Minister of Finance (Hon Steven Joyce)	Note the contents of this report	30 March 2011

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[Withheld under s.9(2)(a)]			
James Beard	Manager, Economic Performance Overview & Coordination	[Withheld under s.9(2)(a)]	

Minister of Finance's Office Actions (if required)

Arrange for Minister to sign enclosed letter and send with enclosed terms of references to the New Zealand Productivity Commission

Enclosure: Yes [Final Terms of References for Referral to NZPC \(Treasury:2040458v1\)](#) and [Cover Letter from MoF to Murray Sherwin: NZPC Inquiry Topics Terms of References \(Treasury:2040443v1\)](#)

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Executive Summary

On 21 March 2011, Cabinet agreed to initial inquiry terms of references for the New Zealand Productivity Commission (Cab Min (11) 12/8A refers). The New Zealand Productivity Commission is expected to begin the first inquiry shortly after commencing operations on 1 April 2011.

The agreed terms of references, along with a referring letter for your signature, are enclosed.

Recommended Action

We recommend that you **sign** the enclosed letter.

James Beard
**Manager, Economic Performance Overview and Coordination Team
for Secretary to the Treasury**

Hon Bill English
Minister of Finance

Mr Murray Sherwin
Chair
New Zealand Productivity Commission
PO Box 8036
The Terrace
WELLINGTON 6143

Dear Murray

**TERMS OF REFERENCES FOR INITIAL NEW ZEALAND PRODUCTIVITY
COMMISSION INQUIRIES**

On behalf of referring Ministers, it is my pleasure to refer to you terms of references for New Zealand Productivity Commission inquiries into housing affordability and international freight transport services.

These inquiry topics cover important areas for the New Zealand economy. I trust that both inquiries will ultimately provide the Government with opportunities to make changes that will lead to substantial productivity improvements that will support the overall well-being of New Zealanders.

I wish you all the best as you commence the inquiries and look forward to your results.

Yours sincerely

Hon Bill English
Minister of Finance

Terms of Reference

New Zealand Productivity Commission Inquiry into Housing Affordability

Issued by the Minister of Finance, the Minister for the Environment, the Minister of Housing, the Minister for Building and Construction, and the Minister for Regulatory Reform ('the referring Ministers').

Pursuant to sections 9 and 11 of the New Zealand Productivity Commission Act 2010, we hereby request that the New Zealand Productivity Commission ("the Commission") undertake an inquiry into housing affordability.

Context

Stability of the home environment is widely considered to be important for social cohesion and family stability. Real house prices in New Zealand are markedly higher than they were a decade ago. The rise in real house prices has been associated with general declines in housing affordability, as indicated by a number of different measures, and in the rate of home ownership. These declines have contributed to increased demand for rental accommodation and additional pressure on the social housing sector. The debt accumulation and wealth effects associated with the rise in house prices may have also exacerbated New Zealand's last economic cycle. Interest rates and exchange rates were arguably higher than they otherwise would have been during the upturn and there has been greater contraction in demand during the recession. Debt accumulation may also be a factor in on-going economic risks.

Scope

Having regard to the context outlined above, the Commission is requested to undertake an inquiry to evaluate the factors influencing the affordability of housing (both rental and owner-occupied housing), and to examine potential opportunities to increase housing affordability. For the purposes of this evaluation the Commission should:

- Identify and analyse all components of the cost and price of housing.
- Identify mechanisms to improve the affordability of housing, with respect to both the demand and supply of housing and associated infrastructure.
- Identify any significant impediments to home ownership, and assess the feasibility and implications of reducing or removing such impediments.

