Thursday, October 7, 2021

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# Mood of the BOARDROOM

## 150+ CEOs share their views

### Comment & analysis

Fran O'Sullivan
Tim McCready
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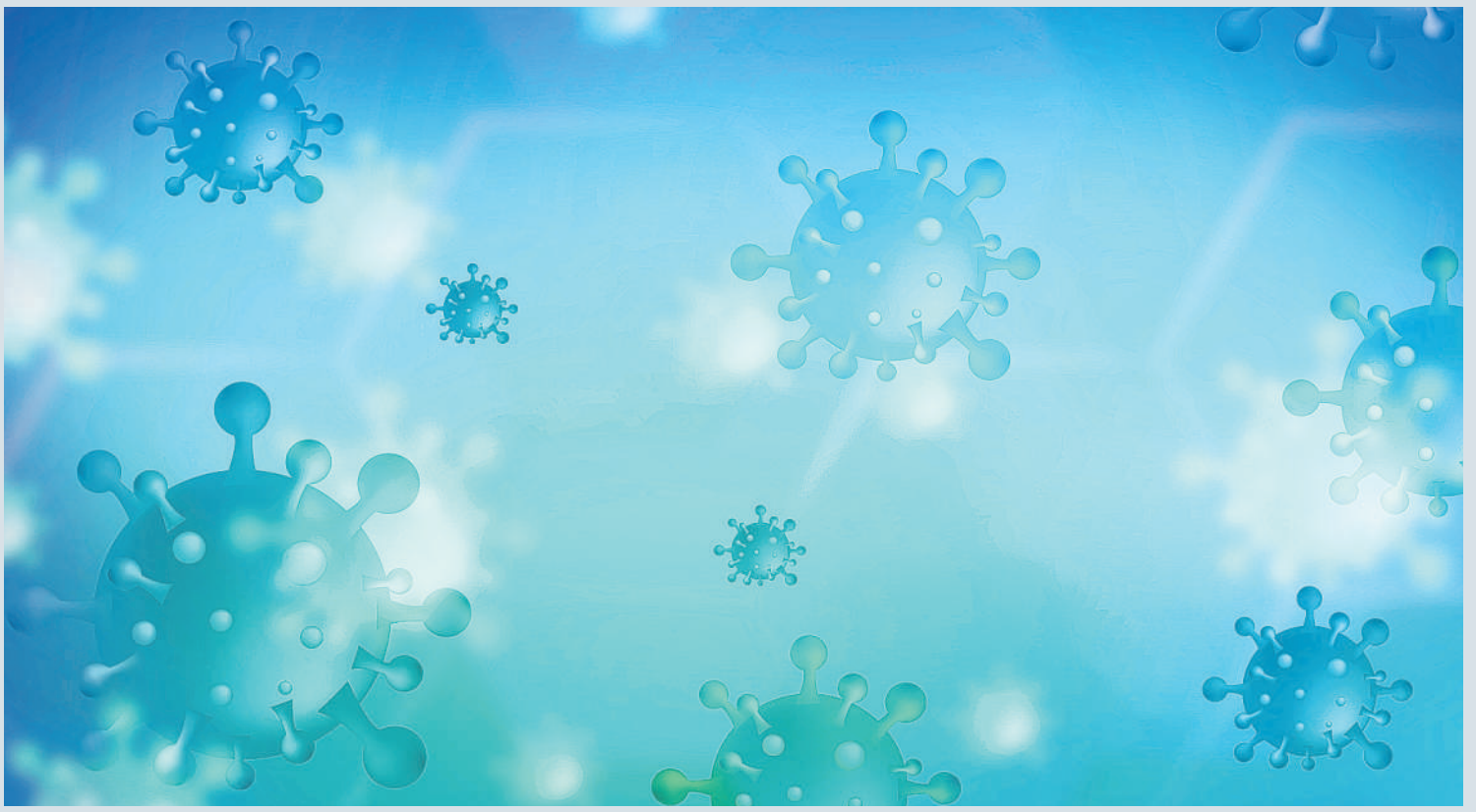
Duncan Bridgeman
Thomas Pippos
Bill Bennett
Liam Dann

Photo / Jason Oxenham

# *Coming out of* COVID

## MOOD OF THE BOARDROOM



# Tribute: Michael Cullen KNZM (1945-2021)

The late Sir Michael Cullen was blessed with a sharp intellect and quick wit overlaid with his occasional trademark sarcasm.

At the *Herald*'s 2005 Mood of the Boardroom election breakfast, Cullen painstakingly laid out the strategies he had employed over six years to underpin economic growth as he teased then-opponent Sir John Key on the merits of a $3.9 billion National tax cuts package.

Said Cullen: "I appreciate alongside John's simple and elegant Ferrari of a tax cut Labour's strategy looks rather like a plain Honda Accord, but it's the Accord that's got us to where we are.

"The Ferrari looks good . . . but it guzzles gas, requires borrowing well beyond our capacity to sustain and, of course, worst of all from the Government's perspective, it can't fit in all the family."

Cullen asked the assembled chief executives to ponder what was better for New Zealand — a Honda Accord costing $35,000-$40,000 with "well-proven reliability" or a $500,000 Ferrari which would "spend most of its time getting fixed up as it comes to pieces".

Key quickly retorted, "I've gone off Ferraris because they look best in red".

Behind the political repartee there was a serious point. Cullen had got public debt down and wanted to keep a tight hold on the Government's purse strings.

**Minister of Finance Dr Michael Cullen addresses the Mood of the Boardroom breakfast in 2008.**

It was his second Mood breakfast.

In 2004, he had squared off with Don Brash who was then National's shadow finance minister. Brash was a former Governor of the Reserve Bank who also knew his stuff.

The boardroom was never really Cullen's milieu. But they applauded him that year, for negotiating with Australia to form a single economic market (SEM) with New Zealand.

By 2006, Key was National's leader and Sir Bill English shadow finance minister. The final election debate between Cullen and English took place in 2008 in the midst of the Global Financial Crisis.

As the *Herald* reported, the two men vying to be Finance Minister through looming hard times, confronted each other at breakfast but neither really emerged a clear winner in one of their last campaign battles.

Cullen and English both strongly defended their policy plans. Cullen had a parting shot to make.

"This is no time for the financial top end of town to be giving one-sided lectures to governments around the world . . . at a time when the Gordon Gekkos of the world are being propped up and often taken over by the Gordon Browns of the world."

It was no surprise Key called Cullen up to his office to sound him out for jobs after Labour's defeat. Beneath the politicking, National had deep respect for his abilities.

In a tribute after his death, now-Finance Minister Grant Robertson said Cullen had made an enormous contribution to "long-term economic prosperity and stability".

"As architect of KiwiSaver, the Super Fund and Working For Families he has left behind an economically more secure country.

His contribution to Mood of the Boardroom over the years was deeply appreciated. He leaves a vacuum in our national conversation.

**So, to 2021**

The *Herald*'s Mood of the Boardroom 2021 CEOs Survey attracted participation from 151 respondents. This year, 130 chief executives and 21 senior directors or chairs took part.

The survey went out to CEOs just prior to the August 17, level 4 lockdown.

The survey stayed in market for six weeks to capture the views of as many chief executives as possible given the challenges they faced operating businesses under Covid.

The *Herald* survey is conducted in association with BusinessNZ.

BusinessNZ also put 15 questions from the survey to its SME membership. The results are on B34-35 of this report.

The *Herald* hopes to host the Mood of the Boardroom debate between Robertson and his National opponent Andrew Bayly later this year.

Finally a huge thank you to everyone who took part, including also the *Herald* Reports team, which has with great goodwill produced the 2021 report.

*Fran O'Sullivan*
*Executive Editor*
*Mood of the Boardroom*

# Inside Mood of the Boardroom 2021



## Mood of the Boardroom presentation

**Grant Robertson**

**Shayne Currie**

Mood of the Boardroom will be presented online from 7.30am this morning in a *Herald* event hosted by NZME Managing Editor Shayne Currie. Fran O'Sullivan will present key findings from this year's CEOs survey and summarise "the mood" among chief executives and senior directors as they look forward to "Coming out of Covid."

Finance Minister Grant Robertson will then be interviewed by Currie on the results. *Herald* Business Editor-at-large Liam Dann will seek business reaction to Robertson's comments.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MOOD OF THE BOARDROOM

# Open for business, please

**Mood of the Boardroom**
**Fran O'Sullivan**

BusinessNZ chief executive Kirk Hope says it's critical that an international signal is sent that New Zealand will be, or is, open for business.

New Zealand was ahead of the play in the early stages of the Covid-19 pandemic.

But as other nations have opened up their borders as their populations became vaccinated against the coronavirus, New Zealand continues to exert tough controls to keep the coronavirus out.

This has impacted the way Kiwi firms do business.

New Zealand is not a hermit kingdom. But there is evidence that international business is being lost due to border difficulties.

Unlike New South Wales, which has posted a clear plan for reopening, New Zealand has yet to provide clarity.

This year's Mood of the Boardroom survey has a strong focus on what business wants as New Zealand prepares to come out of Covid.

This focus may seem counter-intuitive given the Delta outbreak had been wafting about Auckland for seven weeks when this report went to press.

But the Ardern Government is preparing for the time when it can ease back on its elimination strategy as vaccination numbers strengthen.

Many chief executives canvassed in the 2021 survey want more tools to keep their people safe from the virus:

- Mandates to require staff to be vaccinated;
- Antigen and saliva testing;
- Quarantine-free or self-isolation at home after business trips across the border.

A majority also want a clear vaccination target to be set for that to occur.

All this is happening elsewhere and there is widespread frustration at a "Wellington knows best" attitude which excludes some from making a useful contribution.

A coterie of chief executives has been privately assisting the Ardern Government with its response to the pandemic.

"To date on balance, the strategy has served us relatively well," says businessman Rob Fyfe. "But we now need a step-change in execution ability if we are not to slip behind the rest of the world heading in to 2022.

"We need to be flexing our border settings to reflect individual traveller risk. We need to be using isolation at home and we should have been introducing alternate testing regimes nine months ago — such as saliva!

"We are not evolving our system nearly quickly enough.

"We don't need a firm date on reopening our border. There are too many uncertainties around how the virus will continue to evolve and how the New Zealand population will step up to the vaccine challenge.

"The first quarter next year — which really means February/March is precise enough for us."

Fyfe has been business adviser on the Covid-19 recovery since July 2020.

The *Herald* survey, taken in association with BusinessNZ, attracted 151 respondents, primarily from the "big end of town".

Many of the NZX Top 50 listed companies were contributors, along with chief executives from virtually all major trading banks, key dairy sector players, a raft of professional advisory firms and several well-placed directors.

Crucially, last year's big dip in business confidence has reversed.

Most chief executives and their firms have proven resilient in the face of the pandemic, although, the current level 3 lockdown in Auckland will bite hard on some companies. Some face major transformative change, particularly with climate change. Chief executives are also concerned about social damage in New Zealand. Growing inequality, the housing affordability scandal and inadequate education. All this amidst an explosion in gang violence and crime.

They want both the Government and business to face up to some responsibility here.

As in each year's survey, the *Herald* takes the political temperature.

The centralisation of power under this Government is a contentious issue.

When it comes to the personalities, both Prime Minister Jacinda Ardern and National's Judith Collins have been found wanting in some areas.

The business community want to play a role in driving our future. And an open-minded Government or Opposition should entertain that.

Said The Warehouse chair Joan Withers: "Will there be a truly post-Covid world? The residual effects of this pandemic will last a long time. People's attitudes have changed. If we manage our way forward well, we will be seen as a great place to live."

> We now need a step-change in execution ability if we are not to slip behind the rest of the world heading in to 2022.
>
> Rob Fyfe, Business adviser on Covid Recovery.

The podium of truth: Prime Minister Jacinda Ardern and Director-General of Health Ashley Bloomfield front a Covid-19 press conference.

## The honeymoon is over

**Fran O'Sullivan**

Jacinda Ardern's Covid honeymoon has soured.

Just one year after she pulled off an historic victory by catapulting Labour to an outright win in the October 2020 election, Ardern's reign has hit some stumbling blocks.

Her Government's tardiness in getting sufficient New Zealanders vaccinated before the mid-August Delta outbreak, helped pave the way for a punishing Auckland lockdown.

CEOs in the 2021 *Herald* survey marked her performance as prime minister at 3.03/5 — well down on last year's rating of 3.91/5 — on a scale of 1-5, where 1 equals not impressive and 5 equals very impressive.

The PM's political performance was rated at 3.3/5 and her leadership of the Government's response to the Covid-19 crisis was put at 3.01/5.

There is no doubt this is Ardern's toughest year yet as prime minister.

She is mid-way through her second term as PM and will want to make headway with her Government's massive reform programme before the 2023 election, and address running sores like growing inequality.

"Ardern's economic agenda is politically impressive: centralising healthcare, water, polytechs, consenting processes under the Natural and Built Environments Act and aspects of the education system," said NZ Initiative chair Roger Partridge. "But it is far from clear that the reforms will create the system of incentives and accountability needed to improve social outcomes."

> Consultation with the business community has improved. It needs to continue and improve further.
>
> Don Braid, Mainfreight

CEOs were also sceptical, rating her leadership of transformative change at 2.08/5.

Her performances at the 1pm "podium of truth" where she and the Director-General of Health Ashley Bloomfield update the public on the latest Covid situation, are required viewing.

But she has critics: "Her most impressive attribute is the press conference," said a real estate chief executive. "Demonstrably excellent public relations and coms.

"But otherwise not much to show."

A logistic firm boss concurred: "Great in the crisis for Covid lockdowns. Very good and clear decisions. It's everything that hasn't happened since May '20 to be better prepared for Covid that is the disappointment."

Accordant's Simon Bennett said Ardern made good calls to eliminate Covid. "No question. This was a blunt tool though and is not the tool required for the future of NZ."

Said a banker: "She has allowed NZ to be an international laggard with regard to vaccination, which has had seriously adverse effects on those industries which depend on more open borders, such as tourism and international education, and has been captured by a separatist Maori agenda symbolised by the *He Puapua* report."

Ardern did not reinstate her Prime Minister's Business Advisory Council after the 2020 election.

She has instead turned to a smaller and less formal group for advice.

Beca Group CEO Greg Lowe said the prime minister is still cautious about utilising business. "Business has a lot of implementing capacity that the Government could utilise."

"Consultation with the business community has improved," said Mainfreight CEO Don Braid, who said in last year's survey that it was time for the Prime Minister to embrace the business community rather than relying on the bureaucrats for advice and execution.

continued on B4

> We are in the midst of a wartime economy: We cannot travel overseas and return easily, families are divided by cumbersome border restrictions. Migrant labour has not been allowed to assist our food producers, businesses cannot find labour. Small businesses are closing, supply chains are disrupted, and materials are in short supply. Meanwhile, long-term structural issues of poverty, inequality and housing affordability have deteriorated significantly. The Government's Covid response has "masked" our need for supply side economic reforms.... policy makers in Welly are "stuck" in a kindness echo chamber.
>
> Craig Stobo, Local Government Funding Agency (LGFA)

> In many cases it is not the strategic intent of policies that is the issue, it is their lack of transparency and stealth alongside poor execution that is the issue. It seems that here 'going hard' too soon is not the most effective execution of strategy across multiple sectors and will be counter-intuitive to objectives in many cases. You can't apply a Covid-type response to everything!
>
> Automotive CEO

MOOD OF THE BOARDROOM

# Top issues facing the nation: CEOs have their say

**Agribusiness CEO**

● Lack of detail and execution. It is very difficult to argue with the aspiration or the big picture, i.e. no homelessness. What is challenging is there is little articulation of the "how" it is going to be done. We need to get far clearer on the "how", "by who", "by when" and what resource is required and then have tracking, measurement and demonstration that it is being delivered.

● Solutions for infrastructure inadequacies. Having the people in place that make the right decisions. Stop half doing everything and begin whole doing what we really need to do. Make the people who use it, and benefit from it — pay for it or at least contribute towards. An example is the new tunnel to the airport — we all benefited from a fast, better ride to the airport — why on earth did it not have a cost? While New Zealanders have individual dwellings and workplaces in geographically dispersed locations and a population of five million people, public transport will never work. The economics cannot stack up. Check New York City's cost versus revenue of its public transport, where it moves more in a day than Auckland moves in a year. Recognise this and build better roads. Even when electric we still have cars.

● Seeking to solve a problem universally at huge cost rather than in a targeted way where we can make significant change where it really matters. An example is free university fees. A classic example of subsidising the rich who are probably the ones responding to this survey. Think how that money could have been spent more effectively if targeted to the areas of need.

**Independent director**

● Managing our response to Covid-19. The Government needs to delegate some aspects to business. Frankly, business is better at developing technology and logistical solutions than Government officials. We need smart technology and IT. The fact that people wait in queues for hours to get a Covid-19 test because the IT system the testers is using is old and constantly crashed (which seriously extended the time needed to get the test) is a disgrace. There are good IT systems out there. For goodness sake, outsource to business to solve. Get vaccine passports (electronic) under way — again outsource to business to develop. The Ministry of Health is hopeless. Their own IT systems are hopeless. Go over the top of them. Put a business leader with a track record of success in charge and develop the systems using external business resources. Open up more MIQ centres — there are plenty of unused hotels. Let vaccinated people self-isolate at home. Find ways to let Kiwis travel for business and personal reasons. We need to open up to the world once all Kiwis have had the opportunity to be vaccinated. Sorry if you elect not to be vaccinated — tough. The rest of us want to get in. Order more vaccines beyond Pfizer. Order booster jabs now.

● Opening NZ up to the world. We can't be a hermit kingdom. It certainly won't be much of a kingdom, hermit-like for sure.

● Making NZ an attractive place to work for younger generations. That means having an economy which provides opportunity including an opportunity to grow. Balancing contributing to reducing carbon emissions to reduce the negative impact of climate change with not stuffing our economy by following ideology over reality. Support investment in finding science-based solutions and give key sectors time to change once the science-based solutions are available. Build more Kiwibuild houses to support first home buyers and those on low wages. We need an economy that rewards hard work, provides opportunity and hope.

**Transport chief**

● A lack of ambition; a sense that mediocrity is acceptable; a levelling to drive towards an average.

● My sense is that the country lacks leadership and with it a believable and winnable strategy. Insular thinking, a lack of real talent at key levels means we are suboptimal in many activities we undertake. To change this requires a leadership team that is skilled, united and open. Then you need a team that are energised and capable of developing and then implementing the plan. I say this based not just on concerns with the Covid-19 plan, but on a wider basis — health; education; transport etc. All these areas are not close to full potential, and in many cases are suboptimal.

● Great talent will continue to leave unless we create the right environment for them to stay. Just trading on the fact New Zealand is a great country to live in will not suffice. It must also be an exciting and invigorating place to work, where curiosity is embraced and where success is applauded. We do not hold up business often as success stories and when we do, they are quickly shut down. That needs to and can change, if we want it to.

# Honeymoon is over: Leaders rate the PM

continued from B3

The bureaucratic fiefdoms that Braid railed against are still blocking business people like the PM's own business liaison Rob Fyfe from getting Covid-related change made.

Chief executives rated her ability to build confidence with business at a low 1.97/5.

"Unfortunately as Prime Minister she is not over the detail, other than Covid, that she should be," said a well-placed chair. "She dodges the tough questions and bullies the Press Gallery into asking "Dorothy Dixer" questions.

"She only turns up to radio shows that will ask inane questions of no substance and avoids the tough questions from the likes of Hosking, Du Plessis Allan and Radio New Zealand, because they show up her lack of command of detail."

Said an independent director: "Our issue is we have a good Prime Minister who could be a great PM if she had leadership experience or self-awareness that told her, you don't need to 'know it all' and you aren't right all of the time.

"Great leaders surround themselves with great people and listen to them and take their advice and acknowledge what they may not know and show vulnerability."

The director summed up: "The way she's going it will be a legacy of being a great frontperson who shows care in a crisis but who couldn't lead the country economically or socially out of the crisis it faces and doesn't understand how to prioritise change."


**Ardern chaired an Apec leaders "retreat" in July. CEOs in the Mood of the Boardroom survey rated her highly on this.**

In fact, Ardern's international celebrity has been an undoubted asset for NZ during a pandemic which has resulted in many political leaders conducting foreign relations by telephone or Zoom.

She has name recognition and leverages her personal brand for New Zealand's international advantage.

This has been recognised by CEOs in the 2021 Mood of the Boardroom.

Ardern will be thrust into the international limelight in mid-November when she hosts the Apec Leaders retreat which will be held virtually.

