Deloitte. chapman tripp

Foundations for Aotearoa's future

The Deloitte and Chapman Tripp Election Survey, conducted by BusinessNZ

Our perspective

2023

Contents

The future starts with a strong economy
Deloitte

Election year has encouraged us to look back at the obstacles we've faced over the last three years; many of them ongoing, and critical to the future of the country. Persistent inflation, a cost-of-living crisis, unaffordable housing, public health system waiting times, declining literacy and numeracy rates, and an increasing crime rate are just some of the issues driving the agenda for a reprioritisation of government focus. These issues have only been exacerbated by recent events like the global pandemic and unprecedented lockdowns that followed, Cyclone Gabrielle, flooding, and other adverse weather events, to name a few.

The Deloitte and Chapman Tripp Election survey, conducted by BusinessNZ, provides a platform for the New Zealand business community to voice their opinions as we look down the barrel of the General Election. And in 2023, the business community's take on the situation is somewhat sobering.

Respondents identified major structural challenges that will need to be addressed by any post-election government before we can truly build the foundations for Aotearoa's future. Factor in significant global economic headwinds and an uncertain geo-political environment, and New Zealand has a tough road ahead to balance its priorities.

The only constant we can rely on as we look to the future is change, and to contend with it, we need to make some deliberate choices with our constrained resources, capability, and capacity.

The majority of New Zealand businesses have expressed concerns over the lack of a coordinated government plan to raise New Zealand's economic performance. This uncertainty around the future of the economy is amplified by a perceived increase in the cost of doing business over the last three years – attributed to changes made by the Government. In line with this, businesses are expressing a desire for stability on tax that likely reflects an interest in enhanced clarity and deliberateness of spend.

The business community has voiced plenty of other issues, including the cost of climate change, with sustainability at the forefront of business strategies as they plan for an uncertain future. The effects of climate change and other weather disasters have bought New Zealand's significant infrastructure challenge to the forefront as well. It will require an unprecedented period of investment, alongside a critical need to drive awareness of the broad-based benefits of smart and responsible infrastructure.

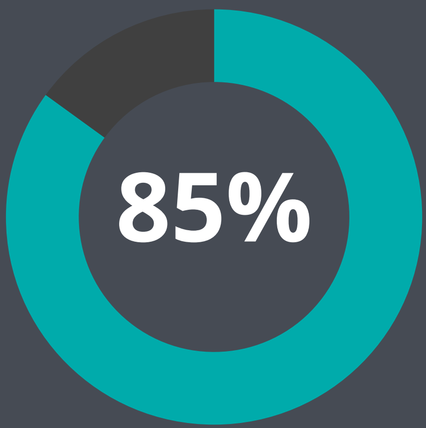
To add to their woes, businesses believe that compulsory education is not setting up young people with the skills they need to meet the needs of their businesses in the future. With artificial intelligence emerging on the scene, businesses are considering it as part of the solution but understand that in many ways, AI only amplifies the need to have access to people with the right capabilities.

In an environment shrouded by varying issues and threats, New Zealand businesses are also worried about the state of the country's finances. This speaks volumes about the ability for our private sector to operate with confidence and provide the economic underpinning that is critical for wider societal prosperity.

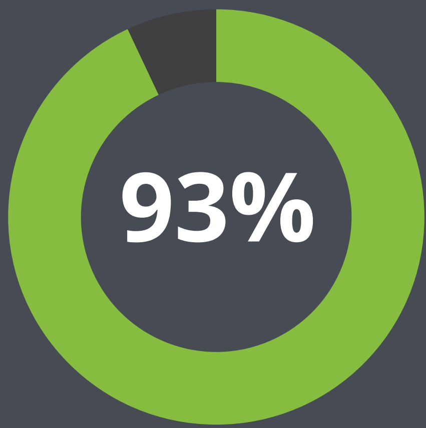
The mood of business is sombre as respondents look to a post-election government to start actioning change. But the onus is also on the business community to work alongside those in the government to facilitate and support the change that is needed.

It can be acknowledged that it is much easier to navigate these massive shifts in a strong economy – something the post-election government will need to address first.

