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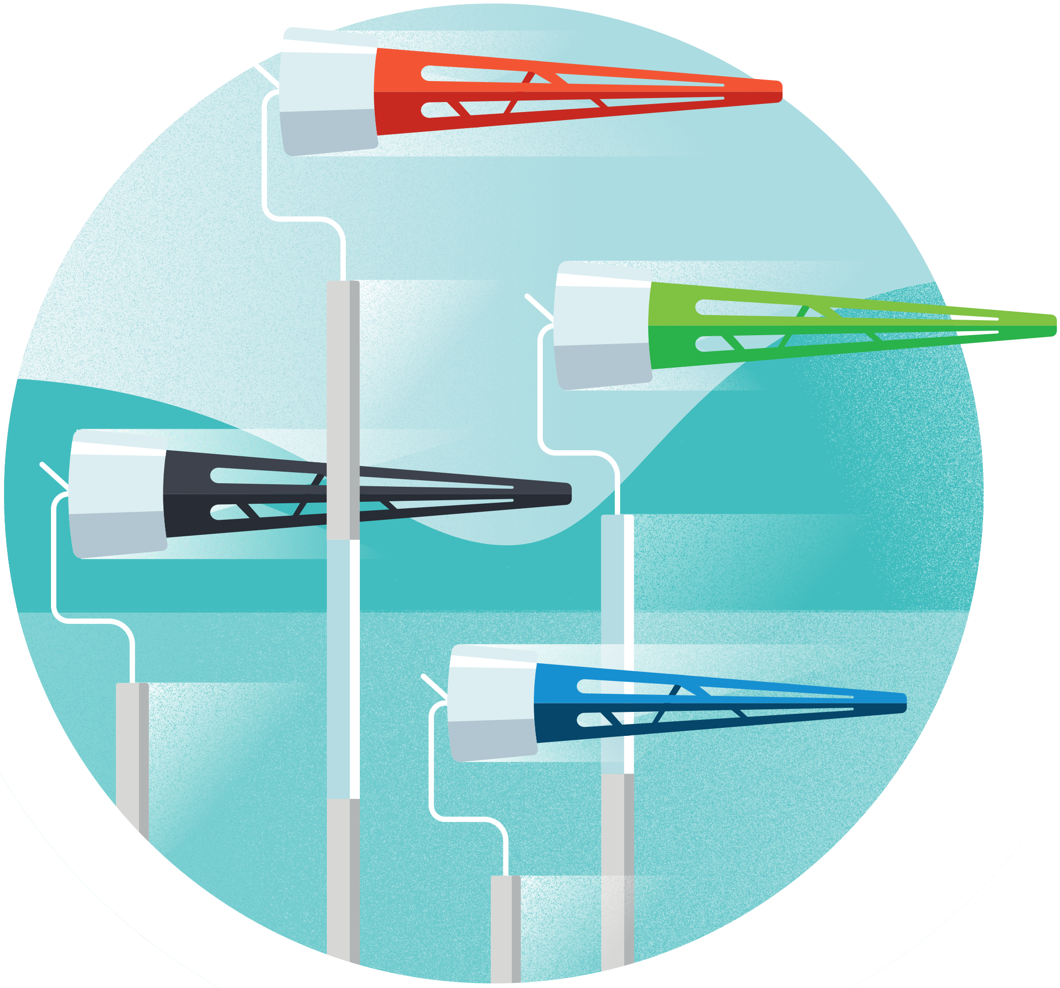

Gauging the winds of change

The Deloitte and Chapman Tripp Election Survey, hosted by BusinessNZ

Our perspective

2020

MAKING AN IMPACT THAT MATTERS since 1845

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The Deloitte and Chapman Tripp Election Survey,

hosted by BusinessNZ

Leading in difficult times
Deloitte

Three questions bring clarity to any situation: where have we come from, where are we now, and where are we going?

General elections pose those questions to the national consciousness. With the current context being one of heightened stress and uncertainty, the importance of reflecting and coming to a personal and collective conclusion is heightened.