This is the premier regional meeting of political leaders for the Asia Pacific.

US President Joe Biden and Chinese President Xi Jinping headline an international cast of 20 Apec leaders at the retreat. In July, she pulled off a first — a special Apec forum to get some movement on Covid issues — of importance also to New Zealand.

On the whole CEOs rated Ardern much better on her conduct of international affairs than domestic matters.

● Represents New Zealand well in its host year of Apec
**— 4/5**

● Leverages her personal brand for NZ's international advantage
**— 3.9/5**

● Stands up for NZ's values and interests with respect to the US
**— 3.42/5**

● Stands up for NZ's values and interests with respect to China
**— 3.28/5**

● Leads New Zealand's response to climate change
**— 2.84/5**

● Administration of National Security and Intelligence portfolio
**— 2.45/5**

But a Prime Minister also has to run the Government.

"I think it is incredible how this Government has failed on everything (including their own priorities) across Covid, education, housing, poverty, infrastructure and she remains as popular as she does," said an investment banker.

"I can't believe that constantly saying 'I'm as disappointed as everyone' works as a response to ongoing non-progress across all these things. If only the National Party focused on real stuff and not peripheral rubbish like gangs and Māori."

"Without the platform that Covid has provided she and Labour would be polling appallingly," observed a real estate leader.

A utility boss concluded: "Fabulous politician. But doesn't have the bench strength to get things done, or to generate quality advice.

"And has ideological settings that appeal to an international media-led "woke" community, but will not create real advances for New Zealanders".

## Top international risks

CEOs rate the impact of the following international risks on business confidence in NZ:

| Out of 10 | |
|---|---|
| Shortage of available talent / skills | 8.41 |
| Further waves of Covid-19 internationally | 8.38 |
| Supply chain bottlenecks | 8.17 |
| Cyber attacks | 8.10 |
| Rising freight costs | 7.84 |
| More health pandemics | 7.68 |
| Political tension with China | 7.22 |
| Rising nationalism | 6.99 |
| Climate change imperative | 6.88 |
| Lack of international political leadership | 6.62 |
| Increasing protectionism | 6.62 |
| International trade environment | 6.49 |
| Unsustainable debt | 6.24 |
| Failure to implement structural reforms | 6.2 |
| Slowdown in world trade growth | 6.19 |
| Climate tariffs | 5.9 |
| Sharp fall in asset prices | 5.81 |
| Increasingly restrictive digital environment | 5.71 |
| Natural disasters | 5.68 |
| Energy security | 5.6 |
| Unfavourable currency realignments | 5.45 |
| Fluctuation of oil prices | 5.21 |
| Food security | 5.06 |

1 No concern — 10 Extremely concerned

Herald *Mood of the Boardroom* CEOs Survey 2021 / Herald graphic

# China and . . . 'We've been a long time on the road'

Kiwi companies appear to be adopting a "China and . . . " approach to our biggest trading partner — not diversifying trade away from China, but seeking to maintain their Chinese footprint and business links while also growing into other markets,

"It's pretty obvious to say you should diversify your risk to China but actually it's not that easy for some businesses," said an independent director. "We operate in markets globally that have various trade barriers — so it's not a case of simply supplying customers elsewhere. Building new markets takes time and the inability of key executives to travel to develop new markets with Covid has a negative impact on progress in developing relationships. China is a huge market, wants many NZ products and will pay for it. Those of us doing business there are not blind to the risks. Mitigating them is not so easy for the reasons explained.

"It is important that our politicians recognise the positive impact China has on the NZ economy and finds ways to communicate humanitarian concerns in private without the loudhailer. Loud-hailer politics will achieve nothing with China, exposes our economy and might simply be playing to local politics and media over what is in the national interest."

Dairy players report being well diversified in products, customers and markets is especially important now and has served New Zealand well during Covid-19 disruptions to date. Said an electronics firm boss: "We do not do business in China, but do source some components there. As part of risk management, we continually look at alternative supply options (not just in respect of China). It may pay at some point to ask a similar question about Taiwan, a place where many components come from and which is rising on the risk register.

A banker said it's bit late to talk about diversification. "NZ has been a long time on the road to China, it demonstrates a laughable level of naivety to now consider that road."

MOOD OF THE BOARDROOM

# A pathway full of potholes

Business leaders welcomed the Government's plan to reconnect NZ but there are flaws, reports **Fran O'Sullivan**

CEOs were upbeat when the Government finally unveiled *Reconnecting New Zealanders to the World*; a framework to guide Cabinet as it prepared to reopen the border in the first quarter of 2022.

A week later, business leaders were saying: Where is the detail? The targets and dates? This as New Zealand went into a level 4 lockdown to try and stamp out the spread of the Covid-19 Delta variant.

"Delta predictably caught an unvaccinated and smug New Zealand with its pants down", said an exporter.

"I suspect this policy will now be reviewed.

"Vaccine roll out too little too late."

Nearly two-thirds of the respondents to the Mood of the Boardroom survey were not satisfied with the plan.

In essence, it involved vaccinating as many New Zealanders as possible in the second half of 2021, conducting a self-isolation trial as a prior step to the phased resumption of quarantine travel and the reopening of the border in the first quarter of 2022.

NZ Initiative chairman Roger Partridge said the vaccination rollout has been too slow.

"Countries like Denmark with highly-vaccinated populations have recently announced an end to all Covid restrictions. Meanwhile, New Zealand is lagging far behind."

"The Government appears not to be prioritising booster shots, which the evidence suggests will be needed early next year," added his colleague Oliver Hartwich.

"Not nearly enough is being done on the building of domestic health security," added an aviation chief. "We need to build health system capacity, build deeper test surveillance options, need permanent MIQ, more ICUs.

"The border is our only defence if we haven't done this work — and they need to move much faster."

The Delta outbreak — which has resulted in Auckland being under either level 4 or 3 restrictions for more than seven weeks now — has put pressure on Government, businesses and citizens alike to get the vaccination tally up. Some businesses report that their initial moves to set up in-house vaccination programmes were stymied by the bureaucracy.

"Why are they talking about 'stepping up' the vaccination rate? They have had a year and bungled it!" said Skellerup's David Mair.

A banker said vaccination rollout has been pathetically slow, and the very limited offshore travel from October to December is "too limited".


## Are you satisfied with the plan for reopening NZ?

**No** 62%
**Yes** 30%
**Unsure** 8%

### New variants worry

One-third of CEOs worry that the emergence of new Covid variants will render current vaccines less effective. But a large majority — 58 per cent — were just somewhat worried and a further 9 per cent were not worried at all.

A logistics firm boss noted emerging news was there could be more variants coming that are a further deviation from the original.

"It requires a strategy now if we don't want to be the last nation in the world to book in for a top-up or a next generation vaccine."

## Are you worried new variants might render vaccines ineffective?

**Extremely worried** 33%
**Somewhat worried** 58%
**Not at all worried** 9%

There was confidence the pharmaceutical industry would develop new and effective vaccines as the virus mutates. "The positive thing has been that vaccines have been developed in record time," said an independent director.

Said the NZ Institute's Roger Partridge, "I would be extremely worried if it were not for the remarkable developments with mRNA vaccines."

Others pointed to the need to get the whole global population vaccinated. "While large 'reservoirs' of the world are unvaccinated the risk of a new variant that renders the current vaccine regime ineffective is a great concern" said a food industry CEO.

"I suspect the variant that is prevalent when we are starting to open our borders won't be Delta but something new," said a Government adviser. "Hence why I accept it is hard for the Government to lock themselves in to a fixed timeline. Once vaccinated we will no longer be crowding the hospitals," said an educator.

"We will get on with life as if having the seasonal flu, as evidenced with the current cruiseliner with vaccinated passengers but a Covid outbreak — they are still partying, eating ....

"Everyone will get Delta eventually. It is literally the nature of a virus, my concern is that the Government will continue on a one-eyed mission to eliminate and will have to keep us locked away."

### Self-isolation pilot

A self-isolation pilot was recently announced as part of the Government's "Reconnecting New Zealanders" plan for re-opening borders, which will ultimately allow more people to visit New Zealand.

The pilot has been approved for up to 150 people to travel internationally for business purposes. Prime Minister Jacinda Ardern said it was not the Government's intention that self-isolation be only available to business travellers in the future, but "this narrow scope is for us to kick off safely while we begin the design work".

The *Herald* survey reveals 41 per cent of respondents plan to apply to join the pilot; 37 per cent are unsure; 22 per cent won't apply.

Beca CEO Greg Lowe says the pilot scheme is a step in the right direction, and Beca will seek to be part of it.

"We have several projects overseas that need staff onsite to oversee implementation," he says. "One of these is a large carbon reduction project that will help reduce global emissions. Pacific nations are also seeking more infrastructure support from New Zealand teams.

"Key client relationships need reinforcing."

## Will you join the Government's self-isolation pilot?

**Yes** 41%
**Unsure** 37%
**No** 22%

Another director, who is unsure whether they will take part, says "it may be necessary to pursue this," but will depend on what the plan is for the country to open up post-vaccination.

Those chosen for the trial will be able to return to New Zealand and undertake self-isolation on arrival in Auckland or Christchurch, between October 30 and December 8, 2021, forgoing the need to enter a MIQ facility.

The Government says numbers have been limited to ensure the health workforce, MIQ systems and staff have the capacity to establish, manage and complete the pilot successfully.

This level of interest is unsurprising considering 83 per cent of respondents say their business is dependent on staff being able to get in and out of New Zealand for business.

When broken down, 29 per cent say their business is highly dependent on staff travelling internationally and 54 per cent say somewhat dependent. Just 17 per cent say their business is not at all dependent on staff being able to travel.

T&G Global director Carol Campbell says T&G Global is a global company with most of its revenue created offshore, "so we need to visit customers regularly and assess the state of the markets that we compete in".

Beca's Greg Lowe says maintaining business relationships remotely works for a while, but growing them requires more in-person connection.

"Some 30 per cent of our business is international, and while some project work can be created to create export services revenue, implementation requires people on the ground to support local teams," he says.

"Flow of key people to and from project sites overseas is very important."

From Forsyth Barr managing director Neil Paviour-Smith: "We can essentially manage without international travel for a prolonged period."

## New potential in a post-Covid world

New Zealand's high value international tourism and student markets were decimated when the Covid-19 pandemic spread and borders shut.

But with the clear prospect of a significant reopening it's time to have another look.

### What CEOs are saying:

- A post-Covid environment will not be soon. We need to be looking at how we reinvent our tourism sector and how to incentivise New Zealanders to see "home" now. (Michael Barnett, Auckland Business Chamber)
- Tourism can recover, but as long as the Government understands it properly and enables the border. Contrary to popular opinion, NZ is a high value international tourism destination and was worth $14b per year. That pays for a lot of hospitals and schools. (Aviation boss)
- The key driver must be to get New Zealand open. I suspect many people will want to move here and we should encourage that, providing the right incentives through subsidies and other support mechanisms. (Tourism boss)
- Allowing universities to arrange isolation facilities for international students would make an enormous difference to our universities and to the wider economy, and would enhance New Zealand's reputation. That should be possible particularly for students coming from low-risk jurisdictions such as China. (Banking boss)
- NZ will be an even more attractive place to visit, work and study. The Government needs to get the borders reopened as early as possible in 2022 — that is the best support it can give the tourism and education sectors (Tourism chief)
- Get a decent Covid vaccine passport. For goodness sake, please don't leave it to the MOH. Move to accept saliva and other less invasive Covid testing for travellers (Kiwis and others). Allow self-isolation outside MIQ. Let the education sector organise private MIQ. (Director)
- NZ has an opportunity to become the "safest food producer in the world". International consumers will identify with food producers that can claim many of the things that NZ already can. This perception needs to be supported by a deliberate promotional campaign. (Timothy Myers, Norwood)
- This current environment provides a chance to reset our tourism sector for value and yield over volume. We should not waste the opportunity. (Don Braid, Mainfreight)
- There is no post-Covid world — we have to live with Covid. We need to be looking to the next generation of trade partners will have to learn to live with Covid. If the vaccine means that we won't have large hospitalisation rates, but that some of us still get sick then that is OK. It is about the amount of risk. (Independent director)
- New Zealand is a desirable travel destination, and as one of the few Covid-free nations on earth, could be an ultra premium tourism destination starting with 5 star MIQ. (Media boss)
- Forget tourism. Bring in talented workers and build technology businesses that deliver long term value. (Digital CEO)
- Attract people from wealthier nations e.g. US, EU. Set up a formal OE /gap year scheme to attract wealthier millennials to come work, travel or study? Promote NZ for boutique golf tourism and eco-tourism. Not mass market cruise ships or coach trips. (Adviser)

MOOD OF THE BOARDROOM

# Confidence on the rebound

**Mood of the Boardroom**
**Tim McCready**

The outlook from leaders who responded to the *Herald*'s survey of CEOs is substantially more positive than last year

Confidence has rebounded in the 2021 Mood of the Boardroom after record low levels in last year's election survey.

Cumulatively, respondents to the *Herald* survey rated their optimism in the New Zealand economy at 2.70/5 — up significantly from last year's score of 1.36/5.

A professional director notes that 12 months ago, the forecasts of unemployment, debt and GDP were completely at odds with what has since unfolded: "The outlook is substantially more positive, and this will continue, assuming we complete our vaccine rollout by year end and start relaxing border restrictions in the first quarter of next year."

But Cathy Quinn, a director of Fletcher Building and Fonterra, says she is less optimistic about the New Zealand economy, as she cannot yet see the game plan for New Zealand to open up to the world again. "The rest of the world is already opening up borders again — albeit with conditions as to which countries. Evidence of Covid-19 vaccination, pre-departure and arrival tests etc.," she says. "I fear if New Zealand does not do so similarly in 2022, our economy will suffer as well as the wellbeing of Kiwis."

Auckland Business Chamber CEO Michael Barnett says prior to Covid-19 there were some sectors that were driving the New Zealand economy. "If we are smart, we will relaunch our economy on those sectors that were doing well and be creative about reinventing those sectors that were not.

"Internationally, we need to be wary of small economies protecting themselves and introducing non-tariff barriers to do so."

Says New Zealand Initiative chair Roger Partridge, "For the New Zealand economy there are risks in both directions — of business confidence being harmed by a Covid strategy that raises the prospect of never-ending lockdowns.

"If this risk does not eventuate, then we will see a continuation of asset, wage and consumer price inflation, which also presents a long-term threat to business confidence, growth and jobs."

Global economy optimism has rebounded even further. Last year's survey respondents scored it at 1.16/5, at a time when many of our major trading partners were being ravaged by the pandemic. This year it scored 3.15/5, showing that despite the Covid-19 numbers remaining significantly high around the world, the international vaccine rollout has clearly helped buoy confidence.

A banker says: "It is easy to be more optimistic than this time last year with vaccines in sight, but that doesn't mean there are some massive structural concerns around how we make the most of the more buoyant economy we find ourselves in."

Beca's CEO Greg Lowe says: "Locally and globally, the pandemic economic impacts are more manageable than we feared, but ongoing disruptions (supply chains, recruitment, lockdowns) mean uncertainty around investment and potential delays to projects and plans."

As is typical for this survey, executives rated optimism in their own industry the highest of the three optimism scores — 3.20/5, compared to 1.90/5 in last year's survey.

But delving a little deeper into industry optimism scores shows that these vary considerably.

Industries that scored particularly high include insurance, airlines and aerospace, technology, finance, and entertainment.

## Record return for Super Fund

The 2021 financial year was a huge year in markets, reflected in a record return for the NZ Super Fund.

"Driven by strong fiscal stimulus, aggressive monetary policy and the pandemic response, markets have rallied strongly since late March 2020. Markets are pricing in continued earnings growth and low interest rates, so it's hard to see these moves being repeated this year, with continued uncertainty around the course of the pandemic and the spectre of inflation."

**Matt Whineray, NZ Super Fund CEO**

"The 2021 financial year was a huge year in markets, reflected in a record return for the NZ Super Fund," says NZ Super Fund CEO Matt Whineray. "Driven by strong fiscal stimulus, aggressive monetary policy and the pandemic response, markets have rallied strongly since late March 2020. Markets are pricing in continued earnings growth and low interest rates, so it's hard to see these moves being repeated this year, with continued uncertainty around the course of the pandemic and the spectre of inflation".

At the other end of the scale, executives that gave the lowest scores are working in education, manufacturing, utilities, and construction.

"The pandemic has gone on much longer than I anticipated, and it still isn't clear as to how it ends (if it ever does)," says a utilities executive, an industry that scored an average of 2.5/5 for optimism.

"We are in this quagmire in New Zealand of not being able to solve for a protracted and slow vaccination rollout compounded by inadequate tracing and testing speed and capability and the need to open the borders to enable tourism to restart — I am particularly depressed at the moment," says a director in retail, a sector which scored an average of 3.38/5 for optimism.

The construction sector scored optimism for its industry 2.67/5. Says Fulton Hogan managing director Cos Bruyn:

"The latest Covid lockdown in New Zealand and ongoing issues in Australia may constrain capital spend, dependant on ongoing duration of business disruptions. There is also the issue of international supply chain and shipping disruptions that will impact on our ability to spend to consider."

Sanford CEO Peter Reidie says Covid has made a significant impact on Sanford's revenue lines:

"As a heavily export focused business, we were hit early by the impact of Covid-19 globally on food service and supply chains. We are now seeing different parts of our business begin to recover from that at different speeds.

"We need and expect to see further global recovery from Covid."

The food and beverage sector scored optimism for its industry at 2.8/5.

The Warehouse Group chairman Joan Withers was less optimistic. "Probably because we are in this quagmire in NZ of not being able to solve for a protracted and slow vaccination rollout compounded by inadequate tracing and testing speed and capability and the need to open the borders to enable tourism to restart I am particularly depressed at the moment."

### The big questions

Are you more optimistic than you were a year ago about:

| | Out of 5 |
|---|---|
| General business situation in your industry | 3.2 |
| Global economy | 3.15 |
| NZ economy | 2.7 |

CEOs were asked to rate each factor on a scale of 1 to 5:
1 *Much less optimistic*
5 *Much more optimistic*

Herald *Mood of the Boardroom* CEOs Survey 2021 / Herald graphic

> Locally and globally, the pandemic economic impacts are more manageable than we feared, but ongoing disruptions (supply chains, recruitment, lockdowns) mean uncertainty.
> Greg Lowe, Beca

> The outlook is substantially more positive, and this will continue, assuming we complete our vaccine rollout by year end and start relaxing border restrictions in the first quarter of next year.
> Independent director

### Domestic concerns

The top five domestic issues of concern for executives are unsurprisingly Covid-related.

They are particularly concerned about skills and labour shortages, which they rated at 9.18/10 on a scale where 1 = no concern and 10 = extremely concerned.

Throughout the survey chief executives have raised many contributing reasons for the skills and labour shortage, including a huge increase in infrastructure and technology projects requiring significantly more staff than in the past, border restrictions preventing skilled immigrants entering the country, poaching of talent from international firms and recruiters, and salary costs being driven up by employees that are role-hopping between companies.

Susan Peterson, a director in the technology and digital sectors, says the New Zealand economy performed very well through Covid, largely due to the success of the Government's elimination strategy and support provided, but is concerned that the rest of the world is now "kicking back into life" and New Zealand is being left behind:

"The border restrictions are having a real impact on NZ's tech sector,"

she says. "The jobs we are creating, and could locate here in NZ, are now being recruited in overseas hubs as we don't have sufficient locally trained New Zealand talent and are not permitted to bring it in through the border. It is concerning to see the potential long term damage being done to New Zealand."

Says Fulton Hogan managing director Cos Bruyn: "It is becoming an increasing challenge to hold staff, let alone grow staff numbers. Labour costs are rapidly escalating, the costs of which will need to be passed on."

The next highest scoring domestic concerns are: the potential for community transmission of the Covid-19 delta variant (8.69/10), immigration restrictions (8.53/10), quality border protection against Covid (8.22/10) and transport and logistics costs (8.09/10).

"Supply chain issues and rising building costs is putting pressure on our costs which we are working hard to manage while also offering competitive pricing," say Tower Insurance chief executive Blair Turnbull.

"If these inflationary trends continue the costs unfortunately will ultimately also flow through to higher premiums for customers."

Local Government Funding Agency chair Craig Stobo says we are in the midst of a wartime economy: "Wage controls are in place, we cannot travel overseas and return easily, families are divided by cumbersome border restrictions.