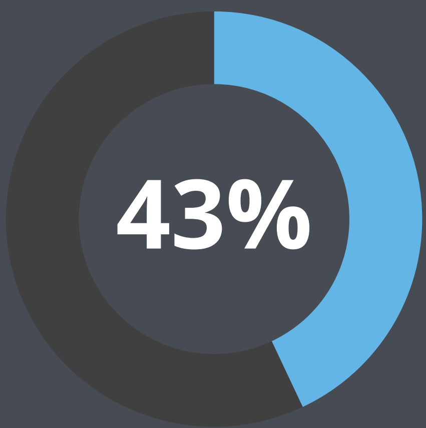
Mike Horne
Chief Executive, Deloitte



of respondents **do not think** the Government has a coordinated plan of action focused on **raising New Zealand's economic performance**



of respondens thought that **changes made** by the Government have **increased the cost of doing business** over the last three years



of businesses ranked **economic environment** as the most important focus for **achieving sustained economic growth** – followed by:

10% Infrastructure

7% Employment environment

Time to get off the hamster wheel
Chapman Tripp

With election season well and truly upon us, this is an opportunity to consider whether it's finally time that New Zealand moved to a four year electoral cycle.

It's a decision that can only be made by a 75% vote in Parliament or by a simple majority in a public referendum, and previously the prevailing opinion among voters has been that we want to keep our politicians on a tight leash.

Two referendums have been held on the subject – in 1967 and 1990 – and both were lost by more than two thirds' majorities.

But that view may be changing. The 2013 Constitutional Advisory Panel noted that there was "reasonable support" for a four year term among the people it consulted and recommended a further public consultation on the idea.

And it has surfaced again in the interim report of the Independent Electoral Review, released in June, which recommends that we have another referendum, this time supported by a well-resourced information campaign, including dedicated engagement with Māori communities and leaders.

I know BusinessNZ is already providing leadership in this area but the rest of us need to get in behind.

New Zealand is increasingly an outlier. Of the 190 countries with some form of parliament, only nine have three year terms. And we are one of only three jurisdictions that have a unicameral or single chamber house and a three year term. The other two are Nauru and El Salvador.

There are real costs attached to the status quo.

There is a point at which voter sovereignty must be balanced against intelligent and effective government - and international evidence would suggest that the three year term may be on the wrong side of that balance.

The hamster wheel nature of the three year term and its debilitating effects on our political culture are well understood.

The first year in office is typically dominated by ostentatious list-ticking as the government delivers on its key election commitments - whether they still make fiscal sense, or ever made sense.

Most of the third year is also often wasted as difficult decisions are shelved and the attention of MPs is increasingly drawn away from the House and from the business of government.

It was these behaviours which Sir Geoffrey Palmer was no doubt referring to when he described the three year term as "the greatest enemy of good legislation."

There is also a qualitative argument about whether voter control is best achieved through regular elections or through allowing time for policies to bed in so that we can make a more informed judgement about the calibre of the governance on offer.

This matters because good policy provides the framework for productivity growth and bad policy undermines it. And as Nobel prize-winning economist Paul Krugman famously said: "Productivity isn't everything, but in the long-run it's almost everything."

Pip England
Chief Executive Partner, Chapman Tripp

Tax

Businesses impacts matter in tax policy

Robyn Walker
Partner, Deloitte

While tax barely featured during Election 2020, it's been front of mind and in the headlines continuously in 2023, with political parties actively proposing a plethora of new taxes to fund other tax reductions and spending. A lot of the attention has gone onto policies which have more direct impact on individuals, such as personal tax rate changes, wealth taxes, and removal of GST from food, but the reality is these changes would all have flow on impacts to businesses.

There are also parties proposing increases to company tax rates (Greens, Te Pāti Māori, and TOP as part of their second phase of reforms). So, it seems possible that businesses could be grappling with a raft of new tax changes depending on the outcome of Election 2023.

This is not the answer businesses are looking for, with the majority of respondents in this year's Election Survey favouring a retention of the status quo for personal tax rates, the corporate tax rate and GST. Respondents also remain unconvinced that wealth taxes, capital gains taxes or windfall taxes are a good idea, with 67, 61 and 70% respectively opposed to them.

