SUBMISSION TO TASKFORCE 2025

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Thank you for your invitation seeking a brief submission designed to elicit "credible recommendations to improve productivity and close the income gap with Australia by 2025". Obviously such a big subject is hard to tackle in a few pages. That noted, if we want higher relative incomes across the board, then we have to remove impediments to business getting started and operating – in short, develop an economic environment that works better for New Zealand. If the objective of the Taskforce is to encourage relative improvements in New Zealander's income levels, more business is required.

This paper recommends four areas for the taskforce to consider. There are more issues of course but if these four were addressed it would make a difference.

Please advise if further submissions are required or a verbal follow up sought.

1. LESSEN THE BUREAUCRACY IN SETTING UP AND OPERATING BUSINESSES.

So often new businesses find themselves held up by bureaucratic processes that serve little apparent purpose. Advocates for new ventures find themselves dealing with the bureaucratically inclined who seem driven by their processes rather the outcome for which they are supposed to be working. They give little to indicate any concern or apparent regard to the cost of delay and process.

A superficial argument would be to submit that if we seek income equality with Australia (the underlying purpose of the Taskforce) the bureaucratic hurdles should not in any instance be higher than Australia's. A more profound argument should be that the hurdles should make sense but never be higher than needed to protect the national interest – the aim should be to achieve the desired objective with minimum rules and process. In some instances that may well result in thresholds that are higher than Australia's, in others lower – but in all instances rules and process should make sense.

A - Resource Management Act

Before any business can establish it must go through a raft of approvals, a major one of which is obtaining the necessary resource consents. This is materially more pronounced for a business intending to involve itself in either to manufacturing or processing because their 'effects' are more likely to be noticeable than say service industries.

It should be noted that neither business nor society objects to meeting environmental standards – we all enjoy the fruits of living and working in a good environment.

Planning should be a “vision” activity rather than a process. Just as an architect needs to understand how buildings are constructed but will never succeed in architecture unless he/she has a clear view of how they want a building they are designing to appear, so a planner cannot be seen to succeed unless they have a vision for how they want their district/region to be. Few planners take that approach – the overwhelming impression one has from operating under the RMA is of planners well trained and versed in the processes that must be followed under the RMA but with no vision as to how their area should look or what is trying to be achieved.

In the recent review of the RMA, the Institute of Architects submitted expressing real concern on this “vision” point. It noted that “architects are concerned at the overall quality of the built environment, especially in our larger towns and cities. The way the RMA has been interpreted and applied by Councils over the last 17 years has sometimes resulted in a deeply conservative management of the built environment, one where any development is viewed as a negative effect requiring mitigation, any visionary thinking about new ways of building our cities is discouraged, and a continuation of the status-quo is the default option. This may be an unintended consequence of the 1991 Act, but evidence of the failure of the Act surrounds us in our generally poor urban environments”. This is troubling advice indeed - if New Zealand wants good design to prosper and to be a feature of our nation’s offering it needs to consider this concern.

Process under the RMA could be reduced by establishing:

1) Baselines of permitted activities that require no consenting (activities we all agree can happen within their designated zones). A strong disincentive to abuse this would be a rule that required a person establishing a business on their assumption that it is permitted to remedy, remove or close down (as appropriate) if that is not the case. That is, have a rule and an effective sanction for failure to comply with the rule rather than put all through the process;

2) standards with which the applicant must comply to undertake any process so the threshold is understood and addressed. This already applies in certain cases and it works well. In 2006 the Government introduced the National Ambient Air Standards – now anyone proposing a discharge to air knows the thresholds they must meet. As these rules mirror those in other countries (eg Europe) the technology is available to allow operators to comply - an operator can proceed to organise the setting up of the business with certainty that it will be permitted.

The RMA is “effects” based legislation - the approval or otherwise of a proposal depends on the judgement of the reviewer as to the significance/materiality of the ‘effects’ relative to their plan. Leaving judgement to the staff working for local and regional authorities is bound to be frustrating and add cost for applicants – making judgements does not come naturally comes to the fore in this environment. For starters, the staff concerned have nothing at stake in the venture and everything at stake in not upsetting the applecart within their organisation. To some extent they will naturally be driven by their own personal and political agendas. It would be far better to set standards that

any person or organisation starting, expanding, or operating a business knows that they must comply with. Then the picture is clear and certain.

The obligation should always be on council's to minimise the amount of holdup or bureaucracy required with any application. For example while ostensibly all rules and processes under the RMA are there for a reason, where there is an activity that already occurs widely in a district (ie milk production and transport in the Waikato) applicants should not require a consent to transport milk on to a site. This is not the case - t provide the Taskforce with an actual example K Ltd was set up near a large milk processing factory. To limit the initial level of investment required (noting that capital is always scarce), it was decided that rather than set up its own pasteurising equipment K Ltd would purchase pasteurised milk from the nearby factory. K Ltd's resource consent was written along those lines. By way of background K Ltd is located in a district that is among the largest producers of raw milk in the country producing in excess of 1 billion litres of raw milk per annum. In this district raw milk is everywhere – it is on every farm and is transported widely throughout the district. Resource consent is not required to produce or transport milk on either local roads or highways. Raw milk as such does not present any health hazard (if that were the case it would long since have been apparent). After a year's operation K decided for practicality reasons to install its own pasteurising equipment. This would involve raw milk being taken on to K Ltd's site (about 50 m from highway entry to milk silo). The local authority required a full variation process for K Ltd's resource consent (including establishing whether or not this could produce a health hazard).

