

11 December 2006

Hon Lianne Dalziel
Minister for Small Business

Dear Minister

Government Response to the Small Business Advisory Group's (SBAG) Second Report

Thank you for publishing the Government's Response to SBAG's 2nd Report. We appreciate receiving a prompt response to the important issues facing small businesses in New Zealand that were highlighted in our Report.

Overall, we have rated the Government's response to the issues identified in SBAG's 2nd Report at 5.8 out of 10.

This is, in our view, an improvement on our previous assessment of 5.3. It reflects our opinion that there is evidence of an increasing understanding of the issues facing small business within Government. However, from a small business perspective, progress in some areas has been far too slow and too tentative.

Our detailed comments on each of the recommendations are set out in the annex to this letter.

In general we were pleased to see what work is to be undertaken to improve the regulatory impact analysis regime (RIA), efforts by ACC and IRD to handle minor misdemeanours, improvements to ACC Invoices, Fringe Benefit Tax changes, and Ombudsmen visits. But, as noted in your Foreword, best intentions ring hollow in the absence of outcomes from these planned initiatives. Speed up the implementation of the changes to the RIA regime – we think they will give you a process with teeth that should improve (and reduce) the Government's legislative and regulatory interventions.

We are disappointed with both the reaction and with action in a number of areas of importance for SMEs:

- The Holidays Act is not a “fundamentally sound” piece of legislation - it is extremely difficult to implement. We will be interested to see how officials progress with the on-line tool. If it proves not to be possible to assess entitlements and to calculate simply the relevant daily pay without further external assistance, then we consider that a sound case would have been made for changing the legislation (for example using average weekly earnings to calculate the payments that are owed).
- A better system is still needed for dealing with the issues and uncertainty with regard to dismissing unsuitable new employees, particularly one that is useful in the close-knit, family atmosphere of a small business. We are not alone in calling for change in this area.
- The Government’s response emphasises recent improvements in the framework for hazardous substances under the HSNO Act. These are yet to be proven in practice. And they will not disguise the fact that this remains a complex, difficult to understand and confusing to implement set of regulations.
- Similarly, your expectation that the changes introduced in the Local Government Act 2002 will, in time, deal to the concerns we raised is at odds with our experience that local government imposed compliance costs are increasingly out of control.

We urge the new SBAG to remain vigilant on all the issues outlined in our two reports and to ensure that the improvements promised by the Government are in fact delivered.

In this context we have revisited progress with the recommendations in our first Report. We think the value of the Market Development Assistance (Rec 8) Scheme has been well-demonstrated and were impressed by the improvements to the scheme announced on 30 November. The harmonisation work with Australia (Rec 11) is proceeding well. Once the biz.org website (Rec 4) is finished, we’d increase to 10 our assessment of Recommendation 4. We are concerned, though, that mentoring services (Rec 1) are not as available in provincial areas and for the early stages of business establishment as we think is necessary. Progress has been too slow in delivering the business benchmarking tool (Rec 3). Finally the take-up of the Advisory Board option (Rec 3) appears to be very low and we wonder if it is being promoted and publicised widely and positively enough.

This is the last report to you by the present Small Business Advisory Group. We think that setting-up SBAG was a positive move by the Government. It has created an effective conduit between small business and government policymakers. We want to thank the Government for giving us open access to Ministers, officials and documents; we have valued the trust you have placed in us.

In so far as we have been effective, a key reason is that we have been able to speak our own minds. Rather than represent a sector or an organisation and so be beholden to other agendas or public stances, we have been able to present a small business perspective on government business

The ability of government departments to meet and interact with us in confidence has helped to raise their understanding of SME issues and should be encouraged and extended. However, we have seen insufficient evidence of implementation of the issues raised, or comprehension of our call to **"think small first"**. .

We thank you, as Minister for Small Business, together with your ministerial predecessors and officials from the Ministry of Economic Development, for your support of our work.

We wish the new SBAG the best of success in establishing itself as a voice for small business.