Where have we come from

The current context couldn't be more different than 2017. That election followed lengthy periods of political stability with the Key and Clark Governments; both held successive tenures of three terms and faced challenges including earthquakes, financial crises and global conflicts.

Immediately prior to the 2017 election we had achieved a period of economic stability but less so social. Questions around inequality, the environment, housing and social services framed the context of that election, which through MMP resulted in the incumbent Ardern led coalition Government.

As part of looking to address these wider issues, the coalition Government broadened the budget narrative and the definition of wellbeing to include natural, human and social capital alongside the original metric: economic.

Almost immediately thereafter, in a somewhat surreal manner, at least three unexpected and unrelated events challenged the Government: the terror attack in Christchurch, the Whakaari/White Island tragedy and of course, the current COVID-19 global pandemic.

Where are we now?

Of the three events, COVID-19 defines, today's context with the nation currently engaging in the election of the most appropriate leader for this next stage in our journey.

The Deloitte and Chapman Tripp Election survey, hosted by BusinessNZ puts a spotlight on our context and defines the likely areas of interest to New Zealand business leaders.

As is often the case, survey respondents are hard markers.

Not unusual in these contexts, businesses are looking for a strategy, with only 19% of respondents believing that the current Government has a coordinated plan for raising New Zealand's economic performance post COVID-19.

Again, not unusual, four out of five respondents (79%) thought the Government needed to do more regarding the perennial issue of reducing regulatory burdens on business, as part of the ongoing post COVID-19 recovery. And again, predictably, of the Government's current four wellbeings, economic wellbeing (86%) was the highest priority.

Now comes the degree of difficulty for parties looking to activate an economic recovery; survey respondents are not supportive of higher taxes forming part of the COVID-19 recovery plan.

Of those surveyed, 91% do not want to see any increase in personal tax rates. Likewise, 88% do not want any increase in the company tax rate. Nor is there an appetite among respondents for any additional taxes or levies targeted at those that have claimed the wage subsidy (77%).

The projected increase in Government debt levels from 19% to 53% of GDP by 2023, is also not finding favour, with 60% of respondents concerned and not comfortable. And, the Provincial Growth Fund is not viewed as an effective spend by over two-thirds of businesses (67%) – only 10% thought it has been useful.

By contrast, the Wage Subsidy Scheme and Essential Workers Leave Support Scheme were considered the top Government COVID-19 led initiatives (78%), followed by the small business cashflow scheme (55%). Third was fast tracking the Resource Management Act consents for shovel-ready projects (41%). A large sway of respondents (43%) also thought the Government was spending about the right amount in terms of business support due to COVID-19, but over a quarter (26%) thought they were spending too much. And of course, totally unsurprisingly and accentuating the positive, 71% thought the current Government had done an excellent job of handling the COVID-19 outbreak.

Where are we going?

Where this leaves the political parties is somewhat interesting. The sense is that there is general support for "Where are we now?" and an understanding that we are dealing with something unanticipated. Businesses also expressed uncertainty as to "Where we are going?", and little acceptance for any change in the current tax settings.

Political aspirants will do well to consider how best to expand the economy; to not only increase the tax take and fund needed expenditure but also allow the Government to reduce its debt to GDP ratio.

An unenviable but not unexpected position. It's hard leading in difficult times.

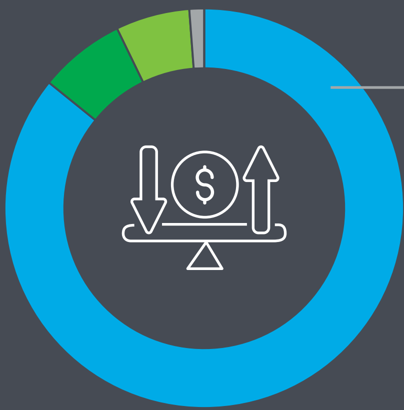
Thomas Pippos
Chief Executive, Deloitte

19%

of respondents believe that the **current Government**

has a coordinated plan

post COVID-19 **of raising New Zealand's economic performance**



86%

Economic wellbeing was seen as the **highest priority**

Social 7%

Environmental 6%

Cultural <1%

71%

thought the current Government had done a

good or excellent job

of handling the COVID-19 outbreak

Finding courage to set sail
Chapman Tripp

"Ki te pupuhi mai ngā hau wawara, kaue e whakatūria he whare kāuta noa iho, he pīruru rānei, hei whakamarumaru i a koe i aua hau. Engari me tārai waka hourua, kia taea e koe te hopu i aua hau."