The desire for stability on tax may be driven by the breath-taking statistic that 92.7% of businesses are facing increased costs of doing business due to Government changes over the last three years.

Businesses have faced near non-stop changes to tax, including property tax rules, business continuity rules, purchase price allocation rules, trust disclosure rules, changes to GST invoicing and fringe benefit tax (FBT) calculations due to the 39% tax rate, to name a few. Faced with these, it is understandable that 0.7% of survey respondents felt there had been a reduction in tax compliance costs in the last three years, with over 63% indicating compliance costs are up.

For years there has been a layering of compliance costs on businesses with seemingly little regard for the impact this has on productivity or investment decisions. While COVID-19 bought some wins for businesses in the reinstatement of depreciation on commercial buildings and reform to the tax loss carry forward rules, the pandemic has meant slim pickings for businesses who were hoping for tax changes to make things easier.

Since Election 2020, the Tax Policy Work Programme has been stacked with projects. They've managed the removal of interest deductions from residential property, invoked integrity measures to buttress the 39% tax rate and complex OECD proposals for taxing multinationals, not to mention countless hours spent developing an abandoned wealth tax for Budget 2023.

With all this going on, there has been little capacity to consider any reform which could actually improve things for business, whether that is fixing the accounting income method of calculating provisional tax (Labour Party policy from 2020), reforming fringe benefit tax (recommended by the Inland Revenue FBT Stewardship Review), considering accelerated depreciation (recommended by the Government Advance Manufacturing Steering Group) or reforming international tax and employee share scheme tax rules to encourage high talent to New Zealand (recommended by the Government Start-up Advisors Council).

The idea of accelerating depreciation deductions is viewed favourably by 46% of respondents who say this would encourage investment into new, productivity-enhancing assets. But when it comes to complicating the tax system to deliver wider social outcomes, nearly 70% of respondents would prefer to leave the tax system out of it.

Depending on the outcome of the election, there may be hope of respite for businesses. Parties at the right end of the political spectrum have already suggested repealing some tax rules and have a greater focus on removing red tape rather than stifling businesses with it. However, the ability to repeal complex tax rules that are currently bringing in tax revenue may ultimately come down to fiscal responsibility, and there may need to be a phased approach to repealing some rules, particularly if the opening of the Government books with the Pre-election Economic and Fiscal Update on 12 September 2023 reveals there is little room for changes in total tax collections.

Should GST be removed from food (or fruit and vegetables) to alleviate cost-of-living pressures and encourage healthy choices?

Although the idea has voter appeal, it is a poorly targeted mechanism for achieving distributional and social policy goals. It may save lower-income households $14.58-$27.39 per week, but at a cost that could fund a weekly transfer of $28.85 to every household (2018 Tax Working Group).

New Zealand's simple, comprehensive GST system is internationally admired and key to our 'broad-based, low-rate' approach to tax. Introducing a GST exemption for food could lead us down the slippery slope to complex, arbitrary boundaries that increase compliance and administrative costs and erode the tax base (UK, Australia, Canada are examples).

In a nutshell, it is a bad idea, especially when the government's revenue position is already worse than forecast. If the regressivity of GST is viewed as problematic, increasing transfers to lower-income households or the progressivity of income tax may be better solutions.

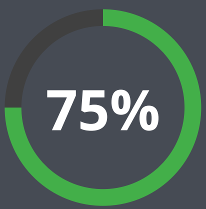
Vivian Cheng
Partner, Chapman Tripp

Businesses desire stability on tax

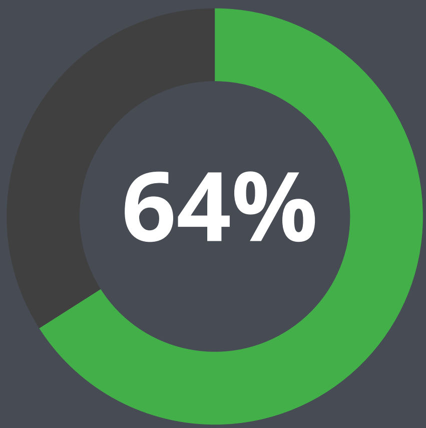
the majority of respondents want tax rates to **stay the same**:

Personal tax rates

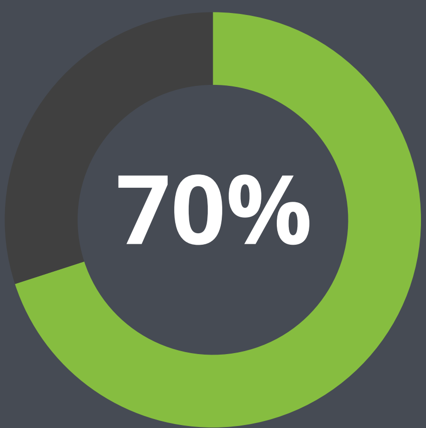
Corporate tax rates



GST



of businesses experienced an **increase in tax compliance costs** over the last three years



of respondents **don't believe the tax system** should be used to deliver wider social outcomes

Infrastructure

Infrastructure resilience – the new imperative

Mark Reese
Partner, Chapman Tripp

The failure of essential infrastructure in the weather disasters New Zealand has sustained in the last 18 months has put resilience firmly on the agenda for next term – regardless of the election outcome. Finance Minister Grant Robertson, announcing the creation of the National Resilience Plan with an "initial" budget allocation of $6 billion, said it was "unacceptable that basic lifeline services like telecommunications, power and transport links were knocked out for so long" after Cyclone Gabrielle.

The Government already has tools to monitor the emergency and risk preparedness of vital infrastructure providers, including the ability under the Climate Change Response Act to request that "reporting organisations" provide information on how they are adapting to the risks and opportunities arising from climate change.

The proposed National Planning Framework provided for in the Natural and Built Environment Act would provide another tool, although that may never eventuate given National's pledge to repeal the legislation "by Christmas". But the Government has two other initiatives underway, which we expect would survive (in some form) a change of administration:

- The *Strengthening the resilience of Aotearoa New Zealand's critical infrastructure system* discussion paper released in June by the Department of Prime Minister and Cabinet (DPMC), and
- The Emergency Management Bill (the Bill), with submissions due by 3 November (well clear of the election).

The DPMC consultation clearly draws on Australia's Security of Critical Infrastructure Act 2018 and, like it, would extend the emergency system's coverage beyond natural hazards to cyberattacks, espionage and terrorism and beyond traditional infrastructure to digital services, food and grocery providers and the financial sector.

The Bill would replace the Civil Defence Emergency Management Act 2002, which lists the lifeline utilities within its scope and is somewhat vague in terms of the expectations it has of them. The new approach under the Bill allows the Minister, subject to certain criteria, to recognise a "critical infrastructure" entity or sector by notice in the Gazette and would place detailed obligations on those entities, including:

- Reviewing and updating three yearly plans for functioning during and after an emergency,
- Proactively sharing information before, during and after emergencies with key government agencies and Emergency Management Committees,
- Establishing, reviewing and publishing "planning emergency levels of service" in respect of their critical infrastructure, and
- Reporting annually to the Director of Emergency Management regarding compliance with the legislation.

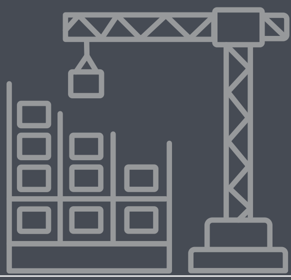
The DPMC review notes that a weakness of the current regime is that primary responsibility for determining the appropriate level of resilience sits with the infrastructure owners and operators and that their decisions are typically informed by pressure from consumers and their ostensible competitors to provide a minimum level of reliable service.

This captures the dilemma outlined by Professor of Construction Management Suzanne Wilkinson in a commentary for The Conversation: to be resilient, infrastructure must have both robustness and redundancy. Robustness means being able to withstand hazard events without significant damage. Redundancy means spare capacity (and runs directly against the just-in-time ethos that has dominated managerial culture since the 1970s). Both carry costs that will be passed on to customers who, while they would derive the benefit of greater reliability of service in a crisis, would not experience any improvement in day-to-day services.