Yours sincerely

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Robyn Reid

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Annex 1 - SBAG's Assessment of the Government Response to SBAG's 2nd Report

Number	Recommendation	Recognition/ Consideration of issue 1 - 5	Action/Progress Addressing issue 1 - 5	Total Assessment out of 10	
1	Regulatory Impact Statements	5	2.5	7.5	Government has recognised the issue and is working on it but it has yet to demonstrate that the quality of the RIS statements has improved. Improving the RIA regime should lead to a quantum increase in the quality of regulation. This is an area we suggest the new SBAG monitors closely.
2	IRD and ACC implement strategy for dealing with misdemeanours	4	3	7	We applaud the clear recognition of the problem and the moves made to date. More work still needed in penalty enforcement and communications.
3	HSNO less complex	2	2.5	4.5	While there has been some effort to reduce complexity, e.g. group standards, this is still a complex Act with which to comply. The Act and its associated regulations need to be made more understandable and much greater attention paid to fixing the problems being encountered in implementing it.
4	Holidays Act revisited, particularly relevant daily pay	1	1.5	2.5	We are not convinced that our concerns and those expressed by others are being listened to by the government. This is not a "fundamentally sound" piece of legislation. However we would be happy to assist the Department of Labour in developing its calculator.

5	Personal grievance free Probationary employment periods	3	1	4	<p>We commend you for publishing our suggested Employment Facilitation Process. We regarded it as a signal that at least some corner of government may be taking the problem seriously. We await now some sign of action.</p> <p>We remain convinced that the Act is balanced too far in favour of employees and that our PG-free solution is the best. However what we most want is action that effectively addresses concerns raised by businesses nationwide about this problem area. We urge the new SBAG not to let this matter drop.</p>
6	Time Boxes on forms	3	2	5	<p>Response does not address the recommendation. It is good to see that ACC has adopted this idea for one scheme, but we are concerned that there does not seem to be wide-spread adoption of this direct and simple technique for monitoring compliance costs. Formal evaluation of government programmes is vital, but it occurs after the programme has been in place for sufficient time to measure an outcome and tends not to be concerned about details such as compliance costs. Time boxes will enable a more timely alert to a compliance cost problem and hopefully lead to an equally timely solution.</p>
7	FBT vehicles in employer's income tax return	3	3	6	<p>At the heart of our recommendation was a desire to reduce compliance costs by having FBT on vehicles included in annual income tax return. The government's response has partly met that concern by requiring only annual returns. We expect on-going effort in this area.</p>

8	ACC invoices improvements	4	3	7	<p>It is good to see that ACC is finally progressing improvements to its invoices. We first pointed out the need for changes three years ago. We can tell you the draft new ACC forms we have seen are a significant improvement on current ACC invoices. We hope that the implementation of these improvements will not be delayed any longer or be overtaken by other government priorities.</p> <p>It is good to see ministers and departments getting out and meeting businesses. We think it is important to ensure that you visit the smaller centres, and to take with you the cross-section of government and other agencies that attended the Small Business Days in 2004, so that businesses there recognise there are places they can go for advice.</p> <p>Well done.</p>
9	Small Business Day series 2006	4	3	7	
10	Ombudsman targets business audiences	5	5	10	
11	SME Champions in Govt dept.	2.5	2	4.5	<p>SME Champions have been adopted, in varying forms, by some departments. However this initiative appears to be losing momentum. Fingering an official or unit within an organisation is not sufficient in itself. What's needed is a well-informed small business perspective to be injected at all stages of the development and implementation of policies. We envisaged also that the SME champions would be meeting more regularly with SBAG.</p>
12	Enterprise Education	3	2	5	<p>We were pleased to see 'enterprise' referred to in the draft curriculum. Assuming it continues to be a part of the new curriculum, we think you should be working now to assist schools with ideas on how to make enterprise the key focus of their school's endeavours and incentives to make this occur. Included in that should be material relating to</p>

					"business knowledge", notably about the contribution business makes to society, how businesses operate and important life skills such as balancing personal finances.
					5.8