"When the winds of change rage, don't build a shelter – build a waka and set sail"

Kua puta o tātou mata i ā tātou kainga i muri mai i te wā o te noho haumaru ki te kainga.

Ka raru tonutia te ao e te mate urutā e kīhia nei ko COVID-19.

E tika ana ki whakawhetai tātou ki te runga rawa, kahore a Aotearoa i tino patua e te mate urutā.

E tika ana ki tangi tātou mō ngā aitua, te hunga i hinga i taua mate.

E tika anō hoki kia mihi, kia whakanui tātou i te hunga, nā rātou i mahi kaha, kia ora tonu ai tā tātou noho ki Aotearoa nei.

The COVID-19 pandemic continues to create turmoil in global markets and has plunged the world economy into an increasingly deepening recession. New Zealand's successful management has so far allowed a return to relative normality compared to other OECD countries. But as a nation, we are not immune from the economic impact, with Treasury projecting sharp increases in unemployment and business failure. COVID-19 has changed so many aspects of the old normality but change delivers both disruption and opportunity.

With little sign of the pandemic easing in the short-term, and an uncertain prospect of a vaccine, our collective focus needs to be on enabling economic resilience for the long haul, while protecting our borders and remaining vigilant. We need to recover in a way that is fit for the future – shaping us for the new normal, not reshaping us back to the pre-COVID-19 world.

We need to learn from the benefits we have seen from the lockdown – being more environmentally friendly, having increased flexibility and the ability to work from home, being more digitised, and having a much more weightless economy. We must have the courage and leadership to set sail on our new and steady course, rather than seek the security of shelter.

The results of this survey show that amongst the business community there is appetite to embrace these challenging times as an opportunity, and usher in policy and legislative change to facilitate economic recovery.

Now is clearly the time for New Zealand to recognise the role of tikanga Māori in the legal and legislative system. This is a period of transformative recognition of tikanga Māori in the law, which is now more prevalent in legislation and increasingly being recognised by the courts as an integral part of decision-making.

This trend is only set to continue, with tikanga values such as kaitiakitanga (responsibility), whanaungatanga (relationships), manaakitanga (supporting people), taonga tuku iho mō ngā uri whakatipu (guardianship of resources for future generations) and tino rangatiratanga (self-determination) being increasingly woven into our constitutional framework.

It is important to engage with what tikanga Māori is, rather than referring to it as an abstract concept. Tikanga comes from the word 'tika', meaning the right or true way of doing things. The value of whanaungatanga, or the obligations one has to their kin and ancestors, generally underpins tikanga as a system, which is consistent with the way Māori society operated before, during and after Pakeha settlement.

Like the English common law, tikanga is largely rigid but responds to changes in society. It does not "dispense with certainty", but promotes certainty and universality in accepted norms and behaviour. The Courts and Parliament are increasingly considering the interaction between these two systems as an opportunity to create a legal system that is uniquely Aotearoa.

A deeper understanding of tikanga and the Treaty of Waitangi would benefit all New Zealanders. The Courts' consideration of tikanga and the Treaty of Waitangi is just one aspect of celebrating tikanga that is woven into the fabric of our society. As business leaders, it is encouraging to see that so many of you are already adopting tikanga in your own enterprises, and I encourage you to keep going. By doing so we create something unique to Aotearoa New Zealand – something that speaks of empathy, determination and understanding.

If we combine this with our recent history, we might say Treaty grievances and COVID-19 have cost New Zealand dearly. But addressing those grievances and long term elimination of the virus gives Aotearoa mana and new potential. We should use both – and use them wisely.

Nick Wells
Hoa Rangapū Whakarae
Chief Executive Partner, Chapman Tripp

Tax

A role for tax in the COVID-19 recovery?