There seems no valid reason why a consenting authority is not authorised to modify a consent when it makes sense to do so in the circumstances (in this case even the staff thought this was silly but felt constrained to require the variation process by "the rules").

In applying for resource consent authorities should not seek the impossible from applicants – again an actual example. K Ltd applied for a resource consent to open a cafe and retail centre. NZTA (or Transit as it was then) sought advice as to the number of people who would stop at the cafe/retail centre so it could assess the traffic effects. The problem is that prior to actually starting such a business no-one can predict the number of people who will stop and use it (it should be noted that the proposed cafe/retail centre was in a 50 km/hr built up zone). It is only possible to make a subjective guesstimate. In this instance Transit then complained that they are unable to assess proposals without "more accurate information".

All risk cannot be eliminated. To some extent authorities need to accept that there are a similar range of risks in granting consent as there are in establishing businesses – sometimes businesses do not succeed and sometimes they are much more successful than expected. A more liberal and open approach must be advocated rather than the "let's oppose it if we do not fully understand the risk's" approach so prevalent in the NZTA (Waikato).

B. IFRS

Additional costs for no apparent gain result from policies requiring small businesses to comply with the very complex rules of the International Financial Reporting Standards (IFRS). Much of the

information extracted is of little value to users (or too complex to be understood by users). Most other jurisdictions have exemptions for smaller businesses requiring those to comply with standards more appropriate to their scale and size.

C. OTHER COMPLIANCE COSTS

Tax compliance remains a material issue for the smaller companies who would like this addressed by the Government. In employing staff, not only must tax be deducted, so too (where required) must student loan payments, child support payments, court fines, kiwisaver contributions (including employer contributions). Employees are often poor at advising of their obligations. Contacting the department is of limited use as they will not disclose private information. None of that lessens the obligation on the employer.

Small companies' staff are usually very busy and find the constant need to provide information to this or that government department or organisation a major inv=convenience. Other compliance costs include the Food Safety Authority (recently materially increased its activities), Statistics and others.

D. BUILDING REGULATIONS

As argued above the rules should be clear and set standards so that any person or company about to launch a venture or an expansion knows the thresholds they must meet to process their intentions, whether it be fire egress rules, the building rules or whatever. While reform is promised in this area it is slow to come.

2. FOREIGN EXCHANGE RATE VOLATILITY

A key to getting into business is sound business planning – this is regarded as crucial to business success. Business schools encourage all business to plan. A material part of planning is forecasting the expected revenues and expenses of a business.

We can now be reasonably confident that inflation in our currency will be held at modest levels (the Reserve Bank Act sees to that). This stability facilitates more accurate forecasting of domestic income and expense levels this makes planning significantly more reliable. But any business considering exporting or importing cannot be sure at all of its likely revenues and/or expenses as the volatile exchange rate negates that. This seriously undermines any business plans that are focused on exporting (even though an export led recovery is seen as the optimum solution for the New Zealand economy).

Any suggestion that the government fixes the rate of the dollar (or at least holds it within a band) is usually rejected as simply too risky for any government to take on – the irony of the argument is that that is probably true, but of course by removing that as a risk from the government (that is, the nation collectively) the risk is not removed – it is just passed to those that have no choice but be in the foreign exchange sector (exporters and importers). This is an impediment to investing in export based industries.

3. BANKER CULTURE

A key to getting a business off the ground is raising capital. In New Zealand obtaining bank funding and support to finance working capital (stocks and debtors) is usually reasonably forthcoming but project finance is much harder. And though economic leaders preach against "New Zealand's love affair" with investing in property, by contrast to project finance banks will lend almost without exception on housing (60 – 80% of capital value). This works against achieving the objectives set for this Taskforce.

4. MULTIPLE LEVELS OF GOVERNMENT

There is a good argument for collapsing the present three tiers of government in New Zealand into two levels – three levels of government is a lot for a country with the population of Sydney. Already this is happening in Auckland – why should the rest of the country not benefit from such consolidations of government. Short of that, regional and district councils should be persuaded to agree that only one consent should be necessary for any activity – where one council feels an aspect of the proposed activity may impinge on their interests they should delegate addressing their concern

An example. K Ltd sought to irrigate its waste water to land. Dairy factory wastewater spreading is a long-established activity in the Waikato Region, and generally accepted by the farming community. At the application rate of 150 kg N/ha/yr, the wastewater has proven beneficial effects on pasture and crops, providing nitrogen, phosphorus, potassium and a range of plant minerals. There is no evidence from previous dairy factory effluent/whey/by-product consent applications that either the general public or iwi have any concerns about this method of disposal. There are few complaints each year about the activity. Despite this, resource consent is required from both the regional and the district authority/ies – each charge fees and takes time to process the application (the regional level requires a consent to discharge to land and the district level requires a separate land use consent).

There is a material amount of overlap and unnecessary additional cost. Providing a sensible standard is set and enforced, much bureaucracy could be avoided.

ENDS