Resilience building can be unattractive as a commercial proposition, particularly so in this case as the upward pricing pressure would land atop of a range of existing pressures arising from:

- Deferred investment creating a bow-wave of replacement and renewal capex (e.g., water),
- Inflation - both generally in the economy, and specifically in the construction sector due to tightening supply conditions and loss of capacity to emigration and insolvencies,
- Elevated interest rates (likely to remain for a considerable period), and
- The adaptation and climate-related expenditure (e.g., electrification) that we already knew was needed.

The comfort for potentially affected businesses is that the Government has indicated that it expects the concerns around the cost impacts of the Bill to be addressed by the select committee and that DPMC has said that, in designing options for reform, the Government will seek to lift resilience at the least cost through focussing, at least initially, on "lifting the floor" of critical infrastructure resilience and timing the introduction of any new regulatory requirements to align with investment plans, to the extent possible.



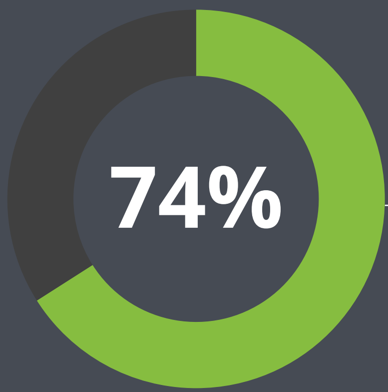
The Government's consultation on critical infrastructure resilience is a timely development given recent regulatory reforms in Australia and significant change in the operating environment. New Zealand's critical infrastructure has always been vulnerable to natural hazards but recent years have seen significant disruption from the pandemic and cyber vulnerabilities, particularly in an increasingly tense international geopolitical environment.

This 'new normal' should give policy makers, directors, executives, and asset managers, pause for thought. Have system settings or organisational practices evolved to meet the challenges of today?

Leading practice internationally is for critical infrastructure organisations to assess and uplift resilience through an "asset based, all hazards" lens. This approach recognises that assets are the foundation of the provision of critical services, and that the hazards impacting on asset resilience can emerge from the natural world, supply chains, personnel and cyber. These hazards need to be understood and assessed on a holistic basis.

The Australian Government has recently followed suit and mandated an "asset based, all hazards" approach. This represents a marked departure from familiar enterprise risk frameworks. Elements of this thinking are apparent in our government's latest consultation document. Critical infrastructure entities should therefore be looking to understand this framework and its associated implications at both an entity and sector level.

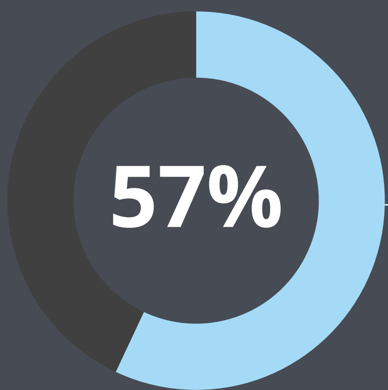
John Marker
Partner, Deloitte



of businesses believe the Government **did not** have the **balance of infrastructure spending right**

Businesses agreed that **transport** – roads, rail and ports – has the most potential to **elevate New Zealand's future economic prosperity:**

Transport	Energy	Telecoms	Water
4.44/5	3.88/5	3.77/5	3.31/5



of respondents believe that there should be **increased "user pays" charges** to help fund infrastructure build

Sustainability and climate change

Commercially credible policy needed on climate change

Jane Fraser-Jones
Partner, Deloitte

Louise Aitken
Director, Deloitte

Farmers turned out in force for this year's Election Survey, with nearly half the respondents coming from agriculture, forestry, and fishing. This underscores two factors: the primary sector is hugely important to our economy, and it's also feeling considerable pressure on a range of fronts, including labour force availability, regulation, the cost of inputs and the need to act on climate mitigation and adaptation.