Alex Mitchell
Partner, Deloitte

It seems that at this election, tax will not make dinner party conversation – unless you are in the top 2% of salary and wage earners.

Neither major party has made tax a central campaign issue. While the Labour Party has announced it would introduce a new top tax rate of 39% applying to salary and wage income earned over $180,000, they have otherwise shied away from tax and ruled out any further tax changes. The National Party has signalled there will be no increases or new taxes on its watch, but is yet to release its own policy. To date only the Green Party has released something resembling a full tax policy, having proposed both a wealth tax and an increase to the top personal tax rate, openly and early in the campaign.

The shock to the economy from COVID-19 and the path back to surplus is a major election issue that all parties are commenting on. How to balance the books is of course the challenge; given that the pandemic has required a significant increase in government spending, and a related upswing in government debt (forecast in Budget 2020 to rise from 19% of GDP in 2020 to 53.6% of GDP by 2023).

The part tax plays in the COVID-19 recovery is a legitimate debate, but not one that major parties seeking votes in the political centre are particularly keen to join – unsurprising, especially when evaluating the results from the survey. The fact that the Labour Party has strongly emphasised that its policy of a new 39% tax rate would only apply to 2% of wage earners is testament to this. However the actuality is, the additional $500m a year in revenue that it is expected to raise is not a panacea to the new debt reality.

Bring down debt – but don't touch tax

There is no question that debt levels are a concern. When business was asked if it was comfortable with the forecast levels of government debt, 60% said no. Yet, political parties seem reluctant to address these concerns with specific policies, which begs the question of how this conversation will play out in both the short and medium-term.

If the level of government spending to support business through the COVID-19 recovery is broadly acceptable (43% indicated it was about right), but debt levels are viewed as too high, that would suggest a preference for either reducing other government spending or broadly increasing taxes to get debt down faster. Neither of those conversations are likely to win votes on the campaign trail.

Predictably, tax increases are not popular. Two thirds of business respondents favoured keeping personal tax rates the same, and nearly 40% expressed a preference for the corporate tax rate to decrease (49% suggesting it should stay the same). Similarly, there was little interest in reconsidering a capital gains tax given the fiscal position has changed – with only 27% in favour of that.

The message to political parties is relatively clear – bring government debt back down, but don't touch the tax settings. While it seems that the majority of respondents would disagree with the Labour Party's changes to personal income tax, at the same time the survey results suggest that a lack of change to other areas of the tax system would be welcomed.

The path back to surplus

In this context, what is the path back to surplus? Growing the economy while at the same time managing spending commitments is an excellent soundbite for voters, but the reality is never as straightforward.

If broader tax changes are not favoured, either to help stimulate the economy or simply as a revenue raising measure, then business and government will need to come to the table and discuss other ways to expand the economy. Without a solid policy platform and a plan, there is a risk that the debts created today will become a burden for the next generation to bear alone.

Should a capital gains tax (CGT) be back on the table?

In short yes, but not now.

Economy growth and managing spend are unlikely to fill the hole left by the COVID-19 spend-up, leaving a probable need for increased tax revenue. Survey respondents are clear that increasing personal and company tax rates are not favoured, so Labour's proposal to lift the top marginal tax rate to 39% is unlikely to be welcomed by respondents (and won't on its own raise the revenue needed). There are issues with both personal and company tax rate increases – international competitiveness with company rate increases; system integrity issues with an increasing gap between the top personal rate and rates applying to companies and trusts.

While the majority of respondents don't want a CGT either, other options to broaden an already broad base are worse. Wealth taxes, financial transactions tax and the like aren't attractive or workable and an increased GST rate will hit those who can't afford it hardest. That leaves a need to reconsider a CGT, notwithstanding its practical and political challenges.

But one thing is clear – now isn't the time to be introducing a new tax. Businesses should be focused on recovery, not side-tracked or constrained by new taxes negatively impacting business confidence.