"Migrant labour is not allowed to assist our food producers, businesses cannot find labour. Small businesses are closing, supply chains are disrupted, and materials are in short supply.

"Meanwhile, long-term structural issues of poverty, inequality and housing affordability have deteriorated significantly."

Other more traditional issues that have a heightened level of concern among executives include the level and quality of government spending (7.95/10), the increase of cyber attacks (7.92/10), general uncertainty around direction of government policies (7.61/10) and infrastructure constraints (7.55/10).

### Top domestic concerns

CEOs rate the impact of the following domestic concerns on business confidence in NZ:

| | Out of 10 |
|---|---|
| **Covid related** | |
| Skills/labour shortages | 9.18 |
| Community transmission of Covid (Delta) | 8.69 |
| Immigration restrictions | 8.53 |
| Border protection against Covid 19 | 8.22 |
| International transport/ logistics | 8.09 |
| International trade environment | 6.49 |
| **Traditional concerns** | |
| Housing unaffordability | 7.27 |
| Regulation | 7.24 |
| Labour productivity | 6.83 |
| Climate reduction policies | 6.48 |
| **Economic settings** | |
| Level & quality of Govt spending | 7.95 |
| Policy uncertainty | 7.61 |
| Inflation | 7.16 |
| Government debt | 5.88 |
| Reserve Bank policies | 5.43 |
| **Infrastructure issues** | |
| Infrastructure constraints | 7.55 |
| Security of energy supply | 6.74 |
| Local Govt regulation | 6.71 |
| Congestion in Auckland | 6.68 |
| Implications: Oil and gas ban | 5.63 |
| Water use policies | 5.37 |
| **Business environment** | |
| Wage increases | 7.16 |
| Employment law (increased minimum wage; increased holiday and sick day allowances) | 6.77 |
| Fair pay agreements | 6.7 |
| Energy price increases | 6.29 |
| Level of rates | 5.42 |
| Competitiveness corporate tax | 5.30 |
| Interest rate increases | 5.22 |
| Exchange rates / NZ dollar | 5.21 |
| Removal interest rate deductibility for rental property | 4.52 |
| Access to capital | 4.12 |

1 *No concern —*
10 *Extremely concerned*

Herald *Mood of the Boardroom* CEOs Survey 2021 / Herald graphic

MOOD OF THE BOARDROOM

# An issue that's not going to go away

## Visa programme comes just in time with skills and labour shortages worse than ever

**Mood of the Boardroom**
**Duncan Bridgeman**

It was a long time coming but the Government's announcement late last month of a one-off resident visa provides at least some relief to business owners battling labour shortages.

Immigration restrictions, staff and labour shortages are cited as the biggest issues — along with Covid-19 community transmission and supply chain costs — affecting business confidence in this year's Mood of the Boardroom survey.

The global pandemic continues to bring uncertainty and lockdowns have crippled Auckland SMEs particularly in the hospitality, retail and tourism sectors.

But the survey shows skills and labour shortages as the biggest single domestic concern when CEOs were asked to rate issues affecting confidence.

On a scale of 1 to 10, with 1 reflecting no concern and 10 being extremely concerned, the rating was a staggering 9.18 for skills and labour shortages.

Immigration issues scored 8.53, just below the potential for community transmission of the Covid-19 Delta variant at 8.69.

In general, however, business leaders are actually much more optimistic than they were a year ago.

Asked to rate their general business situation on a scale of 1 to 5, with 5 being much more optimistic, the CEOs gave a weighted average rating of 3.2. That compares with 1.9 a year ago when confidence slumped to the worst level since the global financial crisis.

The survey does show CEOs are less optimistic about the New Zealand economy (2.7 out of 5) than the global economy (3.15 out of 5) though.

The overall confidence mirrors the latest ANZ Business Outlook snapshot, which showed confidence holding up remarkably firm, despite Auckland being trapped in level 3 and 4 lockdown for several weeks.

The skills and labour shortage issue is not going away, however.

The *Business Herald* highlighted the problem in a week-long series in June, covering all sectors from technology to agriculture.

Along with supply chain constraints it has put increasing stress on business owners and hindering the economic recovery from the pandemic.

That's why business sector groups applauded Immigration Minister Kris Faafoi's confirmation that the Government is setting up a one-off visa to fast-track skilled migrant residency.

This creates a residence pathway for about 165,000 migrant workers and their families, including more than 5000 health and aged-care workers, about 9000 primary industry workers, and more than 800 teachers.

Faafoi acknowledged that migrant workers and business owners had been waiting for this for some time.


**Migrants protested against immigration issues in Auckland this July.**
Photo / Dean Purcell

"There's obviously been a fair degree of frustration about delays in the residency queues and I have had a focus on ensuring that Immigration New Zealand is very customer-focused here," he said, adding that the process will be streamlined and online rather than paper-based.

There are also around 15,000 construction and 12,000 manufacturing workers on relevant visa types, some of whom will be eligible for the one-off pathway.

Federated Farmers immigration spokesperson Chris Lewis described the policy as a "sensible solution" saying the announcement would have brought "big smiles in cowsheds and tractors across the country.

"We have been losing people to Australia and Canada. New Zealand farm employers know what a threat these countries and their initiatives are to retaining our experienced agricultural workforce."

The *Herald* reported in early September how New Zealand farm workers were upping stakes and departing the country for Canada with the impetus appearing to be the two countries' contrasting routes to residence.

In July, Federated Farmers met Prime Minister Jacinda Ardern and stressed that while border exemptions to bring more people to New Zealand were welcome, the priority must be on keeping the tens of thousands of temporary visa holders who are already working here.

Canterbury Employers' Chamber of Commerce chief executive Leeann Watson said it was good to see a signal that addressing skills shortages was being prioritised by Government.

"We know from employers that recruitment and skills shortages is one of their biggest challenges — and that before the last lockdown it was estimated that over the next 15 years Christchurch needs an additional 70,000 workers to fill vacancies created by an ageing population, just to maintain the current rate of economic growth."

With New Zealand's international borders not expected to reopen until next year, the country is more isolated than ever.

New Zealand firms have done well to adapt and are continuing to invest where they can.

This year's Mood of the Boardroom survey shows 56 per cent of CEOs expect to authorise more capital expenditure compared to last year and 70 per cent expect to spend more on IT.

Almost 75 per cent of those surveyed are expecting revenue growth in their business in the next 12 months with 58 per cent expecting profit growth.

MOOD OF THE BOARDROOM

# Inflation 'beast' on the loose

What do CEOs think about the biggest increase in consumer prices in nearly a decade? **Fran O'Sullivan** reports

Fletcher Building chairman Bruce Hassell said the Government's fiscal response to Covid, of printing money at levels we have never seen before, has "woken the inflation beast".

"Taming it may be harder than we realise and it could inflict real pain on business and wider society."

The Warehouse Group chair Joan Withers agreed inflation is inevitable as a result of quantitative easing. "We have been a historic lows for a long time and the current assumptions appear credible.

"Many New Zealanders are highly leveraged with mortgages at unprecedented levels. Increased interest inflation rates will reduce discretionary spending."

Annual inflation in New Zealand jumped to 3.3 per cent year-on-year in the second quarter of 2021, from 1.5 per cent in the previous three-month period — above market expectations of 2.8 per cent. This was the biggest increase in consumer prices in nearly a decade, off the back of a low base year due to the Covid-19 crisis and the ongoing economic recovery.

All 20 economists in a Sept. 27-30 Reuters poll were unanimous in predicting the Reserve Bank would raise the official cash rate by 25 basis points from a record low to 0.50 per cent at its next policy meeting which took place yesterday.

"A red-hot economy, tight labour market, rising consumer prices, and eye-popping house price growth: when the stars align like this, a rate hike is imminent," a Kiwibank economist told Reuters.

Business leaders are split on whether the current surge in higher inflation rates is baked in or largely transitory.

Some 44 per cent of survey respondents expect higher inflation will be baked in; 31 per cent expect it will be largely transitory and a significant 25 per cent are unsure.

> Beneficiaries of inflation include issuers of nominal debt such as the NZ Government
>
> Craig Stobo LGFA

"There is a collection of structural factors that look set to add to the stickiness of inflation," said Cameron Bagrie of Bagrie Economics.

"A partial step back in globalisation; growing size of governments, redistribution-based policy agendas, accelerating wage growth without productivity to match, the costs of climate change . . . and on and on."

From an experienced banking chair: "I believe we have seen a fundamental structural change — central banks have over-stimulated the economy and this is going to take some time to wash through."

Z Energy CEO Mike Bennetts was concerned: "I think we are at risk of waves of inflation that compound over a longer duration than previously, e.g. shipping costs increase the cost of imported goods that drive cost of living increases in a short employment market, which drives increase costs for talent, and so on."

A net 80 per cent of survey respondents believe that higher inflation will likely persist at 3 per cent or higher for at least three years.

Said Forsyth Barr's Neil Paviour-Smith: "It's an inevitable consequence of cheap money and supply constraints."

"My sense is that inflation will more likely subsist higher over the next 2-5 years than it did pre-Covid — likely on average in the 3-4 per cent range," predicted Thomas Pippos, chair of Deloitte.

Two-thirds of CEOs — 66 per cent — do not believe inflation is a net positive for the economy. They suggested it will decrease NZ's competitiveness internationally and result in reduced social equity. NZ Initiative chairman Roger Partridge recalled "the 1970s and 1980s taught us that 'inflation is a pathogen'."

"It will rapidly increase the economic divide in the community. Those with assets and those without asset," — a director.

Local Government Funding Agency chair Craig Stobo suggested higher structural inflation is a disaster for those on fixed incomes, for savers in bank deposits, those without homes or financial assets and for businesses without pricing power.

> Will higher inflation rates be baked in or transitory?
>
> **44%** Baked in
> **31%** largely transitory
> **25%** unsure

"Beneficiaries of inflation include issuers of nominal debt such as the NZ Government."

A lesser proportion of chief executives — 54 per cent — believe that inflation is also not a net positive for their businesses.

> Taming it may be harder than we realise and it could inflict real pain on business and wider society.
>
> Bruce Hassall Fletcher Building

"With rising costs there is not always the ability to pass on such costs to customers due to current rate competitiveness in the industry, thus resulting in lower profitability," — hotelier.

When it comes to the question of taxing increased revenue due to inflation, Governments' motives are not entirely pure.

Some 45 per cent of survey respondents felt rising inflation would not impact the current Government's tax settings; 42 per cent were unsure. Paviour-Smith predicts bracket creep (where wage hikes push income earners into higher tax brackets) will loom as a greater issue for the Government with wage increases at a higher rate than in recent years.

Deloitte's Pippos adds that the Government will be incentivised "not to adjust tax setting as there should be a positive impact on revenue."

Said a banking chair: "Government is most likely to 'bank' the increased revenue resulting from 'bracket creep' and spend it."

# Was printing money the right option?

When the pandemic hit, central banks stepped in, providing easy access to money and propping up economies around the world.

In policy terms it was effectively a repeat of the prescription used in the Global Financial Crisis a decade earlier. But this has been a different kind of crisis. Consumer demand has held up. Inflation is looming as a serious threat.

Meanwhile, longer-term issues that the cheap money creates — such as rising debt and asset bubbles — are still unresolved.

A sense of unease with reliance on the central bank magic to solve our economic woes is reflected in the Mood of the Boardroom survey results. Business leaders were divided in their support for the Reserve Bank's monetary policy response to the pandemic.

The *Herald* survey asked: Has the Reserve Bank mishandled quantitative easing and fuelled an asset (house) boom?

The responses were evenly split.

The results showed 35 per cent say "yes" and 35 per cent "no". A large proportion — 30 per cent — were unsure.

It is, to be fair, a complex question.

Even the Reserve Bank (RBNZ) has acknowledged the role that low interest rates and Quantitative Easing play in driving up asset prices.

But was there ever any other option?

The RBNZ's quantitative easing (bond buying) was officially called the Large Scale Asset Purchase (LSAP) programme.

The programme had the potential

**Mood of the Boardroom**
**Liam Dann**

to buy up to $100 billion of NZ Government Bonds, Local Government Funding Agency (LGFA) Bonds and New Zealand Government Inflation-Indexed Bonds in the secondary market by June 2022.

But the strength of New Zealand's economic recovery allowed the Reserve Bank to call time on it early.

When the programme was halted in July 2021, about $53b of bonds had been purchased. By comparison the US Federal Reserve has added about US$4 trillion to its balance sheet due to asset purchases since March 2020.

> Has the Reserve Bank mishandled quantitative easing and fuelled an asset (house) boom?
>
> **Yes** **35%**
> **No** **35%**
> **Unsure** **30%**

It has indicated it will start to "taper" or curb the pace of purchasing from November.

The aim of the LSAP programme was to lower borrowing costs to households and businesses by injecting money into the economy.

When the Reserve Bank buys assets, this increases their price and so reduces their yield. That means the interest rate, in this case on government bonds, falls. This had the effect of "lowering the tide" on other interest rates in the economy, particularly longer-term interest rates of two years or more. It also reduced the cost of borrowing for households and businesses.

Secondly, when the Reserve Bank buys government bonds, it encourages the sellers of assets to use the money they received from us to switch into other financial assets like company shares, bonds, or new lending — helping to inject money into the economy.

On the first measure the LSAP programme has been a clear success, ensuring interest rates have remained low. But as has been the case in almost every other comparable economy in the world the money has overwhelmingly flowed into the housing market.

Some business leaders who answered yes to the question, like Datacom's Tony Carter, saw the issue in that global context. "I think central banks globally have over-stimulated economies which will have huge long-term consequences particularly for future generations," Carter says.

"Sometimes there has to be a bit of pain and you just can't keep kicking that can down the road indefinitely."

Attempts to pull back on — or taper

> I think central banks globally have over-stimulated economies which will have huge long-term consequences particularly for future generations.
>
> Tony Carter, Datacom

— bond buying in the US are inevitably met by a negative market reaction which puts pressure on their central bank to moderate its pace.

Others who answered "yes" were also sympathetic to the global dilemma. "Yes, but they are not alone — the world over we have seen central banks over-stimulate economies," said one senior director.

Conversely some of those who answered 'no' to the survey question wanted to highlight that, though they recognised issues around asset price inflation, they didn't see blame lying with the RBNZ.

"It has unfortunately been handed a dual inflation fighting and employment maximising mandate by this government. We are now seeing the inequitable impact of that folly," said Craig Stobo of NZ LGFA.

As the comment suggests, our Reserve Bank is ultimately bound by its mandate, which is set by the Government.

Carol Campbell, independent director with T&G Global, answered no to the question. "The quantitative easing has reduced job losses — which was important," she said.

"The constant media focus on owning a house and first home house purchase has fuelled panic in demand — which has fuelled prices."

Others felt the asset boom was an unavoidable side effect of a necessary policy move. "There is no doubt QE has contributed to the house price boom, but it's hard to say it was mishandled — we didn't know what we didn't know back then," said one director.

"They have done the right thing in the situation of crisis — however this was not an unexpected outcome where those with assets have had their wealth accelerate ahead. This without assets have been left behind," said another.

BusinessNZ chief executive Kirk Hope — whose answer put him in the "unsure" category — summed up the mixed feelings of many business leaders right now. "Mishandled is an unfair characterisation, they wanted to support the economy and did so, the rebound was faster and bigger than expected and alongside fiscal stimulus fuelled asset prices — perhaps they could have responded to the conditions earlier."

MOOD OF THE BOARDROOM

# Skills shortages, closed borders front of mind

Bill Bennett

Spark CEO Jolie Hodson says if New Zealand is to stay competitive we need people with great digital skills.

"At Spark we've seen a talent scarcity. But it isn't only us," says Hodson. "When, recently, I toured the country talking to customers, I saw, almost every industry is in the same position.

"Many businesses are looking at how they can lift their digital footprint and continue to transform. The skills needed to do that are in demand everywhere. There are no easy answers to the problem while our borders remain shut."

Spark has a two-pronged approach to dealing with the skills shortage.

First, the company is working with tertiary institutions looking at the pathways for people to get into technology careers. Hodson says worldwide there will be 149 million new digital technology roles over the next four years. "There is an opportunity for New Zealanders to participate in that."

"We want more people coming into the skills funnel," says Hodson. "Yet within that we want to see greater representation from women, from Māori and Pasifika."

Spark is working with organisations like Champions for Change and looking at ideas like a professional apprenticeship where young people are given an opportunity to work in several organisations as they learn skills.

Meanwhile, the company has an urgent pressing need for specific specialist skills with important gaps to fill in areas such as cyber security, data analysis, automation and user experience.

Hodson says we need a way to get these people into the country. "We've always relied on a combination of local people and international expertise. Overseas people with key skills have an important role to play helping to create local capability."

Looking ahead, Hodson wants to see an acceleration in the vaccination programme so we can open the border sooner and bring more skilled people into the country.

Spark is on the frontline when it comes to helping New Zealanders work or study at home during lockdowns. Technology does much of the heavy lifting.

Hodson says Spark's customers have become noticeably more resilient in the last year.

"When we first went into lockdown last year many people got themselves set up to work, learn and connect from home. They have had bandwidth increases, companies made sure people were able to work from home, that they had the right security and so on.

"Since then, that has been hardened. When we went to level four this time with a shorter period from decision to entry, we saw some customers still faced challenges, but compared with a year ago, we moved more seamlessly into that".

Spark's networks hit a new traffic peak on the day after New Zealand went into the August level four lockdown. It continues to run at peak levels. There is a noticeable shift away from the evening peak as families watch streaming television or play online games to heavy network traffic throughout the day.

"One reason the networks cope with the extra demand, is that Spark continues to invest in capacity", she says.

Spark's business is mainly centred on the delivery of digital services to customers in New Zealand.

This limits the impact of supply chain bottlenecks.

Yet, Spark remains a major supplier of electronic hardware to business customers. It sells phones, laptops, modems and other devices.

Hodson sees two problems: Covid and the geopolitical disruption to global supply chains which was emerging before the pandemic.

"At times like this where devices are important for people to work, learn and connect from home we need to keep our mind on the prize.

"We continue to look at alternative suppliers."

Spark has also worked to keep larger stocks of key technology products in the country as opposed to ordering direct from overseas.

Much of New Zealand's business sector was already on a digital transformation path when the pandemic first hit. Hodson says many have brought their plans forward.

Others who were yet to start are now moving.

She says that cloud computing is a key enabling technology.

Spark is addressing the increased demand by adding a further 10MW additional capacity to the Takanini data centre.

When complete it will be the biggest of kinds in New Zealand. Some 60 per cent of the additional capacity has already been contracted.

## Jolie Hodson's top three issues

- **Path through Covid-19:** Our number one challenge as a nation continues to be our path through Covid-19, and our transition to a world where we are able to live with Covid like we do any other influenza. The clear path to that future is our vaccination programme, which will in time reduce the potential risk to New Zealanders of reopening our borders with countries in a similar risk position.
- **Transforming NZ economy:** Transforming economy to one that is high-tech and low-carbon.
- **Creating a more equitable Aotearoa:** Ensuring a just transition to a high-tech and low-carbon economy.

> Worldwide there will be 149 million new digital technology roles over the next four years. There is an opportunity for New Zealanders to participate in that.
> Jolie Hodson

## MOOD OF THE BOARDROOM


Photo / Brett Phibbs

# The carrot or the stick?

Many CEOs would like to require staff to be vaccinated, but vaccine incentives are not yet widespread, writes **Tim McCready**

In the United States, many workplaces now require their employees to be vaccinated. In an aggressive effort to get the pandemic under control, US President Joe Biden has directed businesses with 100 or more employees to prepare to request proof of vaccination or test employees weekly for Covid-19. By the end of October, all US government employees must be vaccinated.

A significant 74 per cent of New Zealand CEOs say they can envisage a situation where most employers will require their staff to be vaccinated against Covid-19 to protect the safety of the wider workforce. Just 12 per cent say they can't see this happening, and 14 per cent are unsure.

Fletcher Building chair Bruce Hassall says that "increasingly we will see New Zealand businesses rolling out vaccination policies that start with 'we strongly encourage their people to get vaccinated', then 'we expect people to get vaccinated', followed by 'we will require their people to get vaccinated — our customers will expect nothing less!'"

Says Fulton Hogan group CEO Cos Bruyn: "It cannot impinge on freedom of choice requirements, however most employers will react to customer requirements."

Beca CEO Greg Lowe says vaccination will be required for certain activities, with travel being the first. "We already require compliance with our health policy for international travellers, and this will be just one more vaccine."