Ahead of Election 2020, the primary sector was lauded for its continued production and contribution to economic stability in a time of great uncertainty. Three years on, and the sector, like the rest of New Zealand, will be hoping that COVID-19 is well behind us. However, farmers have borne the brunt of both flooding and drought events and are now feeling the burden of increased regulation in a post-COVID economy. Representing 50% of New Zealand's emissions, our agricultural sector is critical to not only our economic success, but also to our ability to transition to a low-carbon, productive and innovative future.

Considering factors like the COVID-19 recovery and weather events, just under 6% of respondents felt the Government had an action plan focused on lifting the country's economic performance, and over 90% felt the Government's policies had increased the cost of doing business over the past three years.

The impact of climate change mitigation and adaptation tells an interesting story. Consistent with other research and analysis we've conducted, survey respondents are keen to see clear and consistent policy direction issued, which would then give them confidence to invest. Respondents have said they'd like to see the Government define sustainable and acceptable practices, to help businesses to achieve net-zero targets without regulating the "how".

With over half of respondents believing New Zealand needs to increase its investment in our ability to adapt to climate change, they're also keen to see transition assistance, through the provision of the resources and support to achieve those goals. One suggestion made was accelerated depreciation on sustainable investment, which would incentivise businesses to adopt environmentally friendly measures to reduce their carbon footprint.

Across the board, survey respondents were feeling the cost of climate policies, with nearly 60% saying climate change was affecting the costs of inputs, significantly up from 26% in 2020, and the future cost of energy is also a concern for over three quarters of businesses surveyed. Correspondingly, over 40% of respondents in 2020 felt climate change wasn't impacting their business but that has dwindled to just 11.9% this year.

However, the impact of climate-related policies doesn't appear commensurate with what respondents thought was needed to achieve sustained economic growth, coming last at 5.8%, behind improving the economic environment (43.2%), and skills and human capital (23%)

This last point is interesting, as it represents a significant increase on the 7.5% who rated it as an important issue in 2020. A host of topics in this area were deemed important by respondents, including aligning immigration settings with demand, and improving compulsory education by reviewing literacy and numeracy attainment, school attendance and the curriculum overall.

It's an equally salient point that businesses feel people are massively important to their workforces. Similar to the 2020 and 2017 surveys, around half of respondents felt technology would have a significant impact on the size and composition of their workforce.

For all political parties, the issues raised by respondents show there are some big hills to climb to gain trust and confidence. They need to reassure businesses, and those in the primary sector, that their contribution is valued, their concerns are real, and their willingness to support and grow the economy in encouraged rather than impeded.

The cross-party support for the Zero Carbon Act may be holding together (just) but there is no consensus on how to reach New Zealand's net zero 2050 target.

All parties agree the Emissions Trading Scheme (ETS) is a key tool but National and Labour are likely to differ on the details of its operation – even outside the fraught issue of agricultural emissions.

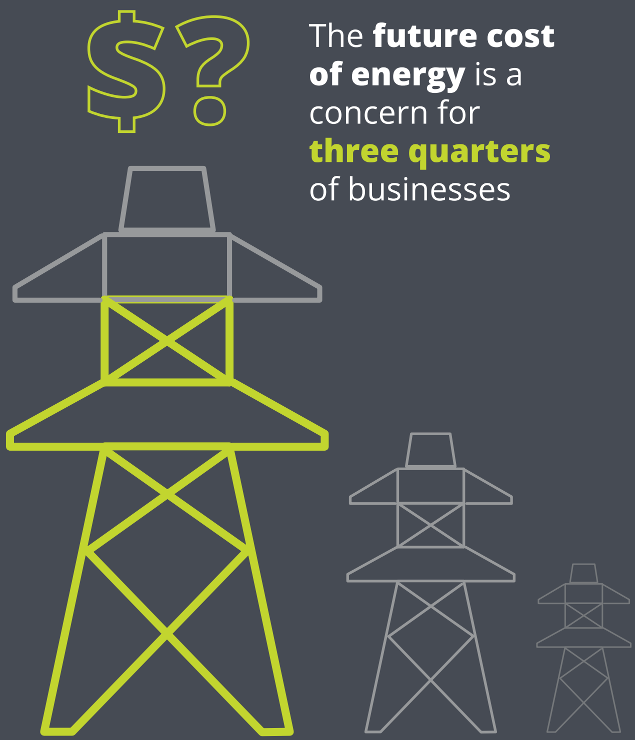
Following a crash in the carbon price, the Government launched a consultation in June on the possibility of a fundamental ETS overhaul. A Labour-Greens coalition would likely progress this proposal, making exotic forestry offsets less attractive to promote gross emissions reductions.