Bevan Miles
Partner, Chapman Tripp

60%

of businesses are

not comfortable

with the forecast levels of government debt

43%

Indicated the level of government spending to support business through the COVID-19 recovery was **broadly acceptable**

2/3

of business respondents favoured **keeping personal tax rates the same**

39%

expressed a preference for the **corporate tax rate decreasing**

Infrastructure

Sugar rush for the economy

Paula Brosnahan
Partner, Chapman Tripp

Mark Reese
Partner, Chapman Tripp

The economic damage created by the COVID-19 pandemic has taken a blow torch to decades of fiscal prudence and debt reduction. In New Zealand and around the world, Governments and central banks are engaged in a massive fiscal easing.

The dramatic shift in mindset is demonstrated by comparing last year's budget and this year's. In Budget 2019, the Government moved from the traditional single-year capex vote to a multi-year capital allowance and allocated $14.8 billion over the next three years. This was regarded as significant at the time.

In Budget 2020, that same Government signed up to a $50 billion Response and Recovery Fund, and to a Treasury projection that net Crown debt will reach 53.6% of GDP by 2023.

Meanwhile, in the blue corner, National is campaigning on a $31 billion transport package.

Much of the debt burden will be borne by future generations, so it is important that the spending delivers long-term benefits, which is why infrastructure investment is key to the post-COVID-19 economic recovery.

Not only does it create well-paying jobs but it can also be productivity enhancing (ultrafast broadband), and can improve environmental outcomes (the proposed $4 billion renewable energy project recommended by the Interim Climate Change Committee).

These potential benefits are well-understood by business, as reflected in the survey finding almost 80% support the proposition that spending on infrastructure provides a useful mechanism to help the economy recover from economic shock. When asked what type of infrastructure has the most potential, transport came top, followed by telecommunications/broadband and then water.

But, while National and Labour are tossing around big numbers and big promises, their announcements are being greeted with a large measure of public cynicism. This is a legacy of the typically long gap between project announcement and project delivery, and of the turbulence which is often associated with infrastructure projects, for example, the coalition in-fighting which has stymied progress this term on Auckland Light Rail, and the ever-extending deadlines around Transmission Gully. This is reflected in the survey, where 43% said they were unsure as to whether the Government's current infrastructure spending plans will deliver long-lasting economic benefit to New Zealand (37% thought it will).

A lot of work has been done to address these issues, including the establishment of the Infrastructure Commission, the passage of the Infrastructure Financing and Funding Act, a range of initiatives to build capacity in the construction sector, and changes to the Resource Management Act – some completed, others still in prospect.

Although there are differences at the margins between Labour and National, for example the relative weightings given to cars vs. public transport options, there is also a significant level of agreement, which should provide some comfort to investors, construction companies and infrastructure providers.

Indeed, Labour needed National to get the latest RMA reforms over the line after the Greens refused support, and the Infrastructure Financing and Funding Act was passed unanimously.

We expect that these elements of consensus, plus the imperatives created by the COVID-generated economic recession, will drive continuing action across all of these fronts post-election – whether the new government is Labour or National led.

With the economy experiencing an acute downturn, infrastructure is set to provide an essential economic and social service as New Zealand rebuilds from the impact of the COVID-19 pandemic.

Infrastructure as an economic stimulus is not a new concept and has historically been used to help create jobs and drive economic growth; it improves the productivity of the nation by allowing goods and resources to move throughout the economy. While there is a strong case for spending on infrastructure, a view which is supported by businesses, it can be challenging to do so well. The lead times are lengthy.

It is critical that spending is well-targeted to boost economic recovery. Accelerating the delivery of projects already in progress or approved, and/or productivity-focused investments, is vital in securing not just a strong recovery, but ultimately, a thriving, resilient economy in the long-run. In this respect, survey respondents identified transport (roads, rail and ports) as having the highest potential to contribute to New Zealand's future economic prosperity; however, uncertainty exists as to whether the Government's current infrastructure plans, including shovel-ready projects, will actually deliver long-lasting economic benefit to the country. Careful planning is required if significant spending is to be brought forward, including assessment of the sector's capacity to meet this infrastructure demand in the current environment.

For New Zealand to capitalise on infrastructure investment and ensure potential benefits are realised, the Government needs to ensure it progresses an appropriate mix of projects coupled with robust monitoring of delivery and outcomes.

