



Valuable Advice from Workshop 4

What Business Needs from the Government Over the Next Three Years

Held on Thursday 28 September

Executive Summary

Against the backdrop of an uncertain election outcome, it was inevitable that Workshop 4 would be dominated by concerns and speculation about the makeup of the next government. That said, each speaker was also clear about what business needs, regardless of who ends up in power, and they were more or less unanimous about the major issues. No one reading this will be surprised by most of them: stability, infrastructure and productivity featured prominently, with immigration and education also getting a generous airing. One issue that may surprise some readers was social equality. Long seen as somewhat peripheral to business, this is rapidly becoming – if it hasn't already become so – a central issue. Not simply for pragmatic reasons, but from a growing concern among business owners and managers about the kind of country we are, and a realisation that business has a major role to play.



(L-R) Glen Holm-Hansen (Chair) with Michele Embling, Fran O'Sullivan and Kirk Hope

The Speakers

Fran O'Sullivan, Editorial Director – NZME – Business

Fran is a prominent columnist for the New Zealand Herald writing on business, politics and international affairs and manages the annual high-profile Mood of the Boardroom Project.

Fran is also a regular participant in New Zealand's partnership forums with the United States, Australia and China. As managing director of her private company, NZ INC, Fran presents the China Business Summit and is a member of the NZ China Council's Advisory Board.

Michele Embling, Chair – PwC

Michele has led PwC's National Assurance practice and in 2016 was appointed Chair of the New Zealand firm for a four-year term. As the Chair of PwC, Michele approaches corporate governance with a long-term vision of sustainability. Her aim is not just to promote sustainable corporate governance in terms of financial management, but to deliver a positive impact on humanity. She believes that companies should be embracing technology, innovation and diversity of thought at the very top – starting in the boardroom.

Kirk Hope, Chief Executive – BusinessNZ

Kirk Hope is Chief Executive of BusinessNZ, New Zealand's largest business advocacy body, advocating for New Zealand's success through sustainable market-led growth. Kirk previously led the New Zealand Bankers' Association and Financial Services Federation after holding senior positions at Westpac, including Head of Government Relations and Regulatory Affairs.

CHAIR

Glen Holm-Hansen, Senior Associate – Lowndes

Glen is a Senior Associate in Lowndes' commercial litigation team. With more than 10 years' experience in legal practice, Glen has significant expertise in regulatory matters and advises clients in relation to potential risks of oversight by regulators (particularly the Commerce Commission) and also assists them through any process of investigation and prosecution. Glen also has extensive experience advising corporate clients on contractual disputes, insolvency and negligence matters. Before joining Lowndes, Glen was a Senior Associate at Simpson Grierson where he had been for almost 10 years.



What They Said

Fran O'Sullivan: Let's do the time warp again

Fran kicked off by expressing her dismay that, just as in 1996, a party that failed to reach double digits in voter support is now cracking the whip in Wellington.

The problem is exacerbated by who's doing the cracking. Based on his past, Winston Peters will likely be a testy coalition partner. For business, which values predictability, this is not good news.

As to what business wants from whoever becomes government, the latest Mood of the Boardroom Survey provides clear answers. Productivity, education, housing, inequality and infrastructure are the key issues. The latest MYOB SME survey also rated social issues high on the agenda.

There is a mood for urgency on infrastructure. "Let's borrow now while interest rates are low," said Fran. How quickly we can get things done will depend on who becomes government. Labour is not warm on the partnership model, which Fran sees as a real opportunity to move projects forward.



She also sees more urgency on social issues, regardless of who holds power. (It was interesting to hear the mood within the workshop on social issues. It's clear that business leaders are increasingly concerned about inequality and that many feel that business has an important role in doing something about it.)

Beyond infrastructure and social issues, Fran was more cautious about making predictions. It's a shame, she said, that National didn't succeed in driving New Zealand First out. Given the small number of accommodations it's made with Peters in the last nine years, she also thinks it will be a miracle if they manage to form a successful coalition with his party.

And that adds to the uncertainty. Animus on one side, and the inexperience of Labour leader Jacinda Ardern on the other, mean no one can assume the next three years will be steady.

And should New Zealand First get its way on key policies, even a stable government could be bad for business.

"Reducing immigration to 10,000 net a year will be a shock to the economy," said Fran. Even though Peters is now softening that approach, business must get on the front foot here, clearly stating the type of immigrants that are needed.

Likewise, a rewrite of the Overseas Investment Act to ban foreigners from buying New Zealand houses could rebound. Couple that with both Labour and New Zealand First's distaste of the TPP, and Peter's perceived antipathy towards Asia, and Fran believes the relationship with China could become prickly.

Michele Embling: The power of speed and stability

Michele echoed Fran's opening thoughts, that the sooner we have a government, the better – and let's hope it turns out to be a stable one. "We were lucky to have had so long under John Key and Helen Clark before that," she said.