National has said only that it would "work to ensure the ETS is credible and effective", indicating a centre-right Government would leave the ETS largely as is.

The election outcome could therefore have major implications for green investments - not only in carbon forests, but also in emissions mitigation. Uncertainty creates price volatility whereas decarbonisation business cases rely on a steady carbon price.

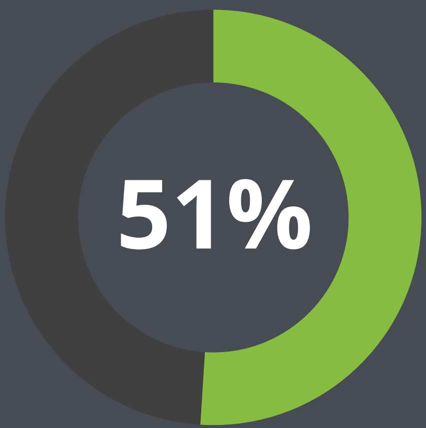
The next Government must clarify the future of the ETS as a matter of priority so that businesses can plan and invest with confidence and policy certainty.

Alana Lampitt
Partner, Chapman Tripp



The **future cost of energy** is a concern for **three quarters** of businesses

of businesses said that **climate change** was affecting the **cost of inputs**, **significantly up** from **26%** in 2020



believe that New Zealand needs to **increase its investment in adaption to climate change**

Employment skills and human capital

Big changes ahead for the workplace

Marie Wisker
Partner, Chapman Tripp

Labour came into government in 2017 with a substantial workplace reform agenda but unless it wins a third term may leave having achieved very little of lasting value.

The jewel in the Crown is the Fair Pay Agreements (FPAs) reform, achieved after Labour was unshackled from New Zealand First and able to govern in its own right. Except that it didn't manage to get the Bill passed until 1 November 2022, meaning that it is extremely unlikely that any FPA will be completed before the country goes to the polls on 14 October.

As at the end of July, five applications had been approved for collective bargaining - bus drivers, hospitality workers, security officers and guards, early childhood education workers, and commercial cleaners. But the process of setting up bargaining teams is complex and can take up to three months.

Had Labour put more urgency into getting the legislation through or were it to win three more years and FPAs became more widely established, a National-led Government would still scrap the Act but might have to provide for a transition. As it is, a simple repeal will be enough if National takes the Treasury benches in October.

Two other important Labour workstreams have been put on pause as Chris Hipkins' policy bonfire:

- the income insurance scheme, and
- changing the definition of "employee" in the Employment Relations Act (ERA) to better distinguish employees from contractors.

This puts Labour in the awkward position, should it lose the election, of having achieved more enduring change for its worker and union base while in coalition with New Zealand First than during its historic super-majority – although a change of government would almost certainly see some of the 2018 amendments to the ERA, unwound.

Labour wanted to remove the 90-day trial entirely but was forced by New Zealand First to allow the policy's continuance for employers with fewer than 20 employees. A National-Act Government could restore the right to all businesses regardless of size.

Other parts of the Labour legacy will, however, survive even if in attenuated form. The Equal Pay Amendment Act 2020, which opens the door to claims of systemic sex-based pay undervaluation in female dominated occupations, won unanimous support in Parliament and has been relatively uncontroversial in practice (possibly because all of the claims taken so far have been in the public sector). We expect some progress to be maintained under a National-led Government.

Similarly, the reform of the Holidays Act will probably continue as the need for a fix is widely acknowledged and the taskforce recommendations have been largely agreed by business and union representatives. The Government's explanation for the slow progress is that it is a significant and complex exercise and it is important to to get the changes right.