John Marker
Partner, Deloitte

80%

support the proposition that **spending on infrastructure** provides a useful mechanism to help the economy recover from **economic shock**

43%

were **unsure** if the Government's current infrastructure spending plans will deliver **long-lasting economic benefit** to New Zealand

Infrastructure with the most potential to contribute to New Zealand's business growth.

1 **Transport**

2 **Telecommunications/ broadband**

3 **Water**

Primary

How the primary sector can lead New Zealand's COVID-19 recovery

Jane Fraser-Jones
Partner, Deloitte

The COVID-19 lockdown brought a brutal clarity to New Zealand's economy and laid bare the importance of our primary sector. News stories throughout the lockdown showed selfless workers isolating together to ensure supermarkets were open, drivers making heroically long round-trips to ensure milk was delivered on time, and a resilient primary sector that kept producing.

With this election marking another milestone in our COVID-19 recovery, the question will now be how businesses across the country can replicate this resilience, and how the primary sector will adapt to and lead the country's COVID-19 recovery.

Customer expectations bringing change to sustainable business practices

We are seeing a shift in sustainable business practices across the board. Survey results suggest customer expectations are a driving force in this change. When asked why sustainability issues were important to their businesses, 65% of respondents voted for customer expectations, closely followed by reputation (60%). Interestingly, only 36% of businesses thought sustainability was an important factor to remain competitive.

The reputation aspect is interesting. Managing reputation risk is a slippery issue – in organisations, it's often everyone's and no-one's responsibility. Building brand and reputation resilience is more than a communications or risk issue. A holistic approach to brand and reputation management can differentiate an organisation and create competitive advantage; enabling leaders to better sense threats, seize opportunities and shape outcomes.

While businesses recognise that consumers demand sustainable business practices, only 21% of respondents said their business operations have actually been impacted by this demand, although over half (53%) of the businesses surveyed noted that while they have not been impacted to date, they expect to be in the future. When asked what impact climate change was having on their business, 42% said that it was having no impact; however, 26% said it was affecting the cost of inputs.

With the importance of the primary sector in no doubt, the question for political parties in this election is how to deliver policy that proactively encourages sustainable business practices in a way that elevates – rather than stifles – the contribution this sector makes to the country.

Water reform a key concern

Another key concern for the primary sector is water reform. Water placed third when businesses were asked to rank infrastructure types with the most potential to contribute to New Zealand's business growth. Transport was first, followed by telecommunications/broadband with energy (electricity and gas) ranked least important.

More than half of the businesses surveyed thought the Three Waters sector should be subject to greater commercial discipline and user charges. Reform in the sector will likely impact or disrupt local authorities' delivery, and potentially signal the most profound change in local government arrangements in a generation.

The price of leadership

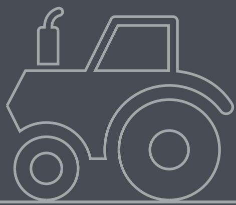
With the primary sector leading our COVID-19 recovery, political parties would do well to consider what policy settings will best enable success in the short and long-term. Balance will be key in forming these policies, with sustainability, commercial discipline and reputation all at play.

Almost 75% of respondents thought consumer demand for sustainable business practices was already affecting the way their business operates, or most likely will in the future.

Increasing disclosure requirements in the next two to three years will increase pressure from consumers, but also from investors, lenders and insurers, to address climate risk for the future prospects of the business – so much so that business focus on climate risk may well move ahead of government policy.

Key drivers pushing sustainability issues front and centre are customer expectations, reputation, and future-proofing. These align with litigation risk: businesses that fail to take action will suffer on social media and also in the courts.

Nicola Swan
Senior Associate, Chapman Tripp



1/2

of the businesses surveyed thought the **Three Waters sector** should be subject to greater

commercial discipline

and user charges

21%

say their business operations are currently impacted by **consumer demand for sustainability**

When asked to indicate the reasons sustainability issues are important to their business

65%

of respondents voted for **customer expectations**

60%

which was closely followed by **reputation** but only

36%

of businesses thought **sustainability** was an important factor to remain competitive

Skills and human capital

Employment is always a defining issue in New Zealand politics

Marie Wisker
Partner, Chapman Tripp

Employment issues are always key in an election and are primary sources of disagreement between Labour and National, and among the smaller parties according to where they sit on the political spectrum.