A professional director says we need the Government to change the current law that does not allow it: "While there will always be an exception for those that for medical reasons cannot be vaccinated, employers should have the right to require current workers and not just new workers to get vaccinated."

It cannot impinge on freedom of choice requirements, however most employers will react to customer requirements.

Cos Bruyn, Fulton HOgan

Federated Farmers CEO Terry Copeland says he "doesn't think this can or should be enforced by employers". Another CEO working in the energy sector shares a similar sentiment, saying they "don't think this is possible under the employment laws, and I would be loath to do that to my workforce".

A CEO in the utilities industry recognises that this would be challenging from a privacy perspective — "we don't require any other mandatory vaccination, for example for the flu".

A property boss adds "the possibility of presiding over the 'your business name here' cluster gives me nightmares!"

### Vaccine incentives spurring workers to get shots

To encourage vaccine uptake, 33 per cent of respondents to the *Herald*'s Mood of the Boardroom survey say they either have incentives or plan to implement incentives for their staff to get vaccinated against Covid-19.

Many of those say they are giving leave for employees that get vaccinated or some other allocation of additional holiday pay. Others are providing an additional carrot with extra cash payments or vouchers for vaccination, and even a lottery for the month based on the number of vaccinations done.

Westpac is providing two half-days of leave to get shots and has also given an additional day of Covid leave for staff to use before the end of the year to help support families to get vaccinated. The Warehouse Group is offering a one-off payment of $100 to all fully vaccinated employees across its businesses.

Spark CEO Jolie Hodson says her immediate priority is to encourage all staff to get vaccinated, by making it as easy as possible for them to do so. "We will look to host vaccinations on site, as we do for the standard flu shot, and will consider if we need to do anything further than this in time."

Z Energy chief executive Mike Bennetts says, "We will ensure that staff are able to prioritise this ahead of their work responsibilities."

Beca's Lowe says all staff are being encouraged to get vaccinated, and Beca is working to provide on-site vaccination as well as the use of community clinics. "Our people understand the need to get protected," he says.

We should not be incentivising, we should be waving the stick to those who place workplace and nation at risk — drop the 'kindness'.

Education provider

A director says one of her organisation is providing minibuses and other transport logistics to help get staff to vaccine centres during work hours.

But there is still a significant number of executives — some 59 per cent — that say they have no plans to offer incentives to staff to get vaccinated, and the rest (8 per cent) are unsure.

"They know they will be the first to be laid off if another lockdown puts strain on staff numbers," says an education provider. "We should not be incentivising, we should be waving the stick to those who place workplace and nation at risk — drop the 'kindness'."

Says one investment director: "Our staff are intelligent people who are used to managing their lives without a 'big brother' approach."

From a food producer: "Surely the need is compelling enough."

### Will employers require their staff to be vaccinated against Covid-19?

**74%** Yes

**12%** No

**14%** Unsure

MOOD OF THE BOARDROOM

# Covid blows NZ into rocky waters

Parts of our plan for reconnecting to the world need to be turbo-charged, Brett O'Riley tells **Graham Skellern**

The latest lockdown has highlighted issues New Zealand faces by not keeping pace with what is happening elsewhere around the world, says EMA chief executive Brett O'Riley.

"Many of our exporters have found little sympathy from their overseas customers when they explained, with New Zealand in lockdown, orders would be delayed or weren't able to be met.

"The response from their customers was along the lines of 'not our problem' or 'your competitors do not have a problem supplying us'."

Covid-19 continues to impact businesses throughout New Zealand with the way "we work the contingencies, the challenges arising from border restrictions, managed isolation and quarantine (MIQ) constraints, and consequently our ability to re-engage with the rest of the world".

O'Riley says Covid pervades everything — the economy and business' ability to get the people, materials and technology through to the very fabric of communities.

"Overall we have fared better than anyone expected over the last year. But I am feeling less optimistic now for our business landscape and our economy. Although the global economy keeps trucking along, other countries are arguably in a better position than New Zealand to capitalise on opportunities, given their access to skills, materials and capital."

O'Riley says with Covid being an ever-present threat, New Zealand is sailing into some difficult waters without a clear set of navigation tools or a coherent approach.

### Brett O'Riley's top issues

- **Need for a coherent plan:** One that balances government policy priorities with external factors and the realities of doing business.
- **Inflationary pressure:** This is driving up costs for businesses, reducing profitability and their ability to invest in productivity gains.
- **Vaccination rates:** These need to be increased along with the ability for people to cross the international border.

There needs to be a balance between maintaining and growing our economy and internal Government policy priorities and the health threats posed by Covid.

"We have heard the plan for reconnecting New Zealand to the world. Parts of it need to be turbo-charged when we are able.

"And a key is seriously ramping up our vaccinations, testing and MIQ capacity."

Higher vaccination rates provide more options to open up as an economy, reconnect with the world, and more importantly, perhaps, reduce or even eliminate the need for harsh Alert Level 4 lockdowns, says O'Riley.

"It's great to see vaccinations ramping up.

"I would like to think we'll still see the self-isolation pilot in action, the risk-based border pathway, and new testing and vaccine checking systems at the border in the near allowable future.

"In addition, we must implement saliva testing as a practical workplace tool to get people back to work quicker if there is an outbreak. It is easier, less invasive, just as accurate, doesn't tie up labs already processing other Covid tests, and is available right here, right now.

"And we've got to fix the issues that plague the MIQ booking system."

EMA is pushing for the private sector to build a permanent MIQ facility outside of Auckland, and proposes an area such as Manawatu, taking advantage of the proximity of the New Zealand Defence Force facilities at Ohakea, Linton and Waiouru, and creating the opportunity for expanding hospital facilities in Palmerston North.

O'Riley says at its most basic level, the current immigration and MIQ system is no longer fit-for-purpose. The human issues around separated families, critically ill people seeking a return home and those denied the chance to mourn their loved ones should be enough to convince government to change and enhance the system.

The longer the isolation and elimination strategy remains, the greater the strains on critical business relationships in international markets. Businesspeople need to be able to get back overseas when they are vaccinated.

"We need a system that adds capacity and allocates places to those people leaving (on business) and those international business people coming here to fill desperately needed roles or carry out technical reviews and maintenance on critical equipment. Now is the time to recognise Covid will be with us for the long-term and we simply need a system that recognises that reality."

O'Riley is also advocating an overstayer amnesty, which will increase the available workforce and remove a significant caseload from Immigration New Zealand, enabling it to focus on other issues.

Stresses on international and domestic supply chains are going to remain and will flow through to supply shortages and cost increases. Higher electricity costs are also hurting businesses already facing challenges from increased wage costs.

O'Riley says the wage costs are coming from two areas — the government's ongoing burst of employment law changes; and the rampant poaching of staff, particularly by expanding government agencies without the same salary setting constraints.

"We are all competing for the diminished talent pool that has resulted from our closed borders."

The EMA believes New Zealand needs to put more of its own people into training, and increase productivity.

Another critical approach is to create the incentives for businesses to invest more in technology and software, consistent with industry transformation goals — a move that will mitigate staff shortages and also increase productivity.

O'Riley says hard-pressed businesses impacted by multiple lockdowns need some assistance to help manage them through those changes, including more readily available research and development funding.

"Government has been generous with its assistance during the Covid outbreaks, but that's mainly been targeted at employees while costs continue to rise for employers.

"The mood of the boardroom will change once we see a coherent plan and policy settings from government that enable businesses to sustainably increase productivity and performance, while continuing to reshape our operations in a pandemic world."

O'Riley says business is up for the challenge and wants to be part of developing that plan.

MOOD OF THE BOARDROOM

# How effective is the Recovery Fund?

Tim McCready

Two-thirds of New Zealand business leaders say they are concerned that the $62 billion Covid response and recovery funds are being used wider than initially understood.

The Government's latest financial update showed there was just $5.1b left unallocated for any future health and economic response needed in case of a further Covid-19 resurgence.

Criticism has been lobbed at the Government for tapping the response and recovery fund for increasingly tangential "Covid recovery" spending.

"The fund itself was a great initiative," says Cameron Bagrie managing director of Bagrie Economics. "The deployment to where needs questioning. A major issue is how much of that fund is now permanent spending as opposed to temporary use of fiscal policy."

"A lot of it is very low-quality spending," says Datacom chair Tony Carter.

Many of those who responded to the *Herald*'s CEOs survey expressed specific concerns that the spending is not on high-quality projects.

"There seems to be little control over where this is targeted, or oversight on its effectiveness," says Federated Farmers chief executive Terry Copeland. Professional director Craig Stobo shares similar concerns, asking: "Do we really have good, measured information on the status of this spending?"

Another director suggests there should be a complete recase of the numbers to reflect the actual reality, since "the fund was set when Treasury's projections for the economy were significantly different than what has unfolded".

More than $4.5b was given out to various recipients in the 2021 Budget announcement: $3.8b was given to the Housing Acceleration Fund, designed to increase the supply of houses by accelerating the pace and scale of construction to ease the struggle of first-home buyers to enter the market. Immigration received $173m to enable the continuation of core immigration services that have been impacted by Covid-19.


Other projects awarded funding include on-board cameras on commercial fishing boats, and a $500m towards an extension of the school lunches programme — which was a project of particular concern to CEOs.

"Far too many stories of wasted food, an initiative that I believe was a backward step to socialism's need to have populations reliant on government," says a serial entrepreneur. "There are better ways to address this that don't load the taxpayer with a UK operation devised during WWII for vastly different reasons."

Says a logistics boss: "It is wasteful — there is no such thing as a free lunch".

But others are less concerned. "Yes, I do think it is being used more widely, but I don't think at this stage that I have a concern about its use."

### Covid Recovery Fund

In 2020, the Government allocated a total of $62b to support the Covid recovery through an initial $12.1b support package in March and the $50b Covid-19 response and recovery fund unveiled in May.

This funding was to pay for pandemic-related expenditure, including the wage subsidy scheme to help employers recover from the effects of Covid-19.

The fund also gave a $1.6b to boost apprenticeships and industry training, $1.1 billion to get New Zealanders into jobs focused on restoring the environment, and $3.3b for infrastructure, on top of the $12b infrastructure package announced earlier in 2020.

This view was supported by some 20 per cent of survey respondents who said they are not concerned; 17 per cent say they are unsure.

**Covid Fund replenished**

Three weeks ago, Finance Minister Grant Robertson announced that the impact of a stronger economy — reflected in the Government's books, with lower deficits and debt position than had been predicted — has given sufficient fiscal headroom to top up the fund.

"Ministers have decided to use the greater fiscal headroom to top up the Covid-19 Response and Recovery Fund (CRRF) by an extra $7b," Robertson said.

That is on top of $3b that remains unspent.

"We have already boosted support to business in this lockdown and the extra funding will be targeted at further economic support as well as building resilience in our health system, supporting the vaccination rollout and border and MIQ provision," said Robertson.

"We are in a strong economic position to protect lives and livelihoods and plan for the gradual and careful opening up of New Zealand to the rest of the world to secure the recovery.

"Our focus remains on keeping New Zealanders safe, accelerating the recovery and dealing with long-standing issues such as climate change, housing and child wellbeing, despite the uncertainty and volatility globally around the ongoing impact of Covid-19."

# 'We need to set a date for border re-opening'

Graham Skellern

The Government should set a date by when everyone has had the opportunity to be vaccinated and then open New Zealand up to the world, says Neil Paviour-Smith, managing director of Forsyth Barr.

"The challenge now is to start talking about at what point do things start to normalise with the realisation that Covid is here to stay.

"The world lives with measles and other infectious diseases and people choose to be vaccinated against them or not — Covid is another to add to the list," says Paviour-Smith.

"Picking the 'right' vaccination number to base re-opening on is problematic — hopefully 90 per cent plus of the population gets vaccinated — a better way would be to set a date when everyone has had the opportunity to be vaccinated. A date when borders re-open, travel is freed up and so on. It's an incentive for people to get on and get vaccinated if they want to."

To support this, Paviour-Smith says authorities should take vaccination on the road, introduce incentives and work with trusted people in communities and on maraes to ensure everyone is vaccinated.

"For some people there has been confusion and disinformation about vaccination — the vaccine can be administered as part of a community event."

Paviour-Smith says eventually the mass of the population does not want to be constrained because a minority has chosen not to be vaccinated.


### Neil Paviour-Smith's top three issues

- Border reopening — needs rapid full vaccination combined with smart technology.
- Skills shortages — needs a return to prior immigration settings.
- Infrastructure — a coordinated long-term plan with clear short-term targets and accountability for delivery.

"The irony is a year ago we were open and free. Now we are in lockdown and overseas we are seeing sports stadiums full of spectators. We need to have a timeframe for being open again."

When the country opens, says Paviour-Smith, businesses and airlines will want proof of vaccination and this is where technology can play a part — electronically embedding the proof into passports or scanning it to a QR code, instead of carrying a card.

"There appears to be a lost opportunity not using smart technology to help with the next phase of reopening. If you don't want to have the proof of vaccination electronically enabled, you don't have to, but things may get complicated.

Paviour-Smith says there is a big opportunity to re-activate the tourism and international education sectors — both top ten export industries — by using Brand New Zealand to promote the country as a safe and welcoming place, and to target high-value visitors and international students.

> There has to be a point where we come out of the Covid-obsessed environment into a normal one and live with Covid like other infectious diseases — so that people can get on with their lives.
> Neil Paviour-Smith

"We can add the perspective that we have handled the pandemic very well compared with the rest of the world. We had a small number of deaths and we have a strong economy.

"Older people will travel if they are fit and able, but they are concerned about health. So New Zealand with no Covid would be attractive.

"With the right promotion, New Zealand can experience a strong bounce-back in tourism and international education. We can pursue this growth opportunity in a high quality rather than high volume manner, but it requires a willingness of the government to border reopening."

Paviour-Smith says New Zealand has eight universities ranked in the top 500 of the world. "We can offer a safe and accepting environment and quality education and research, at a good price. There are different ways of isolating overseas students.

"High-value international students will help take the pressure off universities' finances or government funding, and even cost cutting. We need to act as students are now dispersing to Canada and the UK."

On the business-front, Paviour-Smith's firm is spending time reassuring its clients in these uncertain times.

"A year ago clients were concerned this would be the worst since the Great Depression — the catastrophising by the media was quite alarming — but the lockdowns have not had the impact on global economies and sharemarkets as some thought.

"Their concern now is the human impact. How long does the Government continue Covid-related spending and what are the implications for the next generation? How do we continue to generate income from our investments? We want to help our families but we need to get our own affairs in order first."

Paviour-Smith says "we are telling clients to stay the course with their investments, and resist the temptation of knee-jerk decisions. Low interest rates are an issue, but with growth in investment values, using some of the increased capital is appropriate. It's an education process — the idea of consuming some of their capital is a bit challenging for some."

MOOD OF THE BOARDROOM

# Reconnecting with the rest of the world . . .

CEOs back a vaccine target but are divided on whether a firm date should be set to open up the border, writes **Fran O'Sullivan**

Nearly three-quarters of respondents to the *Herald*'s 2021 CEOs Survey want the Government to target a firm percentage of New Zealanders to be fully vaccinated before it opens up the New Zealand border.

"We need to vaccinate as many people as we can and hopefully that will be every eligible person," said Beca Group CEO Greg Lowe.

"Once the vaccine programme has rolled out it will be time to move to the next step — careful, safe and progressive reconnection to low risk countries.

"This will entail some level of risk, but as we are seeing from the current situation, closed borders have risks as well."

An airport executive took a different view: "I think it is better to have a commitment to open and then keep options open. A hard threshold might set an impossible hurdle that prevents opening.

"Better to look at a wider set of conditions — but as long as the commitment to open as soon as everyone has had the option to get the vaccine."

The Government's *Reconnecting New Zealanders to the World* framework stops short of being a detailed plan with dates and action. But it's indicative of what has to occur before Cabinet has the confidence to open up in the first quarter of 2022.

Released at a business forum on Thursday August 12, it had barely landed before Ardern put all of New Zealand back into level 4 lockdown at 11.59pm on Tuesday August 17.

But while Ardern has been careful not to set a firm vaccination target for a New Zealand border opening, when it comes to the lengthy Auckland lockdown she has talked up the possibility that 90 per cent of Aucklanders could have had their first dose of the Pfizer vaccine by the time Cabinet reviewed the city's level 3 restrictions last Monday.

Auckland Mayor Phil Goff went further, saying he wants more than 90 per cent of Aucklanders to be fully vaccinated so the gateway city is not subjected to more punishing lockdowns.

THE 90% PROJECT

Let's vaccinate NZ by Xmas

The *Herald* has also launched The 90% Project; a campaign to vaccinate Kiwis, save lives and enjoy freedom.

Ardern's rhetoric suggests she has not backed away from the thrust of the August framework.

A professional firm boss said, "it's not about a firm target. But it is about very, very firm messaging about the importance of vaccination.

"Ultimately, once everyone has had the opportunity to be vaccinated, then they need to move on to reopening pragmatically.

"And if people have opted otherwise then there's not much we can do on that (other than protecting the vulnerable and those that don't have a choice).

"It is collective responsibility."

Fletcher Building chairman Bruce Hassall said the first step was to give everyone the opportunity to get vaccinated. "There will however, come a time (soon I hope) when the rights of the majority who have done the right thing and got vaccinated will need to prevail and those who choose not to get vaccinated will need to live with the risk and health consequences of their decision.

"That's how a democracy works."

"The higher the vaccination rate, the better for the country," observed Mainfreight CEO Don Braid.

Said the EMA's Brett O'Riley: "We need to encourage all New Zealanders that can be vaccinated to be vaccinated, and be bold about it.

"This is like a wartime footing and requires bold aspirations. push hard now and make as available as possible until bookings taper off."

"Are we going to be a hermit nation forever?" asks a food industry chief.

Views are mixed when it comes to setting a date for the border opening.

Beca's Lowe, who is among the 44 per cent who don't believe the Government should set a firm date, said "we all understand the strategy is to vaccinate first — that's the first step to a more normal environment.

"We should be planning now for what happens at that point.

"What are the safe steps to progressive reopening and reconnection — to which countries, under what rules and with what processes?

"We also need to think further out than just border access.

"How will Kiwis prove vaccine status when overseas beyond the arrival airport ?

"This will be critical for access to everything from transport, to accommodation, food, etc.

"We should be actively working on international data protocols now as they will take some time to establish".

Hayden Wilson of Denton Kensington Swan agreed: "Setting concrete dates in the face of a shifting and unpredictable virus is at least naive and at worst foolish."

Some 42 per cent of CEOs wanted a firm date.

Said an independent director, "If you don't have a target you don't have the pressure to get the system up to drive to achieve the target.

"Give people who have family offshore the hope! Be bold, set a target and go for it."

A professional firm CEO added: "It will always be subject to deferral if things change."

"Regardless of progress to date, any decision is heavily nuanced and needs to be made based on the facts and situation at the time," said a dairy executive.

"Those calling earlier for open borders, then Australia, then Pacific Islands didn't take long to turn against their earlier views."

A Government adviser was categorical. "No, it will all be wrong. There are too many uncertainties around how the virus will continue to evolve and how the New Zealand population will step up to the vaccine challenge.

"First quarter next year — which really means February/March — is precise enough for us."

An aviation sector executive said the border decision should be based on situational position not a hard date." However, an expectation would be good."

"We need to adapt — the virus is," said Kevin Obern of OfficeMax.

> We need to encourage all New Zealanders that can be vaccinated to be vaccinated. Be bold about it. This is like a wartime footing and requires bold aspirations. Push hard now and make as available as possible until bookings taper off.
>
> Brett O'Riley EMA.

## Firm vaccination target?

Yes **74%**

No **21%**

Unsure **5%**

## Firm date border opening

No **44%**

Yes **42%**

Unsure **14%**

## Ditching the bubble: for how long?

CEOs are not confident the transtasman bubble will reopen this year.

Nearly two-thirds of respondents to the *Herald*'s CEOs survey are predicting that quarantine-free travel across the Ditch will not resume in 2021.

Among the one-fifth who predict it might, many place caveats, such as that transtasman travellers may find themselves having to produce a vaccine passport, as well a pre-departure Covid test, and go into MIQ/self-isolation on arrival either side.

The travel bubble was punctured in July when the NZ Government paused quarantine-free travel between the two countries after just 95 days. This came as Australia's Covid-19 outbreaks in New South Wales and Victoria worsened.

Within weeks the Covid Delta variant had broken out here.

Aviation sector executives responding the the survey said they don't expect the bubble back in the form it was. Air NZ CEO Greg Foran has announced the airline will require all adult international passengers to be fully vaccinated from February 1 next year.