Labour has required that everyone employed in the core public service be paid the living wage and that it be extended progressively to contractors in the catering, cleaning and security sectors as contracts are signed and renewed after 1 December 2021. Many private sector employers have also taken it up voluntarily, but this may slacken off if the gap between the statutory minimum wage and the living wage widens. It rose from 95c an hour to $3.30 in September after the hourly living wage was increased to $26. Act is opposed to any minimum wage increases "for the time being" and National has only committed to "incremental increases". So there will be further movement but expect it to be slower and, potentially, more erratic under a National-led administration.

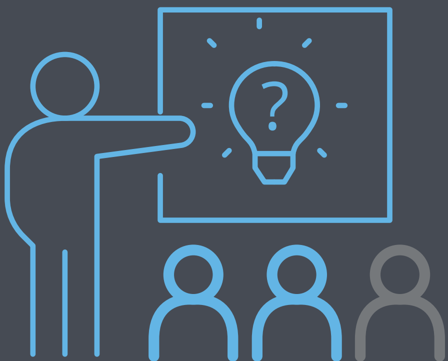
The fate of Future of Work is harder to predict. It is a tripartite forum which has been meeting regularly for five years now and is backed by a significant amount of departmental resource. Although it is strongly identified with Finance Minister Grant Robertson, it may be saved by the fact that it has been tasked with a relatively apolitical agenda – to examine the risks and opportunities for New Zealand from the four "global megatrends" of technological change, demographic change, globalisation and climate change.

While this year's election raises choice for voters in how the New Zealand workforce grows and evolves from a policy perspective, the largest shifts in the labour market are occurring regardless of the political landscape. Millennials, who drove many of the societal shifts that also impacted employers (think Me Too, the rise of the Gig Economy and side hustles) are reaching early middle age, and Gen Z are already showing significant disruption in the workplace – not all of it negative.

Policy around 90-day trials and the Holiday's Act tweaks pale in comparison to the tsunami of shifts that employers are trying to navigate around hybrid work, quiet quitting, and generative AI all while trying to attract and retain a workforce in a still-tight labour market. Deloitte's latest Human Capital Trends Report shows organisations that commit to a clear purpose or mission see notable benefits including greater employee retention and well-being.

Indeed, there is a role for government in helping businesses adapt to this future. It is much easier for businesses to navigate these massive shifts in a strong economy, however more than 85% of respondents to the Deloitte and Chapman Tripp Election Survey felt that this Government does not have a coordinated plan of action to raise New Zealand's economic performance. So, in the words of political strategist James Carville, "It's the economy, stupid."

Lauren Foster
Partner, Deloitte



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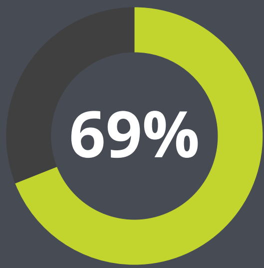
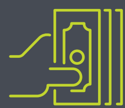
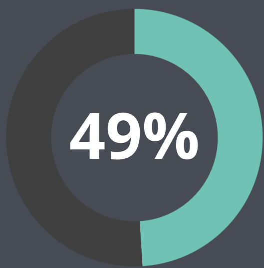
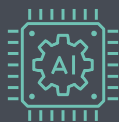
of businesses believed compulsory education is **not setting up young people with the skills they need** to succeed in the future



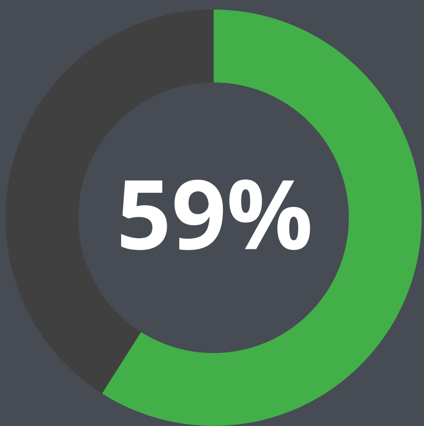


of businesses are **prepared to pay the living wage** as a minimum in their business





of businesses **do not believe there will be significant impacts** on the size and composition of their workforce **as a result of emerging technology**



of businesses **lack confidence** in **getting the skills needed** under current immigration settings