Continuing areas of political dispute are 90-day trial periods, the extent of collective bargaining, and the treatment of independent contractors. All three featured in the survey, with nearly three quarters (73%) showing a strong and consistent preference for the National Party's policies.

90-day trials

The Labour-led Government moved quickly after taking office in 2017, to restrict the use of 90-day trial periods to businesses employing fewer than 20 employees. Labour and the Greens would have scrapped the policy entirely but New Zealand First insisted that it should still be available to SMEs.

Those in favour of the 90-day period argue that it enables businesses to give more potential hires a go, which ties into the most important employment issue; access to skills and talent. Opponents worry that the flexibility to lay workers off will be abused.

In our experience, concerns about widespread abuse were not borne out when there was full availability but may become a greater risk in uncertain times. On the other hand, when unemployment is high and jobs are desperately needed, it seems counter-intuitive to put up obstacles to employment – and the law does provide protections to the worker beyond tenure.

Collective bargaining

The survey shows good support for collective bargaining at an enterprise level, with 53% of respondents agreeing that employment relations legislation should favour bargaining at the enterprise level, but very little support for collective bargaining at a national level (10%).

No one is going to restore the national award system, but Labour is committed to promoting a form of extra-enterprise collective bargaining through its Fair Pay Agreements (FPAs). These are also strongly supported by the Greens, who tried to have them legislated for under urgency during the lockdown.

Progress on this issue has been decidedly slow. The Bolger-led Fair Pay Working Group delivered its report in December 2018 and submissions on the discussion paper closed in November 2019, but we have yet to see any legislation.

This may reflect a lack of consensus within the coalition from more business-friendly NZ First. The Working Group was sharply divided over whether participation should be voluntary or compulsory, the trigger threshold for a negotiation, and whether employers should be able to opt out of the bargaining process and out of any resulting FPA at any time.

Contractors

The other key topic coming out of the survey is the strong support from business for the use of contractors and other flexible labour, with 68% saying that this was important to their business. Labour has, over the course of this term, introduced additional regulation to govern the use of temporary labour.

The Triangular Employment Amendment Act came into force at the end of June 2020. It permits employees who are employed by one employer but working under the control and direction of another business or organisation to enjoy the benefits of any applicable collective agreement, and to bring a personal grievance against that other business or organisation.

Labour also has plans to introduce minimum rights for 'dependent contractors' and to change the test of who is classed as a contractor.

Businesses need to reskill their workforce, but whether they have the capacity to do so, and whether the Government is doing enough to help, is up for debate.

Just over half (51%) of respondents signalled the Government isn't yet doing enough to support businesses with changing staffing needs, and access to skills and talent remains the most important employment issue for businesses at this time. This worry is consistent with findings from the 2020 Deloitte Global Human Capital Trends survey, which found that 74% of organisations identified reskilling the workforce as important to their business success in the next 12-18 months, but only 10% felt ready to address this gap.

Businesses are clear on the human capital issues they would like political parties to focus on, ranking incentives to take on apprentices or provide more training as the top solution; however, there appears to be uncertainty as to whether the Government's Reform of Vocational Education will result in an improved skills pipeline.

While accessing and developing talent is a significant issue for organisations, so too is terminating the employment of unsatisfactory team members, with over half of respondents saying they've faced difficulties in this area. As a result, nearly three quarters favour the Government bringing back the 90-day probationary period.

COVID-19 coupled with technology advances makes creating a workforce geared for future success challenging. Organisations are increasingly looking to the Government to help them along their skills journey, but more needs to be done to equip New Zealanders with the skills they need to succeed.

Sonia Breeze
Partner, Deloitte

73%

felt that reintroducing the **90-day trial period** would benefit their operations

53%

agree that employment relations legislation **should favour bargaining** at the enterprise level

51%

have signalled the Government isn't doing enough to support businesses with **changing staffing needs**

Access to skills and talent

remains the **most important employment issue** for businesses at this time