Said an exporter: "Transtasman is the safest airbridge. Both countries are now on a high Vax journey and should be able to move as one."

A Government adviser was cautious: "Not unless NSW gets their act together — leadership and adherence to lockdown rules has been woeful to date — so doesn't give me much cause for optimism."

"The Australian media suggests it is likely Australia will move away from an elimination strategy to a public health management strategy — which would imply an acceptance of some level of community Covid there," says Lloyd Kavanagh from MinterEllison -RuddWatts. "It follows NZ cannot open a travel bubble, unless NZ gives up on elimination here."

## Will the bubble reopen in 2021?

No **63%**

Yes **19%**

Unsure **18%**

## What are our best moves for the future of living with Covid?

**The Herald asked CEOs:** What more could the Government invest in to ensure NZ minimises the continuing economic impact of the coronavirus epidemic amidst an environment where new variants might emerge?

- Public-private partnerships for quarantine facilities where essential workers' can be quarantined at companies' cost — **73%**
- Intensive contact tracing for Covid-19 using 'best in class' technological capabilities ie mobile phone/EFTPOS tracking — **73%**
- Mandatory vaccination certificates to enter restaurants and bars (once the initial vaccination period is finished) — **56%**
- Mental health and individual wellbeing — **51%**
- Declared air bridges with major trading partners (eg China, Australia, US) as they get their populations vaccinated and bring Covid-19 under control — **51%**
- Public-private isolation facilities for international education students — **45%**
- Separate Government operational agency to manage the future impact of the Covid-19 pandemic/subsequent pandemics instead of through Ministry of Health — **45%**
- Intensive and regular batch testing for Covid-19 to catch the extent of community transmission early — **42%**
- Attract foreign high-net worthers to move to NZ and invest here to create jobs — **40%**
- Public-private partnerships for quarantine facilities for international tourists — **36%**
- Greater use of masks in public environments — **30%**

**CEOs were asked to tick all that applied and to make their additions to the list.**
**Here's some of those suggestions:**

- My fear is the Government does not want to do any of the above because it will look like failure — why haven't they done these things so far? Leadership does involve the willingness to not only 'listen" but adapt and act on other peoples good ideas. (independent director)
- Attracting foreign investment to create jobs only makes sense if we have labour to fill those jobs. While some privately funded quarantine makes sense, enabling fully vaccinated travellers from lower-risk countries across our border without quarantine is a more valuable focus. Key enablers are much better testing technologies — faster, cheaper, less invasive, just as accurate as nasal PCR . . . we have been woeful in evolving our testing strategy. And significantly enhanced tracing (Covid app and domestic vaccine passport/certificate requirements. (Government adviser)
- Public private partnership should come with incentives to get it right i.e. fines. Cost of lockdown is severe. (Not-for-profit CEO)
- We are going to need to learn to live with coronavirus. All of the above assume a NZ where we quarantine arrivals. Why would you come here if you gave to be quarantined? (Carol Campbell, T&G Global)
- Disturbing that you are presenting these gulag options as long term solutions. (Banker)
- Use of more high-tech and quick turnaround Covid tests including microfluidics from pinprick blood samples. (Science CEO)
- Clear incentives to be vaccinated by a certain date — greater flexibility for those vaccinated and a firm line that those who are not will miss out. (Investment banker)
- Stop raising expectations around virus elimination and start investing in personalised health strategies and solutions. (Craig Stobo, LGFA)
- NZ needs to transition to an environment where vaccinated workers may not want to work alongside non-vaccinated workers — implications for customer contracts. (Peter Reidy, Fletcher Construction)

> I don't think the Ministry of Health has the expertise or competence to run our response. It is a bit like the Earthquake Commission where it has had a role imposed upon it that is way ahead of where it historically has been.
>
> Tony Carter Datacom

MOOD OF THE BOARDROOM

# CEO plea: 'Open border

Finding and retaining people with skills is the biggest concern for business leaders writes **Tim McCready**

The tight New Zealand labour market threatens to undermine our post-pandemic economic recovery as skills shortages increase.

It is such a headache for CEOs that a considerable 71 cent of respondents to the *Herald* survey say sourcing and retaining skilled staff is one of the key issues keeping them awake at night.

Stats NZ data shows the unemployment rate fell from a recent peak of 5.3 per cent in the September 2020 quarter to 4 per cent in the June 2021 quarter.

> We have some significant recruitment challenges in the immediate term.
>
> Jolie Hodson, Spark

The situation is exacerbated by the current Covid-related border restrictions.

Some 72 per cent of survey respondents say their business operations have been hindered by the inability to bring essential skilled executives, investors, or workers across the border.

A further 25 per cent have not been affected.

Spark CEO Jolie Hodson says she sees pressure on skills in areas like cyber security, data automation and AI.

"We're committed to doing our part in training and investing in our employees in these areas, and in creating pathways for entry level talent and in some cases for internships," she says.

"But these are long and medium-term solutions, and we have some significant recruitment challenges in the immediate term."

MinterEllisonRuddWatts chair Sarah Sinclair, says "current preferred candidates for roles remain offshore."

Similar challenges were shared by others in the tech sector.

"Twenty per cent of open roles are currently unstaffed," says the CEO of

continued on B15


## VIEWPOINTS

**Food manufacturer:** Anyone who suggests that the 4 per cent who are currently not employed are the solution to our staff shortages is out of touch. No clear immigration strategy, and MIQ bottlenecks, make it impossible to recruit staff offshore, and equally challenging to retain staff who have valid visas that are due to expire soon. Solution — a clear immigration policy that listens to the needs to business.

**Tech boss:** If we start seeing a net outflow of skilled people (e.g. teachers, nurses, builders) once the borders re-open, NZ needs to decide what kinds of people it wants to attract and how to get them. Business would probably happily go back to the days when the doors were open for low-wage, low-skill people (to continue to suppress wages) but in the long-term it's not a winning strategy. Somewhere between that and attracting the rich (who don't need to work and whose 'investments' are largely unproductive). Go back to the days when we targeted skills, helped them move to NZ and settle them anywhere but Auckland or Wellington.

**Agribusiness boss:** It is completely unacceptable for fruit to be rotting because there are insufficient workforce willing to pick, market gardeners selling out because they can no longer get crops picked. Restricting migrant workers won't drive redundant airline pilots into picking apples or asparagus — it will drive businesses broke. Farmers are short of workers = massive stress — not everyone in NZ is willing or well-suited to working on a farm — Filipinos are and they value working in NZ but they can't join us. Many of those who are here are leaving because they haven't seen their families for up to two years — they can't get back here once they leave. Immigration policy is a mess. There seems to be an assumption that if we only paid Kiwis more they would do work typically done by migrants in various industries including agriculture and horticulture. I'm not sure that is right, it doesn't suit everyone to up sticks and move to rural NZ or do the type of work required. We need to support these sectors to pick their fruit, work on their farms, etc. Without that support we won't have the taxes to support our communities with the public services we want."

## Offshore recruiters raise the bar

Many CEOs and directors fear that offshore competition may make recruiting staff even more challenging.

Some 47 per cent said their companies have been impacted by Australian and UK recruiters targeting New Zealanders with job opportunities and higher remuneration and benefits packages. A sizeable 45 per cent said that had not been the case.

Some underscored "not yet"; 8 per cent were unsure.

An executive in the dairy industry suggests "there is a wave of competition for skilled and talented employees that will need to be met with remuneration and benefit packages, but also approaches such as flexibility and purpose and culture of the organisation".

"My sense is that we are just seeing the beginning of this, but net flow is outwards," says Accordant executive director Simon Bennett whose firm is the only listed recruitment company on the NZX.

> My sense is that we are just seeing the beginning of this, but net flow is outwards.
>
> Simon Bennett, Accordant

Meridian Energy chief executive Neal Barclay commented that competition for software engineers in particular is building.

A similar view is shared by Forsyth Barr managing director Neil Paviour-Smith: "IT workers are in particular being targeted across the Tasman."

But this issue is clearly not only a problem for the IT and technology sectors.

"We have lost a couple of staff to Australia, and we expect to lose more," says a boss in the manufacturing sector.

"A few of our people have taken up opportunities in Australia," says a professional services firm executive.

Beca's CEO Greg Lowe says he expects to see younger people take advantage of job opportunities overseas as travel routes re-open.

"That's why it's important that we can recruit those that want to come here for work experience," he says.

"Labour markets are a global system and border constraints have created all sorts of distractions."

A tourism boss warns thought that great talent will continue to leave unless we create the right environment for them to stay.

"Just trading on the fact New Zealand is a great country to live in will not suffice.

"It must also be an exciting and invigorating place to work, where curiosity is embraced and where success is applauded.

"We do not hold up business often as a success story and when we do, they are quickly shut down. That needs to, and can change, if we want it to."

## Wage and salary packages set to rise

CEOs were asked: "Are you looking to increase wage and salary packages across the board "to retain staff and ensure they are fairly remunerated, rather than relying on low cost labour?"

A considerable 75 per cent of respondents say yes, 19 per cent say no, and 6 per cent are unsure.

One director says salaries at the top end are up due to a shortage in the labour market.

"Overall, wages are also up," she says. "We need to focus on making wages in some professions that are key to our long-term success (such as teachers and nurses) much higher."

Beca's CEO Greg Lowe says we need to return to the 'critical skills' approach we had before the pandemic, allowing a range of skills into the country that will help grow the economy and also help train more New Zealanders.

"The current approach is too restrictive and is leading to skill shortages that will reduce opportunities for New Zealanders because it will stifle growth," he says.

Some respondents disagreed with the thrust of the question.

> Businesses are all fishing in the same local pool
>
> Craig Stobo

"You can't GET labour in ALL industries," says NZ Local Government Funding Agency chair Craig Stobo. "Businesses are all fishing in the same local pool. In the absence of capital substitution/productivity changes, wages have to rise. Not all businesses have profit margins to afford this and will have to close."

Says Tower CEO Blair Turnbull: "We don't rely on low-cost labour. We actively support paying a living wage across all our employees."

"This is a serious issue — and forcing wage inflation through New Zealand businesses at pace," adds another director.

Agribusiness has been NZ's hero industry during the pandemic.

An executive in the dairy industry says it is an industry that pays well. "It is not about low-cost labour as all workers are subject to minimum wage rates when working in New Zealand.

"Increasing pay rates to pick kiwifruit (for example) still won't attract people who don't want to do that work. The work is there now and the rates are fair for the work required."

Director Rob Fyfe says low-cost imported labour has never been relied on in the wine industry. "It is not lower labour cost that makes RSE workers attractive but rather their skills and higher productivity levels. As a result, our imported RSE seasonal workers are paid well above New Zealand living wage levels. They've also allowed us to expand production and create additional all year round higher-skilled and added-value jobs in the winery and along our supply chain, which are filled by New Zealanders."

Another director, Cathy Quinn, agrees: "I believe we need to build MIQ facilities outside Auckland so we can bring in Kiwis wanting to return home as well as workers to support the horticulture, agriculture and other industries. If these facilities were outside Auckland we would hopefully avoid lockdowns which cost our economy significantly — let alone the impact on the wellbeing of those going in and out of lockdown.

MOOD OF THE BOARDROOM

# so we can source staff'

continued from B14

a major IT firm.

But this issue isn't restricted to any particular sector.

Tim Myers, chief executive of farm machinery firm Norwood says there is a desperate shortage of skilled technicians and mechanics.

"One, there aren't enough, and two, they're being incentivised to move to Australia with more competitive wages and more affordable housing".

Federated Farmers CEO Terry Copeland shares a similar story.

"Many of our members are reliant on skilled migrant labour and seasonal workers on farms, vineyards, orchards and processing facilities," he says.

"Around 7000 full-time roles are currently vacant and not being filled by New Zealanders."

Almost all CEO respondents — a considerable 94 per cent — say New Zealand should be doing more in the short term to bring in skilled migrants to ensure firms can support economic growth.

An independent director says there is an immediate and very serious labour market shortage that will see New Zealand lose jobs overseas and its relevance as an employment option. "Developing our own skills needs to be done — but it will take time.

"The opportunity/threat is here right now.

"Companies will not wait for the government and many are now setting up hubs overseas so that they can continue to execute their strategy."

The CEO of an agribusiness firm says the widespread business impacts that the lack of workers is having on the industry requires urgent attention.

"If we are going to become less reliant on migrant workers, it will take time — years.

"Just pulling the pin as has been the case is poor judgement, commercially naïve and certainly not representing a just transition."

> The current approach is inhumane, ignores wellbeing and wellness for those involved, and does not represent New Zealand's values of manaakitanga.
>
> Brett O'Riley, EMA

Employing more Kiwis is not the answer," underscores OfficeMax NZ managing director Kevin Obern.

"We have skilled people desperate to move here, there has never been a better time to access those skills."

Adds EMA's Brett O'Riley: "The current approach is inhumane, ignores wellbeing and wellness for those involves, and does not represent New Zealand's values of manaakitanga."

## What keeps CEOs awake at night?

| | |
|---|---|
| Sourcing and retaining skilled staff | 71% |
| Managing the impact of Covid-19 | 58% |
| Ensuring cyber-security | 26% |
| Regulatory challenges | 24% |
| Achieving top-line revenue growth | 24% |
| Meeting customer expectations | 23% |
| Impact of policy uncertainty on my business | 18% |
| Improving operational efficiencies | 17% |
| Managing profit expectations | 15% |
| Changing organisational culture | 15% |
| Competitive pressures | 10% |
| Achieving cost reduction | 8% |
| Digital disruption | 7% |
| CEO — Board relationship | 3% |
| Motivating key reports | 3% |
| M&A (threat) | 2% |

> "I categorise 'Maintaining the mental health of myself and my team' under 'Changing organisational culture'. This is huge — everyone has Covid fatigue"
>
> Property management CEO.

MOOD OF THE BOARDROOM

# Go easy on spending, Grant

Grant Robertson scores a plus mark from business leaders for his financial handling of the Covid crisis but the CEOs now want to see a productive, long-term economic plan, writes **Graham Skellern**

Finance Minister Grant Robertson has been applauded for implementing the wage subsidy scheme but business leaders have warned him to be careful with the latest Covid-19 spending.

An overwhelming 71 per cent of the Mood of the Boardroom respondents said they had confidence in Robertson's management of the economy during the Covid pandemic.

Only 12 per cent said they didn't, and 17 per cent were unsure.

Soon after the pandemic broke out early last year the Government provided an initial support package for business totalling $12.1 billion.

Then Robertson delivered in the May Budget last year the $50b Covid-19 Response and Recovery Fund, and the economy quickly bounced back after the first nationwide lockdown.

The country's gross domestic product (GDP) grew 2.8 per cent in the June quarter this year — double the analysts' forecast — and average annual GDP to June had risen 5.1 per cent.

Do you have confidence in Robertson's management of the economy?

**71%** Yes

**12%** No

**17%** Unsure

The GDP increase in the previous March quarter was 1.4 per cent.

But the economic growth was disrupted when the country again went into lockdown in mid-August and restrictions ran well into September.

There was $5.1b remaining in the Covid fund, and by then people questioning how much money the government needs to borrow and how will it be repaid.

One university chief wondered whether "our children will need to pay this thing back" or taxes will have to go up.

He said the Government could not continue to put the country into lockdown, and businesses deserved more clarity on the long-term plan.

Robertson's main Covid platforms were the Resurgence Support Payment, the Small Business Cashflow Scheme, Business Debt Hibernation, and the Wage Subsidy.

By the middle of last month $2.3b of wage subsidies had been paid out in three tranches, and more payments were due.

The payments for eligible businesses were $600 a week for full-time employees and $359 for part-time.

The cash flow loan scheme provided assistance of up to $100,000 to businesses employing 50 or fewer full-time employees.

This includes sole traders and self-employed businesses.

Businesses claimed the Resurgence Support Payment if their revenue fell 30 per cent over a seven day period after an alert level increase and they met other eligibility criteria.

From the Mood of the Boardroom survey, a transport executive said some parts of Robertson's economic management have been really good, such as the quick moves on the wage subsidy, but spend is now looking political in nature and the wide stimulus has to stop as it is pumping house prices.

An investment banker said "we have to recognise the first six months involved a lot of decision making under extreme uncertainty.

Some big calls had to be made and not all of these would be right.

"However, the last 12 months has just been treading water and hoping for the best."

Tony Carter, chair of Datacom, said in some aspects like the wage subsidy Robertson has done really well, but much of the spending has been pretty low quality.

An accountant said: "The controls around the wage subsidy were too loose."

Another said: "A true assessment will become obvious over the next year or two when we can assess the impact of inflation and the cost of the debt burden that has been created."

Simon Bennett, executive director at Accordant Group, said "we have spent all the money on what was with the benefit of hindsight a very short lockdown relative to rest of world. I'm unsure what we would or will do if we are forced to shut down till Christmas like Sydney."

A professional director said Robertson was the most impressive member of the Labour Government who is willing to listen and respond. But others weren't so sure.

A software boss said he had zero confidence in Robertson, not helped by his smug portrayals of how well he is doing.

"He lacks humility."

A real estate leader described his performance as very disappointing. "This is illustrated by the shameful characterisation of borrowed funds as a Covid fund and then its use for unrelated purposes."

A food manufacturer said "I'm not sure I like his meddling in too many areas, such as Reserve Bank and Air New Zealand."

### So, what more did the business leaders want to see on Robertson's economic agenda?

They wanted more fiscal discipline and accountability, and they are still waiting for a long-term recovery plan that will increase productivity and reconnect the country with the world in terms of trade.

Greg Lowe, Beca's group chief executive, said New Zealand and Australia both face similar challenges in re-establishing connections with the wider world that lead to increased trade for both goods and services. "Finding ways in which we might do that together could benefit both countries and speed up the long term recovery plan."

Kirk Hope, BusinessNZ chief executive, pushed for a more joined up economic approach to high quality growth and a greater level of trust in business to help deliver outcomes.

Two lawyers asked for "increasing per capita productivity in the economy," and "diversification of the New Zealand economy for long term growth."

Federated Farmers chief executive Terry Copeland wanted more support for agriculture to deliver the export earnings rather than ignoring the implications several key pieces of legislation is doing.

"We need to invest in projects that create growth, not glory projects like the (Auckland) Harbour Bridge cycleway."

Doug Paulin, chief executive of Sealord, said rather than driving costs up through policy reform in many areas, Robertson should promote business growth and investment.

Mike Bennetts, chief executive of Z Energy, said "we need to ensure more effective and higher quality spend from both the Covid response and government budgets, and invest in enablers of higher growth and more socially equitable activities, such as infrastructure and technology."

A real estate leader wanted responsible management of the Crown balance sheet and affairs, particularly achievement by ministries of results for the dollars spent — education and mental health, for example, where the results have been appalling.

Don Braid, managing director of Mainfreight, suggested a reduction in State control and be more open to public-private partnerships to reduce the rise in bureaucracy. Braid also wanted more accountability to the economic agenda.

Stephen Jacobi of Jacobi Consulting said Robertson needed to look at capacity constraints as a brake on economic growth and recovery.

> We have to recognise the first six months involved a lot of decision making under extreme uncertainty. Some big calls had to be made and not all of these would be right. However, the last 12 months has just been treading water and hoping for the best.
>
> Investment banker

Craig Stobo, chairman of the New Zealand Local Government Funding Agency, wanted a review of the efficacy of government departments and agencies.

"Please explain the value add of the Infrastructure Commission."

Brett O'Riley, EMA chief executive, is looking for more coherence on the sector transformation process and how "our goal of building a flexible and highly skilled future workforce equates with policies like fair payment agreements."

Tony Carter asks: "How do we get government debt, which is a tax on our children, back down."

Maybe Roger Partridge, chairman of The New Zealand Initiative, has the answer: "Strengthen the fiscal capabilities and discipline of central government ministries."

MOOD OF THE BOARDROOM

# There's a new mountain to climb

Shadow Treasurer Andrew Bayly has yet to make headway in the eyes of business leaders writes **Tim McCready**

Andrew Bayly has scaled Antarctica's highest mountain and is one of only an estimated 150 people who have trekked to both the North and South Poles.

But scaling political heights and making purchase with CEOs is a tough ask against a respected Finance Minister.

NZ business leaders were asked in the *Herald's* Mood of the Boardroom survey whether Bayly, who was awarded the role of National's shadow treasurer following the 2020 election, presents himself as a credible future treasurer.

Nearly half of the survey respondents — 47 per cent — are unsure. Of the remainder, 35 per cent said no and just 18 per cent responded yes.