Particular attention should be given, without limitation, to the following matters:

- (a) factors influencing the supply of land and basic infrastructure for residential construction;
- (b) factors influencing the cost of residential construction, including the effect of standards, specifications, approval and title requirements on the cost of new housing construction;
- (c) the level and growth of productivity in the land development and residential construction industries, and the effect of government regulations on productivity in these industries;
- (d) the efficiency of taxes, levies and charges imposed at all stages of the housing supply chain;

- (e) the efficiency of the tax treatment of owner-occupied and rental housing;
- (f) the influence of changing consumer housing preferences, willingness to pay, and financing costs on housing affordability; and
- (g) the operation of the overall housing market, with specific reference to the availability of a range of public and private housing types, the demand for housing, and the efficiency of use of the existing residential housing stock.

Consultation Requirements

In undertaking this review, the Commission should consult with key interest groups and affected parties.

Timeframe

The Commission must publish a draft report and/or discussion paper(s) on the inquiry for public comment, followed by a final report, which must be submitted to each of the referring Ministers by 1 February 2012.

BILL ENGLISH, MINISTER OF FINANCE
NICK SMITH, MINISTER FOR THE ENVIRONMENT
PHIL HEATLEY, MINISTER OF HOUSING
MAURICE WILLIAMSON, MINISTER FOR BUILDING AND CONSTRUCTION
RODNEY HIDE, MINISTER FOR REGULATORY REFORM

30 MARCH 2011

Terms of Reference

New Zealand Productivity Commission Inquiry into International Freight Transport Services

Issued by the Minister of Finance, the Minister of Commerce, the Minister of Transport, and the Minister for Regulatory Reform ('the referring Ministers').

Pursuant to sections 9 and 11 of the New Zealand Productivity Commission Act 2010, we hereby request that the New Zealand Productivity Commission ("the Commission") undertake an inquiry into international freight transport services.

Context

Increasing international trade is a critical part of achieving productivity growth in New Zealand. Given that freight transport costs (including port charges) currently represent a sizeable proportion of international trading costs for New Zealand firms, it is important to ensure that New Zealand's infrastructure and regulatory regimes are effective in promoting accessibility and efficiency in international freight transport services, while continuing to meet New Zealand's international obligations. Currently, certain aspects of international carriage by air and sea are exempted from parts of the Commerce Act 1986 and subject to industry specific regimes under Part IX of the Civil Aviation Act 1990 and Part 1 of the Shipping Act 1987 respectively.

Scope

Having regard to the context outlined above, the referring Ministers request that the Commission undertake an inquiry to evaluate the factors influencing the accessibility and efficiency of international freight transport services available to New Zealand firms, and opportunities to increase the accessibility and efficiency of these services. For the purposes of this evaluation the Commission should:

- Identify and analyse the cost of all components of the international freight transport supply chain for New Zealand importers and exporters.
- Identify any impediments to the accessibility of the international freight transport services, and to competition within and between the components of the international freight transport supply chain.
- Identify mechanisms available to improve the accessibility and efficiency of the international transport supply chain.

Particular attention should be given, without limitation, to the following matters:

- (a) the nature of New Zealand's international trade, including the effects of distance from overseas markets and reliance on overseas providers of international freight transport services;
- (b) factors influencing the accessibility, cost and efficiency of New Zealand's international freight transport supply chain, with international comparisons;
- (c) the level and growth of productivity in all components of New Zealand's international freight transport supply chain, with international comparisons; and

- (d) the effectiveness of current regulatory regimes (including those noted above in the Civil Aviation Act 1990 and the Shipping Act 1987) affecting international freight transport services in promoting accessibility and competition, and the potential costs and benefits of alternative regulatory arrangements with international comparisons.

Consultation Requirements

In undertaking this review, the Commission should consult with key interest groups and affected parties

Timeframe

The Commission must publish a draft report and/or discussion paper(s) on the inquiry for public comment, followed by a final report, which must be submitted to each of the referring Ministers by 1 April 2012.

BILL ENGLISH, MINISTER OF FINANCE
SIMON POWER, MINISTER OF COMMERCE
STEVEN JOYCE, MINISTER OF TRANSPORT
RODNEY HIDE, MINISTER FOR REGULATORY REFORM

30 MARCH 2011