Until the government is formed, big business decisions will stay on hold. That includes hiring of specialist staff, investing in equipment and large transactional deals.

After that, business has three key needs, she said.

The first is tax, where business wants certainty, low administration costs and a regime that makes it easy to do business.

Right now, the system's in good shape, and we're generating enough tax to do what's needed.

There are definitely a few gaps in the system but Michele felt if these were easy to fix, that would have already happened. The obvious gap, she felt, was in the taxation of property where fairness and the distortion of investment are the issues.



"But the kind of less than comprehensive capital gains tax generally supported by some political parties will significantly increase the complexity of our tax system and probably won't result in an elegant solution. We won't solve the majority of the equity problem and we'll just move the distortion to a different boundary."

Nor should we get too concerned about multinationals and tax. "Traditional multinationals already pay a significant amount, and there's no pot of gold there."

What the rules don't adequately cover are those multinationals that are digital and weightless in NZ (such as Google, Facebook and Netflix for example). And

this is a common global problem.

However, Michele said we do now collect GST on digital imports by requiring the multinational companies to register for New Zealand GST. And this has been successful at levelling the playing field with domestic companies and raising more GST revenue.

But it's much harder to crack the issue of how to impose New Zealand income tax on these weightless revenues.

Whoever gains power, they should keep transforming IRD, she said, particularly around online services.

The second area Michele discussed was infrastructure. Both parties have promised a lot – Labour around rail, and National around roading. One indisputable fact is that if we build more houses, we'll need more infrastructure.

Certainty around existing projects is the place to start, and Michele would also like to see higher quality infrastructure being created. One of our current weaknesses is exposure to single points of failure, such as the Marsden Point pipeline failure, the Kaikoura earthquake and the Havelock North water contamination crisis.

"Business is used to managing risk effectively," she said, "and the country should be as well."

Michele's final points were around ensuring New Zealand is fit for the future. Sustainability is a big issue, and while government has performed well, she wonders if we're agile enough for a time of rapid change.

Both parties recognise the urgency here. National with the recent \$75m increase in Callaghan Innovation funding over the next four years, and Labour with its proposal to reintroduce a tax credit for research and development in the private sector. We must also keep the UFB rollout going, as it "opens up SMEs to the world".

Finally, said Michele, business has an important role to play in keeping New Zealand fit for the future. The trend toward internships for people without tertiary qualifications is a good fit for a world where people need to be adaptable and capable of retraining multiple times during their career. On the other hand, we must also keep investing in quality tertiary education, especially in the STEM subjects.

Kirk Hope: Open markets promote productivity

Kirk's wish list was similar to those of the two previous speakers, with some interesting variations. His top four agenda items: sound fiscal management, open markets, skills training, and business development.

Given the first item, he'd like to see other mechanisms besides borrowing used to fund infrastructure growth. "New Zealand already has high private sector debt," he said, "with little headroom for more."

He's concerned about the support of Labour, New Zealand First and the Green Party for expanding the concerns of the Reserve Bank beyond keeping inflation in check. (Labour wants employment in there, New Zealand First the exchange rate.) Including either of those issues will "muddy the water", he said, citing journalist Patrick Smellie as an insightful commentator on the issue.

That said, Kirk endorses New Zealand First's policy of lower taxes for business in the export sector.

It's perhaps ironic, then, that New Zealand First has also expressed its opposition to the TPP. "We have to do it," was Kirk's blunt summation. Productivity – a key contributor to wealth – was never higher than when we had open access to the UK market. TPP offers a similar opportunity.

New Zealand First has moderated its stance on TPP, which Kirk finds encouraging. He noted that Australia has recently negotiated a trade agreement with Japan that sees it paying a 19% tariff on beef exports, versus the 50% paid by New Zealand.

Also concerning Kirk are calls for putting a lid on immigration, partly in order to make jobs available to New Zealanders. But given the high number of job vacancies right now, where are those workers going to come from? He sees a potential \$0.5b impact on GDP if we restrict the flow of qualified workers, and is heartened by the Green Party's recent softening of its stance on the issue.

Like the other two speakers, Kirk sees infrastructure as a key issue, and his burning wish is for a review of the Resource Management Act. The cost of consents and time lost in building projects is just wrong, he said, citing the 8-10 years it took to build the Waterview Tunnel and the fact that Queenstown, the adventure capital of the world, has seen no new infrastructure built since the Act was introduced.

The solution? National's proposal to split the Act into two; one focusing on the natural environment, and the other on the built. The other parties' preference for improving the existing Act will not work, he said. In light of that, the Green Party's suggestion of a Commission of Enquiry into environmental and planning laws is a good one, opening up the possibility of a unified view that can lead New Zealand into the future.

In that vein, Kirk also sees merit in a four-year election cycle. Elections always create uncertainty, which always slows down business decision making.



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