"To date he hasn't been able to make the inroads I suspect he would have liked with the public at large," says Deloitte chair Thomas Pippos.

That said, he's been described as a "clear thinker" by a logistics chief and "very impressive" by Anthem's Jane Sweeney.

Bayly has been seen in the media a good deal more lately, which is helping to raise his profile and ideas among the public and business community. This includes a recent interview with Liam Dann for the *Herald*'s Economy Hub.

He told Dann that he's comfortable with the cost of the Government's pandemic response, which has risen to close to $120 billion.

"Except where in the Covid fund — $62 billion set aside for Covid — $12 billion has been put into a whole host of projects that have had nothing to do with Covid," he said.

"I think that's wrong. I would have kept that $12 billion to do rent support packages for businesses."

Bayly says he'd stop the non-Covid programmes and keep more money to deal with the prospect of Covid disruption going on well into next year.

He says the other big global issues are the squeeze on labour movement and the supply chain for goods.

"I think we should expect we're going to have supply chain disruption until the end of 2022," he says. "A 40ft container was roughly US$1500 — now it's $10,000 to $12,000.

"There's a huge additional cost on our exports. Those are the big international issues that will be affecting our economy."

Bayly also argues that the way Labour is treating business doesn't match the rhetoric. He wants worker shortages addressed urgently — and that means a focus on immigration.

He is worried New Zealand has trashed its reputation as a desirable destination for skilled immigrants.

> Andrew's a very nice chap, but he seems to go down obscure rabbit holes that don't help his party's wider economic narrative.
>
> Food producer

Judging by the responses to the Mood of the Boardroom survey, he is now concentrating on areas that concern chief executives.

Others to give him an uptick include Federated farmers Terry Copeland: "Too unknown. He is capable."

"I've been reasonably impressed," adds Datacom's Tony Carter.

"His resume suggests he has the credentials," says a food producer. "But he continues to come across as very green and inexperienced."

"Andrew's a very nice chap, but he seems to go down obscure rabbit holes that don't help his party's wider economic narrative".

The former New Zealand Territorial Army officer, British Parachute Regiment member and merchant banker entered Parliament as the Hunua MP in 2014 and retained the seat in 2017. At last year's election he contested the new Port Waikato electorate and was re-elected with a margin of more than 4200 votes.

He has taken strong stances on Government "interference" in Air New Zealand's affairs and scoped a compelling capital markets agenda.

Some of his ideas in this area include having a closer strategic alignment between companies, entrepreneurs, financiers and government institutions, including research and development institutions.

> Is Andrew Bayly a credible future treasurer?
>
> **18%** Yes
> **35%** No
> **47%** Unsure

He says the role of Government needs to be as an active participant, working alongside and facilitating change as and when required and ensuring there is a process to match public funding alongside the public sector so that high value IP can be commercialised.

He also wants to see more done to encourage multinational firms to undertake R&D in New Zealand, alongside encouraging large NZ corporates to support exciting start-ups in their sectors.

However, one of the challenges that has always come with the Opposition finance post has been the ability get cut-through — it is a position where, often, credibility comes once in the role of finance minister.

This is a challenge that the current Finance Minister Grant Robertson himself faced for many years while in opposition against then-Finance Minister Bill English.

This hurdle is even higher for Bayly given he is the fourth opposition spokesperson since Labour came into power four years ago, following in the footsteps of his predecessors Steven Joyce, Amy Adams and Paul Goldsmith.

On top of this, the role has been carved into two by National Leader Judith Collins to follow an Australian model with both a treasurer and a finance spokesperson.

In the Australian system, the main responsibility of the treasurer is to deliver the Budget each year and oversee the taxation system, whereas finance — a role held by National's Michael Woodhouse — is more focused on the detail of costing and financial reporting.

This lack of visibility was heard from many of the business leaders responding to the *Herald*'s survey. Despite Bayly being National's third-ranked MP, many say they have not heard of him.

"Never see or hear from him," says Devon Funds founder and executive chair Paul Glass.

"I had to Google him," said an exporter. Said a director: "I have not seen or heard enough from him to know."

This lack of visibility comes despite a series of boardroom presentations he has been delivering recently in the business community.

Business leaders were asked how well he has connected with business in his role as a shadow treasurer on a scale where 1 = not impressive and 5 = very impressive.

Bayly scored 2.86/5, suggesting his efforts still have a way to go to win over the country's top boardrooms.

"Haven't seen him in action," says Suncorp NZ chief executive Jimmy Higgins.

# HOW THE MINOR PARTY LEADERS RATED

**DAVID SEYMOUR (ACT) 4.36/5**

**JAMES SHAW (GREENS) 3.01/5**

**DEBBIE NGAREWA-PACKER (MĀORI PARTY) 2.04/5**

**RAWIRI WAITITI (MĀORI PARTY) 1.96/5**

**MARAMA DAVIDSON (GREENS) 1.86/5**

Act's David Seymour is the stand-out minor party leader according to the 2021 *Herald* CEOs survey. He even rated ahead of National's Judith Collins on the latest 1 News Colmar Brunton preferred PM poll at 11 per cent to Collins' 5 per cent.

Many CEOs have marked him out as the de facto Opposition leader.

Greens co-leader James Shaw continues to impress business leaders who ranked him third in their ratings of Cabinet Ministers on ministerial performances; marginally ahead of fourth-ranked Jacinda Ardern.

Shaw is shepherding through challenging climate change reforms and has painstakingly worked to take the business sector with him. He will represent NZ at COP 26 in Glasgow at the upcoming UN Climate Change conference. His co-leader Marama Davidson does not have cut-through.

The Māori Party co-leaders debut for the first time in the CEOs survey.

Debbie Ngarewa-Packer and Rawiri Waititi became MPs at the 2020 election — three years after the party was last represented in Parliament. They have been a been a vocal and forceful presence in Parliament.

Datacom's Tony Carter said: "While I don't agree with many of the Māori party views, their leaders are passionate advocates for them which you can respect," a view replicated by some other CEOs.

● **Will the Opposition leader stand up? B20-21**

MOOD OF THE BOARDROOM

# Labour's stars take a tumble

New faces entered the CEO's rankings writes **Fran O'Sullivan**

Finance Grant Robertson is again the top Cabinet performer in the eyes of CEOs, but his 3.65/5 rating is down on last year's 4.18/5 result.

Chief executives — and key directors — who responded to the 2021 Mood of the Boardroom survey rated the Ministers' performances on a scale of 1-5 where 1 equals not impressive and 5 equals very impressive.

Robertson, who was also elevated to Deputy Prime Minister after the post-2020 election, is the go-to Minister that Auckland business reaches out to when they have problems "dealing with Wellington" — aka Covid announcements imposed without any reference to business first to test whether they are practical.

CEOs admire the plucky fight that newbie Cabinet Minister Kiri Allan (3.15/5) has put up against cervical cancer. But there is also recognition that she carries that spirit through to her Conservation and Emergency Management portfolios.

While James Shaw does not sit in Cabinet he was highly marked by CEOs at 3.06/5. "James Shaw has managed to make climate change a key role in driving policy direction,"

> Some of these Ministers perform well in some portfolios and very poorly in others.
>
> Banker

said a utility sector chief. "I don't think it is the right direction. But it is impressive that a minister who is not in the ruling party has had as much influence as he has.

"Pity he can't put that energy and intellect into housing!"

For Jacinda Ardern at 4th place this year, her rating is a reflection of a failure to build sufficient confidence with business.

Immigration Minister Kris Faafoi has lost reputational footing with CEOs. Ranked at 19th place with a 2.17/5 rating; the result of the lengthy time it took to address the urgent need to fast-track residency applications to avert a labour shortage.

Datacom chair Tony Carter was on point: "Faafoi in Immigration is an absolute disaster. Wood in Transport seemed to start off well but the ridiculous cycle bridge destroyed his credibility.

From a food industry CEO: "If there was a score lower than 1, I would give it to Faafoi."

In 2019, Faafoi was rated highest by CEOs in this survey at 3.58/5 — seen as one of the "unsung heroes" of Cabinet and an "engaging and safe pair of hands" in the Commerce portfolio.

An experienced banker noted, "Some of these Ministers perform well in some portfolios and very poorly in others.

"Nanaia Mahuta, for example, I think has performed reasonably well (by which I mean "carefully"!) in her Foreign Affairs portfolio, but in my view very badly in her Local Government portfolio."

Accordant executive director Simon Bennett said many are unknowns and have marked as unimpressive as a result which may not be fair.

It is however, fair to say, that many Ministers have been out of the public eye during the various lockdowns.

Kris Faafoi has plunged from top of the rankings in 2019 to 19th.

### How the Executive fared

The list includes Cabinet Ministers and Ministers outside Cabinet.

1. Grant Robertson (Finance) 3.68/5
2. Kiri Allan (Emergency Management) 3.15/5
3. James Shaw (Climate Change) 3.06/5
4. Jacinda Ardern (PM) 3.03/5
5. Chris Hipkins (Covid Response) 2.96/5
6. Andrew Little (Health) 2.85/5
7. Ayesha Verrall (Food Safety) 2.81/5
8. Nanaia Mahuta (Foreign Aff.) 2.76/5
9. Damien O'Connor (Trade/ Agriculture) 2.58/5
10. David Parker (Environment) 2.57/5
11. Peeni Henare (Defence) 2.51/5
12. Aupito William Sio (Pacific Peoples) 2.4/5
13. Megan Woods (Energy) 2.38/5
14. Stuart Nash (Tourism) 2.34/5
15. Meka Whaitiri (Customs) 2.33/5
16. Jan Tinetti (Internal Affairs) 2.22/5
17. Willie Jackson (Māori Dev.) 2.2/5
18. Priyanca Radhakrishnan (Ethnic Communities) 2.2/5
19. David Clark (Commerce, Digital) 2.17/5
20. Kris Faafoi (Immigration) 2.17/5
21. Michael Wood (Transport) 2.15/5
22. Marama Davidson (Prevention of Family & Sexual Violence) 2.14/5
23. Carmel Sepuloni (Social Dev.) 2.09/5
24. Poto Williams (Construction, Police) 1.98/5
25. Phil Twyford (Disarmament) 1.79/5
26. Kelvin Davis (Corrections) 1.73/5

### Rating the mandarins

CEOs were also asked to run their rulers over the performance of the bureaucracy. The IRD came out top at 3.5/5 with NZTE (3.28/5), Customs (3.12/5), Treasury (3.05/5), MPI (2.99/5), MFAT (2.98/5), DPMC (2.9/5) and the Ministry of Environment (2.65/5) following behind.

Ministries which have been Covid-facing like MBIE (2.56/5) and Health (2.39/5) were down-rated. Transport (2.48/5) and Education (2.28.5) also had low scores.

Said an experienced banker: "MPI and MFAT are doing a professional job, but Health (lamentably unprepared for the pandemic).

"Education (injecting lots of woke issues but failing to maintain standard and police truancy), MBIE (responsible for our lamentably inadequate immigration programme) and Treasury (poor forecasting record) have let the side down."

### Top performers in the bureaucracy

IRD **3.5/5**
NZTE **3.28/5**
Customs **3.12/5**
Treasury **3.05/5**
MPI **2.99/5**
MFAT **2.98/5**
DPMC **2.9/5**
Environment Ministry **2.65/5**

### How the Government has performed

"Positive on goals. Lousy on how and execution," was the blunt summation of a former economist turned CEO when it came to assessing the Labour Government's's performance in some key areas.

CEOs rated the Government's support for Māori and Pasifika at 3.45/5 ahead of its response to the Covid pandemic (3.35/5).

"Across almost all these areas — with trade being the standout exception — the direction of travel needs to be better," says the NZ Initiative's Roger Partridge.

Said a banker: "The economy is performing well compared to other economies but the transformation agenda is not clear."

### Government performance in key areas

**Top Performance**
Supporting Māori and Pasifika aspiration 3.43/5
**Covid-19 pandemic**
Response to the Covid-19 pandemic 3.35/5
**Core business**
Maintaining fiscal responsibility 2.88/5
**Room for Improvement**
Consultation with business 1.85/5
**Abysmal Performance**
Immigration 1.77/5
**Worst performance**
Housing affordability 1.7/5
Ratings: Māori and Pasifika aspiration (3.43/5); Response to the Covid-19 pandemic (3.35/5); Strong international relations (3.27); Fiscal responsibility (2.88/5); International trade agreements (2.84/5); Climate change (2.71/5); Regional Development (2.7/5); Managing appropriately Covid fund (2.68/5); Mental health (2.47/5); Children's wellbeing (2.18/5); Infrastructure deficit (1.91/5); Policy execution (1.90/5); Economic transformation (1.87/5); Consultation with business (1.85/5); Transport constraints (1.82/5); Immigration (1.77/5); Housing shortage/affordability (1.7/5).

## Cabinet KPIs

Cabinet Ministers and Ministers outside cabinet ranked by CEOs:

1 *Not impressive* <····> *Very impressive* 5

Herald *Mood of the Boardroom* CEOs Survey 2021 / Herald graphic

1 **Grant Robertson**
*Finance*
**3.68**
**–0.5 on last year**

2 **Kiri Allan**
*Emergency Management*
**3.15**
—

3 **James Shaw**
*Climate change*
**3.06**
—

4 **Jacinda Ardern**
*Prime Minister*
**3.03**
**–0.88**

5 **Chris Hipkins**
*Covid-19 response / Education*
**2.96** **–0.16**

6 **Andrew Little**
*Health*
**2.85**
**–0.39**

7 **Ayesha Verrall**
*Seniors/Food Safety*
**2.81**
—

8 **Nanaia Mahuta**
*Foreign Affairs*
**2.76**
—

9 **Damien O'Connor**
*Trade*
**2.58**
—

10 **David Parker**
*Environment*
**2.57**
**–0.47**

Herald *Mood of the Boardroom* CEOs Survey 2021 / Herald graphic

MOOD OF THE BOARDROOM

# NATIONAL NEEDS TO HOLD GOVERNMENT TO ACCOUNT

**Tim McCready**

National needs a refresh and to concentrate on the issues that matter. That's the clear message from New Zealand's business leaders in this year's Mood of the Boardroom survey.

When asked whether the party has sufficiently renewed its personnel at both party and political levels as well as policies since the election, an overwhelming majority — some 90 per cent — say no. Just 2 per cent say yes, while 8 per cent are unsure.

Has National sufficiently renewed its personnel and policies?

**90%** No
**2%** Yes
**8%** Unsure

The election saw 23 MPs lose their seats. At the party's annual conference held in August, National party president Peter Goodfellow was under pressure since the disastrous election result — particularly due to his involvement in several troubling candidate selections. But despite a challenge from former speaker David Carter, Goodfellow was re-elected to the position and Carter resigned from the board, despite only joining last year.

"Goodfellow should have stepped down and commenced renewal from the top down," says a media executive.

A lot of experience has left since the election which is unfortunate — some had to go, but the volume of talent leaving was concerning," says Federated Farmers chief executive Terry Copeland. "On the flipside, they haven't replaced the party president which is perhaps stopping change and regeneration which is desperately needed."

MinterEllisonRuddWatts partner and SkyCity Entertainment director Silvana Schenone says "they desperately need to show new leadership."

"It is still very much in a rebuild mode," says Deloitte chair Thomas Pippos.

But a professional director says that is not to say the potential isn't there — "but it's certainly not publicly visible at the moment, with a couple of exceptions."

### Focus on the issues that matter

Business leaders were asked to comment on where National should be making more inroads in its role as the prime Opposition party.

This prompted several chief executives to respond with just a single word: "Everywhere!", and one banker to joke: "This is a trick question. It's not the Opposition, Act is!"

Many of the criticisms lobbed at the party are due to its failure to focus on the issues that matter to the electorate. Several CEOs expressed concern that side issues like the painting of Winston Churchill in Parliament seemed to receive more attention than the economy and holding the government to account on key priorities — namely poverty, health, housing, education, infrastructure, crime, and the country's route out of the pandemic; although MP Chris Bishop's work in this area was acknowledged.

Dentons Kensington Swan chair Hayden Wilson says the reality for National is that they are at the point the Labour party was at in 2013/2014:

"They had a really tough election, they had some quite significant divisions within their caucus, and that led to a complete lack of message discipline."

He points to the debate around whether or not the country should be called Aotearoa.

"I do not think they are focusing on the things that New Zealanders are worried about, or the things that New Zealanders don't presently vote for them worry about," he says. "That does a disservice to the people in the National party caucus who are doing sterling work on the issues that matter."

"What New Zealanders want to see in an Opposition is someone that they would be comfortable running the country. That means having ideas about things that matter.

"We haven't seen that from the Opposition since the election."

A professional director shares a similar view: "National has not focused its airtime on the issues that matter most to the business community. Coming out with clear policy on issues where the Government is falling short would help, also calling for more Government accountability."

"They have lost touch with the emerging voting base," says Norwood CEO Tim Myers.

"National used to stand for intelligent conversation and fiscal responsibility," suggests a technology entrepreneur. "All I hear now are cheap shots and complaints, I have no idea what they even stand for anymore."

Says a property executive: "The immigration policy was an excellent one, released without fanfare or PR support... and was almost immediately lost in the noise around the Aotearoa referendum."

Others suggest national needs to focus on credible, workable alternative policy — not just discussion documents filled with questions and "demanding the debate".

> What New Zealanders want to see in an Opposition is someone that they would be comfortable running the country.
>
> Hayden Wilson, Dentons Kensington Swan

"They need to outline what they would do, how and why," says the head of an investment firm. "At present it comes across as quibbling and bleating."

Says the head of a bank: "Detailed alternative policy agenda which reflects the things that matter outside the beltway. Having a view is more important than criticising."

The party needs to focus on its values and what it stands for — connecting with New Zealanders on issues that matter and not the ones that don't," says BusinessNZ CEO Kirk Hope. "Stay off Twitter!"

# Collins has 'lost sight' of issues

## And business leaders have lost confidence in National's leader writes **Tim McCready**

New Zealand's top chief executives say National's Judith Collins is failing to hit the mark as Opposition leader.

Their support for Collins has waned, with concerns she has lost sight of the issues that matter to New Zealand, and that her negativity is not appealing to the wider electorate.

In this year's Mood of the Boardroom survey, New Zealand's top business leaders were asked to rate Collins' performance as Opposition leader — holding the Government to account on critical national issues — on a scale where 1 = not impressive and 5 = very impressive. She received a score of 2.06/5. This compares to 3.52/5 in last year's survey, held one month prior to the 2020 election.

Over one-third of respondents — some 35 per cent — scored Collins 1/5 for her performance.

Former National leader Simon Bridges received a score of 2.50/5 in his last Mood of the Boardroom survey as leader in 2019.

Collins has an impressive political track record, having served as Minister of Corrections, Police, Justice and for ACC in the Sir John Key and Bill English-led governments.

Prior to entering politics she was a commercial lawyer serving as Auckland District Law Society president and as a Housing New Zealand director.

Some say she is in an unenviable position with a tough job. "She has been handed a hospital pass and is trying her best," says independent director Carol Campbell. "But she has no support from her party."

Says another chair: "Being leader of the Opposition is a bloody tough job — particularly when the media is aggressively hostile."

Others suggest Collins' lack of strong leadership and negativity is giving the Government an easy ride.

"Hopeless," says Devon Funds Management principal Paul Glass. "Labour's best asset."

"I am yet to see Judith do anything other than complain," says a leading entrepreneur. "I'd much rather see her lead her opposition by offering smart solutions."


"Always bitter and negative. Rarely constructive," says an IT boss.

"She has lost the confidence of her caucus, which has made National unelectable. There needs to be a change," says Datacom chair Tony Carter.

> She has lost the confidence of her caucus which has made National unelectable. There needs to be a change.
>
> Datacom chair Tony Carter

National is still languishing in the polls. The most recent polls by 1 News-Colmar Brunton, Newshub-Reid Research and Roy Morgan put National at 26, 28.7 and 25 per cent, respectively.

Under Collins' leadership, the National Party launched its campaign to "demand the debate". The party says: "New Zealanders are being left out of important decisions as Labour continues to make policy announcements that were never campaigned on and will have a significant impact on New Zealanders".

Some of the issues National has called out as part of this campaign include the Government's 2019 *He Puapua* report, the Government's "feebate" policy, gangs and crime, and homelessness. But the survey has seen business leaders express serious concern over the issues Collins is focused on. "Her instincts are all wrong," says an investment banker.

"She seems disconnected to most New Zealanders," says Federated Farmers CEO Terry Copeland.

A company director: "I'd love to see her focusing on the issues that will really matter for New Zealanders and especially the next generation of New Zealanders, so that she and National have some renewed relevance."

### Referendum panned

Judith Collins' "demand the debate" campaign was amplified by Kaikōura MP Stuart Smith, who said the country's name was being changed by de facto to Aotearoa instead of New Zealand.

Smith argued for a referendum saying the government is increasingly using Aotearoa instead of New Zealand.

He acknowledges the issue is divisive, but says that's why New Zealanders should vote.

Should there be a referendum on New Zealand's name?

**67%** Don't support
**23%** Support
**10%** Unsure

Said Collins: "I think Stuart's making a very good point and . . . certainly we're hearing that around that people are saying 'we want to have a debate on this'.

"I think it's probably something we could go to a referendum on and ask what people want. People are starting to get I think quite tetchy about it, and they're feeling like that because they're not being included in the debate."

But support for a referendum on the country's name falls flat with CEOs. Just 23 per cent say they support a referendum. Some 67 per cent don't support the call, and 10 per cent are unsure.

"Collins' dog-whistling racism and anti-wokeness puts New Zealand back 30 years," says one director."

A real estate boss commented that they are simply astounded that this issue came up at all — much less the airtime it received:

"Where is the communications management to ensure the party has a coherent message that it is consistently communicating? We monitor our team's use of social media more carefully than it seems the National Party does with its own MPs."

MOOD OF THE BOARDROOM

# Seymour rises to the challenge

The Act leader is seen by many respondents as de facto Leader of the Opposition, writes **Tim McCready**

David Seymour is impressing NZ's top business leaders, with over 50 per cent of those surveyed scoring him 5/5 for political performance.

When respondents to the *Herald*'s Mood of the Boardroom survey were asked to rate Seymour's performance since the October 2020 election on a scale where 1= not impressive and 5= very impressive, he received a score of 4.36/5 — the highest rating of all political party leaders.

This is also the highest score he has received in the *Herald*'s annual survey. Seymour, who has been in Parliament and leader of Act since 2014, has seen increasing scores over the past three years — 2018: 2.24/5; 2019: 2.37/5; 2020: 4.03/5.

Says Federated Farmers CEO Terry Copeland: "David Seymour is the only minor party leader making any traction in serious debating the major issues."

"David Seymour has been a standout performer with clear communication and pragmatic suggestions," says Beca group CEO Greg Lowe. "There is room for more multi-party collaboration on solving some of the big challenges facing New Zealand."

"Seymour is articulate, challenging, and shows common sense," says an education provider.

A banking chair adds: "David Seymour is faster off the mark than National, and also comes up with more specific positive suggestions."

Respondents expressed their surprise that Seymour has managed to keep himself front and centre of the party.

> David Seymour is faster off the mark than National, and also comes up with more specific positive suggestions.
>
> Banking chair

> David Seymour is making himself visible and crucially, choosing which issues to make a fuss about.
>
> Real Estate CEO

Following last year's election, nine new ACT MPs were swept into Parliament after the party's popularity soared.

For a party that has had only a single MP since 2011, many were concerned about whether Seymour would be able to keep his new caucus — made up of some people that didn't necessarily expect to find themselves in Parliament — in line.

Seymour too was aware of this challenge.

Following the election result, he said: "There's a challenge of course for me leading that team and I want to meld our caucus into a very high performing organisation and of course for them, Parliament is a bit of a weird place sometimes, and there'll be a few ropes to learn but I'm very confident they can do it."

But CEOs say it is a testament to his leadership that his caucus has been disciplined in their public messaging, and is one of the reasons contributing to many respondents suggesting Seymour is the "de facto Leader of the Opposition".

When asked whether Act provides a more credible opposition to the government than other parties, 62 per cent of respondents said Yes.

Some 21 per cent said No, and 17 per cent responded Unsure.

Recent preferred prime minister rankings have seen Seymour pull ahead of National leader Judith Collins, and this notion has been supported by the survey results.

But some respondents caution that people seek out a credible alternative governments, which Seymour alone cannot fill.

"The only visible part of the Act Party has been Seymour," says Dentons Kensington Swan chair Hayden Wilson.

"He has been doing very well, but you need more than one person for a credible Opposition."

"David Seymour has been able to project in an above average manner for a minor party leader and draw a following accordingly," says Deloitte chair Thomas Pippos.

"The nature of the Act partner doesn't lend itself to being the main opposition party."

Many business leaders say that it is the clarity and focus on key issues that is giving Act an edge over National.

When the Delta outbreak hit in Auckland last month, Seymour was quick to respond with calls for the Government to bring back the Epidemic Response Committee, questions about infrequent wastewater testing, and why saliva testing isn't a more widespread approach by the Ministry of Health for Covid-19 testing.

Other Act policies garnering attention include wanting electronic income checks for gang members to prevent them from spending welfare money on alcohol, gambling or tobacco; a teaching excellence reward fund to reward teachers who have demonstrated excellence in their role; and a range of housing policies including GST sharing, build-to-rent, and a public-private partnership for building houses.

"Irrespective of agreement with their policy or otherwise, they regularly present well-constructed arguments that the general population understands," says Norwood CEO Tim Myers.

"David Seymour seems to be voicing genuine concerns of Kiwis," says NZ Local Government Funding Agency chair Craig Stobo.

"David Seymour is making himself visible and crucially, choosing which issues to make a fuss about and which to let go through to the keeper," says the CEO of a real estate firm.

Others applaud Seymour for being in a better position than National to hold the Government to account: "The Nats can't do that at the moment because the public is tired of them."

Another chief executive says that Act is disciplined, focused, policy-orientated, and "makes National look like a party of political amateurs, which is even more impressive considering they are parliamentary rookies with little experience".

"Still think they are better as a minor party pushing an agenda and provoking thought," says the head of a food producer.

"Don't think they could run the country."

### The ascent of David Seymour

**2019 — 2.37/5**

**2020 — 4.03/5**

**2021 — 4.36/5**

MOOD OF THE BOARDROOM

SOCIAL ISSUES

# 'Utterly inexcusable'

The New Zealand house price boom is exacerbating inequality, according to CEOs. **Tim McCready** reports.

The *Herald*'s Mood of the Boardroom survey reveals heightened concern about wealth inequality in New Zealand among our top business leaders.

Respondents are worried about a rise in crime and even outright anarchy if this is not addressed.

A significant 60 per cent of those surveyed say their concern about wealth inequality is higher relative to the past, whereas 40 per cent say the level of their concern has not changed.

"Asset-rich people have done extraordinarily well during this period," says Datacom chair Tony Carter.

"I see with concern how crime and other society issues arise in New Zealand, similar to those in other countries that have suffered of wealth inequality problems for much longer," says MinterEllisonRuddWatts partner and SkyCity Entertainment Group director Silvana Schenone. "This is a big concern for New Zealand, as it can only drive more problems".

The best way to reduce inequality in the long term is to invest in the training and education of our population so that everyone can participate in the benefits of a growing economy," says Beca CEO Greg Lowe. "We need to 'teach everyone how to fish' if we want long term social equality."

One area CEOs have expressed particular concern about is that the most significant inequality comes from those invested in and those excluded from the housing market.

Property values across the country grew 5 per cent in the three months to the end of August, pushing the national average property value to $983,000.

Of the regions, Waikato saw the biggest jump in prices over the quarter, with its average property value up 6.1 per cent from $821,000 to $871,000.

Auckland and Wellington regions remain the most expensive for property, with quarterly growth of around 4.5 per cent pushing their average property value to $1.395m and $1.037m respectively.

"What is so offensive in the current situation is that most of the huge increases in wealth are not the result of hard work, or of inventing something new, or of building a business, but just the result of buying lots of land with borrowed money and waiting," says ICBC (NZ) chair Don Brash.

**Prime Minister Jacinda Ardern at the June opening of the Salvation Army Kaitiakitanga Community Housing in Flatbush with Housing Minister Megan Woods and Auckland Mayor Phil Goff.** Photo / Sylvie Whinray

Another banker observes that an increase in share values is certainly contributing to that growing wealth inequality," but the main contributor is the utterly inexcusable escalation in house prices, or more accurately, residential land prices."

"This needs to be addressed or there will be anarchy in the next 20 years," says a professional director.

Respondents were also asked what the Government's role in wealth inequality should be. This question resulted in many suggestions from business leaders — with housing and education a major focus area.

"Freeing up residential land in a meaningful way would quite quickly reduce the wealth of those who have borrowed heavily to invest in residential real estate, while vastly helping those who currently don't own a home," suggests a banker. "If this were done, there would be no need for a 'heightened safety net'."

### Capital gains taxes?

"New Zealanders are rewarded for investing in housing and driving up prices due to under supply vs demand," says a media boss. "The Government needs to tax capital gains and remove the incentive to invest in housing."

While this year's *Herald* survey did not directly address capital gains taxes, many echoed the call by the media boss. "Get on with some form of capital gains tax... it is simply wrong to get taxed on the likes of shares and not investment properties," says a food manufacturer.

From another director: "We have to fight this growing wealth divide with a capital gains tax — or whatever it needs to be called politically — or we will see the divisiveness emerge in New Zealand that is already prevalent in many other nations around the world."

Others suggest that education must remain a key focus of the Government to help close the gap.

"Education for those in poverty to help them come up the curve — the hand up not the hand out," says one director.

A similar sentiment from a food producer: "Bring the bottom towards the middle, don't drag the top down."

"Ensuring excellent and broad opportunities for education and work (which may be coupled with living wage/ sustainable wage system)," says Schenone. "This gives everyone the opportunity and incentive to earn a decent living and see the effect of effort and reward as a truth available to them."

Another independent director says training more students for STEM (science, technology, engineering and mathematics) capabilities will "get more of our people into higher paid and more relevant roles".

But others suggest responding to wealth inequality is not the role of the government at all — and some say intervention is aggravating the problem:

"Government interference seems to keep making the situation worse," says Devon Funds Management chair Paul Glass.

"I think that relatively speaking there is less inequality now than there has been in the past 200 years," says a director. "Welfare is important, but not to the detriment of signalling the importance of being employed."

> Successive periods of quantitative easing and monetary policy responses since the global financial crisis have increased funds seeking investment returns and reduced the cost of funds and market yields, with a corresponding increase in the value of many asset classes. A by-product of this has been a material increase in wealth inequality, between those with appreciating assets and those without.
>
> 'What is so offensive in the current situation is that most of the huge increases in wealth are not the result of hard work, or of inventing something new, or of building a business but just the result of buying lots of land with borrowed money and waiting.'
>
> **— ICBC (NZ) chair Don Brash**
>
> 'Inequality needs to be addressed or there will be anarchy in the next 20 years.'
>
> **— professional director**

# 'Centralisation will be the enemy of health delivery'

Mainfreight boss Don Braid, says health is a large issue for New Zealand and the sanity of the centralisation of health management needs to be questioned.

"What we know at Mainfreight is a decentralised model works very well," he says. "Place responsibility closer to the customer and the outcome for business and the customer is always better.

"Head office decision-making never works well; it adds layers of bureaucracy and slows down implementation."

"A small, well-run Ministry with a great CEO, who regularly visits all regions to understand where the money and health delivery is needed, just might do wonders for health in New Zealand.

"Centralisation will be the enemy of health delivery in our view."

The EMA's Brett O'Riley adds the health system is not necessarily under-funded, "it is inefficient".

Health Minister Andrew Little recently appointed experienced businessman Rob Campbell to chair an establishment board to set-up Health New Zealand seeing through reforms that will disestablish the country's 20 district health boards, to be replaced by one new body (Health NZ. A Māori Health Authority will work alongside Health NZ with a joint role, commissioning for primary, community and kaupapa Māori services.

> "Invest in the infrastructure (transport, three waters, power, telco) that is needed to underpin solving the housing shortage, which will in turn address housing affordability, homelessness and to a certain extent, inequality and the demands on the health system which arise from the shockingly poor quality of our housing stock.
>
> "Do it at a national level, because councils can't afford it, and centrally fund it.
>
> "Because anything else just piles on unnecessary transaction costs."
>
> **— Property management company CEO**

The quality of the country's health services have been brought into focus by the impact of the Covid-19 pandemic which has stretched resources.

CEOs says that housing and education access/standards are the biggest overall source of inequality and should be near the top of the nation's priority list.

Many of the urgent social issues crying out for attention are interdependent.

"These portfolio/issue areas are inextricably linked, we have a coordination and delivery problem in as much as we have a funding problem," says Haydon Wilson, chairman of Dentons Kensington Swan.

A banker says: "It was very hard to rank these in relation to each other." A lack of investment and courage over time is very much playing out at the moment.

## CEOs say these social issues need urgent attention

**Under-funded health system**
**8.28/10**

**Addressing the housing shortage**
**7.97/10**

**Addressing educational standards**
**7.77/10**

**Addressing housing affordability**
**7.44/10**

**Addressing Māori/Pasifika economic under-performance**
**6.79/10**

**Addressing social inequality**
**6.71/10**

**Addressing homelessness**
**6.60/10**

CEOs rated the priorities for the nation on a scale of 1-10 where 1 = low priority and 10 = high priority

# Take the mantle of responsibility

Business will never succeed if it does not invest in education, says Mainfreight's **Don Braid**

It is an indictment on successive Governments that we have so much to do. Getting our education effective will help with a lot of these issues. When will politicians begin to understand?

Business has a significant role to play in assisting education in New Zealand. Business owners/leaders and school principals have a responsibility to each other to form relationships.

Visits to businesses by schools provide children with the opportunity to see how business works. It may be the "spark" they need to help them focus on a career choice or it may be what encourages them to be better at school and in their education. It changes attitudes and creates ambition.

For the company, it may well be a great source of future employees and, most certainly, it is a responsibility business must accept.

An example of this is our partnership with Manurewa High School's "Passport to Employment" Programme. Students in our 2021 intake are essentially taking Mainfreight as a school subject in year 13, and their Mainfreight education is woven into their school year along with their standard curriculum.

Business will never succeed if it does not invest in its people. Training and development is another non-negotiable principle business must adopt. Skills are vital; upskilling is a journey for business success, and its competitive advantage. Businesses fail to do this at their peril.

Nor should they rely on others to do this for them. We must each take responsibility for upskilling and training our people, whether it is parents, teachers in the education system or business leaders in companies.


Katharine Birbalsingh, "Britain's most famous teacher", visited Bairds Mainfreight Primary School in 2018.

Visits to businesses by schools provide children with the opportunity to see how business works. It may be the "spark" they need to help them focus on a career choice or it may be what encourages them to be better at school and in their education.

Don Braid

Mainfreight supports Duffy Books in Homes, Bairds Mainfreight Primary School and the Life Education Trust — because we accept the mantle of responsibility. We are trying to make a difference and helping those schools and the children who attend them. Again, we have pupils from Duffy Books in Homes schools as team members.

The benefit flows both ways. The excitement and joy we see in our people when they present awards at the Books in Homes schools or at the assembly at Bairds Mainfreight Primary School is infectious to say the least. They understand what we are doing and why we are doing it, and I am sure they are better Mainfreighters as a consequence.

# 'The only certain thing is uncertainty'

**Tim McCready**

Influential law firm boss Hayden Wilson says New Zealand has as a country been very good at adapting to the crisis response to the coronavirus pandemic.

But he warns the post-Covid world is not going to look like it was in 2019 before the virus emerged. And business should step up and engage with government and support debate on NZ's future.

Wilson, who chairs Dentons Kensington Swan, reckons we cannot continue to look back and hope for things to go back to the way they were before.

"The only thing that is really certain at the moment is that things are going to continue to be uncertain," he says. "The real challenge for business is going to be how to adapt to a constantly changing world."

Wilson, who plays a key role in his firm's relationships with government agencies, says we should expect the Government to be able to manage uncertainty and communicate how it is dealing with uncertainty well.

"Take for example a date for reopening the borders," he says. "When you are dealing with a virus that is constantly changing, that we are still learning about, the idea that we can say at this point in time we are going to open the borders defies the science."

**Hayden Wilson's top three issues**

- Covid — managed by borders and vaccination (and time)
- Climate change
- Ageing and strained infrastructure (broadly defined)

He says we need to be able to have a sensible discussion about what business and government needs, and what the New Zealand community needs to respond to changes — but those discussions are hard because that is not something we are particularly well-equipped to deal with as a community, in the media, or in our political environment. "We have to get comfortable with the fact that this means we're not going to have certain dates, deadlines and pathways.

"We've got to have a broad understanding of what the principles are on which decisions are going to be made, and how we're going to be engaged with that."

But business must lean in — not to support the government — but to support that discussion. "But I don't think we are any better than anyone else in the world at adapting to the slow burn changes that we're all facing like climate change."

Even putting climate change to the side, we have big tension points in the New Zealand economy that will require transformational change, and these will all impact business — even if not immediately. "It's our infrastructure deficit, which obviously affects business directly, but it's also the state of our education and health systems, housing and housing affordability, which will have a fundamental effect on business long term, but aren't necessarily seen as a business issue," says Wilson.

We need to debate the state of our education and health systems, housing and housing affordability, which will have a fundamental effect on business long term, but aren't necessarily seen as a business issue.

Hayden Wilson

He says we have to take the opportunity to look at how to fix some of those longer-term tensions, especially when you consider the amount of money that's available to government in terms of Covid recovery.

There is a role for business to engage sensibly in discussions around these tension points, and a role for government to invite that participation in ways that are nuanced and more sophisticated than what we have previously seen in our political debate.

Wilson uses the feebate scheme, designed to promote lower-emissions vehicle sales, as an example.

"The Government made a fairly orthodox change that couldn't be seen as anything much more than a tinker around the edges, and there has been a massive pile-on, which makes it very difficult to do the incremental things that need to change."

It will require business taking a role as thought-leaders and engaging with government. "Sensible businesses need to start thinking about how they can take responsibility for being part of the debate," he says. Of course, for this to happen, Government will need to be receptive to business.

Wilson says that currently, government is not as receptive as it should be to feedback from business.

"Our political environment doesn't really facilitate that risk-free engagement," he says. "The media and other political parties treat it as a horse race."

He says while there are some parts of government that are interested in having these discussions, government departments will need to find a way to unlock risk adverseness where it's appropriate.

"We need to be much more willing to be open about having discussions in areas where we are looking longer term and planning New Zealand's response."

Wilson says the Labour-led Government is run tightly by a small group of senior ministers, in whom the Prime Minister has confidence.

"Some of them are doctrinaire, some are stubborn, some are cautious."

But, he says we have seen things like the wage subsidy where the approach taken was revolutionary, and gave some insight into what can happen if you have different thinking — "and I think increasingly there will be a push to do that."

# Housing needs an urgent fix

Land supply seen as one of the biggest hurdles, write **Bill Bennett** and **Fran O'Sullivan**

A majority of business leaders responding to the *Herald*'s CEOs Survey want the Government to take urgent action to address housing affordability.

One in five say the Government does not need to move, while 11 per cent are unsure.

"Unfortunately, both the Prime Minister and the Minister of Finance are on the record saying that they want house prices to continue rising, "though more slowly"," says a leading banker. "Housing affordability would improve quickly if the Metropolitan Urban Limit around Auckland was scrapped as the Labour-NZ First Government promised in the Speech from the Throne in 2017."

There is little question that houses here are unaffordable. Research group Demographia's 2020 housing affordability survey showed the median New Zealand house costs 10 times the median household income. It says a score of five is "severely unaffordable". It would be worse today.

The Productivity Commission has observed that housing affordability is essential for the wellbeing of New Zealanders.

It can also have significant ramifications for the wider economy as housing comprises the main share of both household assets and debt, and the scale of the housing industry and its employment is significant.

Rising house prices are not unique to New Zealand, there has been an 9.2 per cent average increase across 55 countries during that time. Yet we are second only to Turkey.

Record low interest rates and quantitative easing programmes pumping money into pandemic-hit economies have seen asset prices rise.

Despite Reserve Bank and Government intervention, house prices continued their steep upward climb in the past year.

The year to June saw prices across the nation jump 25.9 per cent. That's down from the peak which hit 30 per cent earlier in the year, yet people expect rises to continue.

Several survey respondents see land supply as holding the answers.


All that the Government has done so far has failed.

Carol Campbell, T&G Global director

Federated Farmers CEO Terry Copeland wants the Government to increase the supply of available business land and simplify the resource consent process.

A company director says the cost and availability of land is the biggest issue. "The working from home phenomenon means the territorial authorities and Government should look further out for rezoning as the five day per week commute is going to be a thing of the past."

A fuels executive notes that the planning and consenting process managed by local councils lock up land, add cost to construction, and slow the process of building. "Bold steps would be opening up land for development providing funding for the infrastructure and easing the rules on things like mobile homes to enable real large scale low cost (manufactured) housing to be built and installed quickly.

"It will risk creating trailer park ghettos but better than people being homeless."

Other suggestions included remitting the GST on every new house built to councils which would help will enable them to pay for the horizontal infrastructure needed for new housing. "It will see councils incentivised to consent new developments with their ears pinned back," says the NZ Initiative's Roger Partridge. "We will not solve the problem doing more of the same. And the Government's proposed, more-of-the-same-but-worse RMA legislation is more likely to hinder than help."

T&G Global director Carol Campbell Limited cautions the market controls prices. "All that the Government has done so far has failed."

While house prices and rental rates have escalated, just 5 per cent of business leaders are considering paying staff in expensive locations like a housing supplement.

Kevin Obern, managing director at OfficeMax is not considering a supplement, but says he has seen the idea work with 'London weighting' in the UK.

MinterEllisonRuddWatts partner Lloyd Kavanagh warns the idea may be counterproductive.

"If we all do that, all it will achieve is bidding up the price of housing further. A better option, is facilitating people living and working remotely (including outside of Auckland)."

Others suggested more social housing needed to be sorted: "Multiple governments performance in this area is simply appalling," said a major realtor.

The Icehouse's Gavin Lennox adds the ability for the government to do so is limited apart from enabling the construction of more housing.

Creating supply was essential, a banker underlined: "You cannot rely on the RBNZ and macroprudential tools".

Numerous tax measures have been (or are being) introduced by the Government including the ever-broadening bright-line test, loss quarantining and interest deductibility rules that have dampened the tax attractiveness of this asset class.

but not in any way slowed historic house price inflation.

Asked if such tax measures are secondary to supply shortfall, which is the key factor in house price escalation, 70 per cent of CEOs agreed. Some 16 per cent didn't and 14 per cent were unsure.

Peter Thompson of Barfoot & Thompson suggested, "we also need to recognise

"The only way to stabilise the housing market is to increase supply. When supply exceeds demand, price pressure is relentlessly upwards, regardless of changes in regulation," said a major funds boss.

A media executive noted: "These are all tinkering around the edges. The most impactful lever is to introduce a capital gains tax but this requires the political courage to do the right thing versus retain power."

### Housing affordability

**68%** Favour urgent action;

**21%** don't;

**11%** are unsure.

> The Government should stay clear of manipulating house market. The recent deductibility policies have delivered the reverse of what was expected. So many households can afford to pay a mortgage (and already doing so via weekly rent), with rent in excess of what a mortgage would be. What they lack is the deposit. If Government delivered the deposit and went into a JV ownership to be paid out when sold in future years, we would have a huge stress reduction on social housing, an increase in dignity of many households and an impact on communities and education when, finally a family can put a stake in the ground and know where their roof is over coming decades. It would also impact on children's education, where so many families who are renting can live in 7-8 geographical locations over a child's 12 years of schooling, thus impacting on health, corrections, education and the right of every child to an equitable education.
> **— Educationist**

# 'Less spectacular' forecast for housing market

**Anne Gibson**

The post-lockdown Auckland real estate boom won't be as strong this year as it was last year, according to a real estate boss.

Peter Thompson, Barfoot & Thompson managing director, said sales were able to continue due to technological developments implemented last year so the downturn wouldn't be as sharp as when Auckland went to level 4 last year.

"I don't think we're going to have the same boom when we come out of level 4 as we had 18 months ago because this time, people who had viewed property before lockdown were still able to negotiate through virtual means to buy," he says.

The agency had been able to develop new IT systems such as online auctions and virtual appraisals and virtual viewings to continue operating during this lockdown.

But the lockdown has continued to cause concern among vendors, purchasers, landlords and tenants — "particularly those in the process of settling their existing purchase or moving into their dream homes".

Interest rates looked likely to increase early next year rather than this year, he said, so that would delay the impact of those on the market.

The bright-line test, or capital gains tax on investment property, being extended from five to 10 years, does not, Thompson says have a huge effect on landlords. "Tax legislation won't affect investors. They buy when they have free cash, whether they put it into housing, keep it on term investments at the bank or invest it in the share market. Tax isn't the major concern to investors. It would be more interest rate rises."

The family-owned agency has 76 branches and around 1800 salespeople but a total team of more than 2600 people. Revenue was static due to higher costs running the business, he said.

Although sales growth had risen, so had compliance costs like anti-money laundry regimes.

"Sales numbers are well up on 12 months ago and we've had two really big years but revenue is not growing at the same rate".

On commercial landlords being asked to provide rent relief, he sees a different picture during this lockdown compared to last.

The Government was giving additional subsidies to assist tenants, though hairdressers and hospitality industry as examples who were unable to trade would need some assistance in the form of rent relief.

But industries like accountants, lawyers and real estate agents, as examples, were able to continue working and still earning an income would not need the rent relief in the same way as perhaps retailers, he said. It would have to be assessed on a case-by-case basis.

Investors who owned those commercial or retail properties often had mortgages and needed to continue paying, "so it's all very well saying landlords needed to help, but some are not in the same position".

Barfoot & Thomspon have made many new technology system developments since last lockdown "but ideally, we need more notice of going into lockdown" so we can implement these new systems more efficiently

Technology would not replace face-to-face meetings but other means of linking up had to be developed to be more successful. Google Meetings were particularly successful for the agency, he said.

Such IT developments meant the firm did not suffer as much under this highest alert level compared to last year, Thompson said.

"Sales and prices stood up extremely well during the first two weeks of the lockdown, and a major reason for this is the systems and procedures the industry and other professions such as banking and legal have put in place to enable trading to carry on during lockdowns," Thompson said.

"This enabled vendors and buyers to progress negotiations and contractual proceedings around properties that had been viewed prior to the lockdown commencing."

Thompson said 1020 sales in August were "excellent for a winter month. If you exclude last year, when the market was still recovering from last year's two-month lockdown, sales were more than 20 per cent higher than we normally achieve in August".

He is worried about the lack of skilled workers in sectors other than real estate, particularly IT, nurses, teachers, construction, tradespeople and fruit pickers.

He is also worried about the lack of managed isolation and quarantine facilities and wants more flexibility allowed for home isolation for business leaders and open that up so it's not just sports teams or those involved in the arts who are given special priority.

Tax isn't the major concern to investors. It would be more interest rate rises.

Peter Thompson

### Peter Thompson's top three issues

- Lack of skilled workers in sectors other than real estate, particularly IT, nurses, teachers, construction and tradespeople and fruit pickers who need to come into New Zealand.
- Lack of managed isolation and quarantine facilities (MIQ) — more flexibility allowed for home isolation for business leaders and opening up MIQ so it's not just sports teams or those involved in the arts who are given special priority.
- Government legislation biting into the profits of small and medium size businesses. It could help if the corporate tax rate was reduced based on the size of company profits

# What can we learn from business?

Survey respondents are alarmed by New Zealand's fall in educational ratings writes **Tim McCready**

Education is an issue CEOs care passionately about. "Educating young New Zealanders can have a very positive effect in reducing crime and improving their future and that of New Zealand," says Mainfreight boss Don Braid.

Over recent years, educational attainment levels at both primary and secondary schools in New Zealand has come under increased scrutiny.

The *Herald*'s Mood of the Boardroom survey asked business leaders to rate the overall educational fitness of young New Zealanders to play a role in the workforce, on a scale of 1-5 where 1 = not impressive and 5 = very impressive. They gave this a score of 2.76/5.

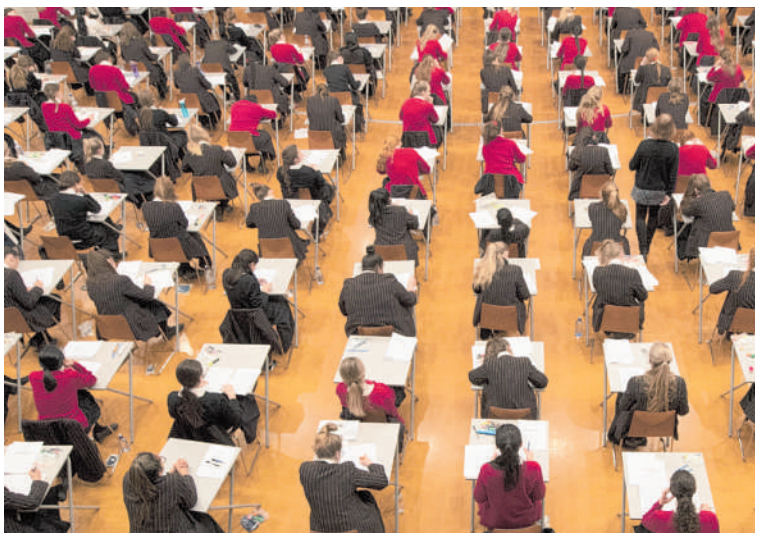
"The young people that I meet who have been educated at schools across our socio-economic community really impress me," says a director. "Smart, articulate, world and socially aware. They give me much hope for our country."

A technology boss shares a similar sentiment: "We can only judge by the people we see in job interviews and the interns we take over summer, and their calibre, enthusiasm and drive to learn and succeed is strong."

However, multiple international assessments have shown New Zealand students slipping in global educational rankings. "The recent PISA score from testing our 15-year-olds in reading, maths and science was the lowest ever in the OECD, and a similar story occurs in the 2020 TIMSS global comparison," says chair Craig Stobo. "To then hear the Minister of Education say this year that we should celebrate the achievements of pupils in other countries left me speechless."

The most recent *Trends in International Mathematics and Science Study* (TIMSS) saw New Zealand Year 9 students' scores fall by the largest margins since the study began in 1994. Their maths score fell 11 points to 482 and their science score fell 14 points to 499, on a scale where 500 is the midpoint.

New Zealand's scores for Year 5 students (9-year-olds) also fell in both subjects since the last time the test was conducted in 2014/15.



Similarly, last year's OECD's Programme for International Student Assessment (PISA) tests, which tests reading, maths and science, saw New Zealand's 15-year-olds recorded their lowest scores ever. Of the 79 participating countries in PISA, New Zealand was 11th equal for reading, 12th for science, and 27th for maths.

"Literacy and numeracy are at an all-time low, the system is letting down far too many young people and their families," says EMA chief executive Brett O'Riley.

We have some outstanding educational achievement results in some parts of our education system, but weaker results in other parts which represent a big lost opportunity both for our people and our country," says Beca CEO Greg Lowe. "No New Zealander should be left behind in the journey to better skills."

"It feels like standards continue to slip and that mediocre is now okay," says a food producer. "A drift to the lowest common denominator."

From an investment firm boss: "A big worry — with an annual deterioration in standards and achievements wrapped in a cloak of wokeism and irrelevance."

Is there a role for business to play in equipping young New Zealanders for the future?

**73%** Yes
**6%** No
**21%** Unsure

Federated Farmers CEO Terry Copeland says our fall in international rankings is down to a "combination of low literacy and numeracy skills, and less common sense due to reliance on computers".

But another respondent, from the education sector, comments: "Working closely with education, I think the attainment metrics aren't everything. We have a system that teaches great critical thinking and inquiry-based learning which help foster innovation."

One director says the education system is failing too many and not supporting enough young New Zealanders into stimulating vocational opportunities; however they note the solution requires "the whole community — especially businesses — to become much more engaged in the educational process".

### Time to consider a Swiss model?

Building on this sentiment, respondents were asked whether there is a role for business to play in the education of equipping young New Zealanders for the future workforce — such as Switzerland's Vocational Education Training (VET) system — where they are seconded to firms while still at school to learn vocational and life skills. A significant 73 per cent responded yes. Just 6 per cent say no, and 21 per cent are unsure.

"Business has a large role to play in teaching young New Zealanders about what they do and why," adds Mainfreight's Don Braid.

"The education system must support this through the examination process — pass rates alongside apprenticeships and other vocational training."

Beca's Greg Lowe acknowledges business already plays a big part in the training and development of its workforce, which is an area of significant investment for most businesses in NZ. "Models like Australia where secondary students complete formal workplace secondments do help students to with potential career choices."

But some worry this shifts too much responsibility on to business.

"Businesses are already taking on much of the training directly — but there is always potential to expand this," said a professional director.

A respondent in the education sector says they have seen this model work really well in Israel as well, "but I'm not sure we have enough talent or large organisations to support it here, particularly in our regions."

And a food producer cautions: "This shifts the burden to already overburdened firms."

## INEQUALITIES IN EDUCATION

Kiwi students once ranked near the top of the international education league tables. But a recent study shows NZ's Year 5 students placed last among all English-speaking countries, and 24th out of all 26 participating OECD countries.

The international evidence shows a similar decline in mathematics.

The New Zealand education system is also now one of the most unequal in the world.

The gap between the educational "haves" and "have nots" eclipses all our English-speaking OECD peers.

And all this, despite Government spending per child having increased in real terms by more than 30 per cent since 2001.

These trends are worrying enough, but this is happening at a time when the rise of automation, artificial intelligence, and pressures from developing economies are threatening low-skilled and unskilled jobs.

16 of the 30 fastest-growing occupations in the United States require substantial mathematics or science understanding.

In a global marketplace, there is no reason to believe the position is any different in New Zealand.

An education system that fails to deliver adequate mathematics understanding to its students is setting them up for career failure — or at least foreclosing well-paid future occupational opportunities.

Covid aside, this is New Zealand's greatest public policy challenge.

● **Roger Partridge**
**NZ Initiative, B38**

# Government has the big calls right

**Tamsyn Parker**

Westpac New Zealand acting CEO Simon Power believes addressing educational standards and the economic under-performance of Māori and Pasifika people should be urgent priorities for New Zealand.

"Education is the engine room of the economy. Having a skilled an engaged population contributing to economic output as well as their own capability and capacity to change and adapt to different work environments — I just think is critical," he says. "Any suggestion that we are falling behind in those areas should be right at the top of the list of things to be considered, simply because you don't have a well mapped out future without education standards being where they need to be."

Power says he worries that about future generations of New Zealanders being able to compete not just domestically but internationally. "We need to back ourselves for that."

Power says it is not just at a university level but in the trades as well. "How we are thinking about those more hands-on contributions to productivity and keeping the economy running is such a critical thing to think about.

He says if the education system isn't providing that opportunity to get ahead and earn more, then other parts of economy waiting on that participation slows, whether it is housing or whether it is increased economic activity or other variables. "Just having that intellectual and skill-based tool kit to contribute as well as to get ahead for your own wellbeing and benefit, I just think is so important."

### Simon Power's top three issues

- Covid managment and vaccine roll out
- Labour and talent shortages
- Clear economic plan beyond Covid including productivity

On October 16, Westpac will host an Apec event aimed at bringing together key thought leaders from New Zealand and the region to share pathways for inclusive prosperity and discuss how indigenous groups, government and businesses can work together to develop and nurture underrepresented parts of the economy.

Power said in the midst of the Delta outbreak it was important to think about not just about how Covid was creating an economic divide but a societal divide.

"You need to have a lens of thinking about not just economic disparity potentially increasing off the back of Covid, but also how much thinking is going on about it creating more of a societal divide as well.

"I'm not in the business of creating social policy but I would have thought that would need to be a focus which is why I indicated it."

Power said all eyes were on the Delta outbreak at the moment which has proved hard to get under control in Australia.

"Vaccination rates fundamentally are the key to protecting individual's health but also the economy. I can't urge people strongly enough to get vaccinated."

Power described the current outbreak as a set-back for New Zealand's economy with the bank's economists expecting GDP to fall in the September quarter before jumping back sharply in the December quarter.

"That is assuming the lockdown restrictions ease. The thing about Delta though is it could be a disruptive force over the next six months."

He said businesses, including Westpac, would need to be adaptable and resilient.

"The way we are thinking about it is the Government has managed the recent outbreak ably. There is debate about how quickly the vaccines have rolled out. Our view would be the Government has got the big calls right at the right times.

"Yes, it is a worrying time for customers and those in sectors of the economy that are getting a double hit, particularly in Auckland. But our observation would be most of our customers have been much better prepared for this lockdown than last year."

Westpac has had roughly 350 staff a day in its corporate sites during Level 3. The bank is also working with its vaccination partner Vitality Works to get clinics scheduled for Wellington and Christchurch to speed up their workers, and possibly their families, getting the jab. The Auckland clinic will get under way at Level 2.

Says Power: "We are doing everything we can as a responsible corporate to be helpful."

Outside of the immediate lockdown issues, Westpac is also feeling the pressure from labour and talent shortages which are widespread across the business sector.

"This is very tricky. The opportunities to get talent in are very limited and particularly in very technical, technology, risk that kind of institutional end of the bank as well where you might normally attract offshore talent back. That has certainly had a noticeable impact on demand for those sorts of services in the domestic economy."

Its customers were also expressing concern about their ability to access both talent and labour, he said.

Power said once Delta was under control again he believed the Government would turn its mind to addressing labour supply issues.

"I know from experience that is not easy in Government — I think they have got the big calls right at the right times — the next step will be the subtlety of working out the public policy position on a range of issues including labour across the broader economy.

"The economic response as opposed to the health response."

MOOD OF THE BOARDROOM

CLIMATE CHANGE

# An opportunity and a threat

NZ still has plenty of work to do meet its Paris Agreement commitments, reports **Graham Skellern**

Business leaders have mixed feelings about whether New Zealand is doing enough to meet its international climate change obligations, which require big cuts to carbon emissions.

Almost a half of the Mood of the Boardroom respondents — 45 per cent — agreed the country wasn't doing enough; 42 per cent said it was; and 13 per cent were unsure.

The recent Intergovernmental Panel on Climate Change report says averting global warming rising by 1.5C will require worldwide emissions cuts of 45 per cent by 2030 and net zero by 2050.

In November, New Zealand will be represented by the Minister for Climate Change, James Shaw, at the 26th meeting of the Conference of Parties to the United Nationals Framework Convention on Climate Change (COP26).

New Zealand will be pushing for negotiations to be concluded on outstanding items of the Paris Agreement, including rules for carbon markets that ensure environmental integrity, and a transparency system that supports ambition and holds parties to account. The climate action includes finance, technology and capacity building.

New Zealand will be standing alongside its Pacific neighbours to make sure the region's voice and priorities are heard at COP26, to be held in Glasgow.

New Zealand committed to providing at least $300 million in climate-related support from 2019 to 2022, with at least two thirds of that funding going to Pacific Island countries.

Craig Stobo, chairman of NZ Local Government Funding Agency, Precinct Properties and AIG, asked where is the Government's accountability, from Paris 2016, for New Zealand committing to a 30 per cent reduction in emissions from 2005-year levels by 2030.

"Farming should transition faster to our world-class emissions trading regime.

"We also need to sort out a faster universal Corsia agreement on international aviation emissions."

The 2013 Corsia agreement, in which New Zealand is a participant, set a goal of making all growth in international flights after 2020 carbon neutral.

Rob Fyfe, Michael Hill International chairman, said the international obligations were both a massive opportunity and massive threat to the country's competitiveness.

"We need to up our game, it requires bold leadership from both business and government, and it's mostly still just talk," he said.

David Mair, chief executive of Skellerup Holdings, said aspirational comments do not solve the problem. "We are in an energy crisis caused by this government. We are 0.17 per cent of global emissions, but China is now funding 25 per cent of the coal-fired power stations in Asia and now European banks have pulled out. China and the United States are about 68 per cent of emissions. It's not that we should do nothing, but we can't save the planet."


Susan Peterson, chairperson of Vista Group and director of four further listed companies including Xero, said the big northern hemisphere investor houses were demanding clear action around carbon reductions as part of their investment mandates.

This has resulted in the price of debt and capital being influenced by the approach the borrower and issuer is taking to reduce carbon. The reality is that the price of debt or capital tends to be one of the top three costs to all businesses.

"In that context, all forward thinking businesses which are focused on keeping those costs down will be speeding up their efforts to reduce their direct and indirect carbon footprint," Peterson said.

> The big Northern Hemisphere investor houses are demanding clear action around carbon reductions as part of their investment mandates. It is no longer optional.
>
> Susan Peterson (independent director)

Greg Lowe, group chief executive of Beca, said the government has done a good job of setting the target. "Taking action is the next step and that is harder. Energy transition, emissions reduction, and lower carbon choices all take careful planning, and will come with increased cost.

"It is the pathway that will be important, and that is the immediate challenge."

Vanessa Stoddart, Refining NZ director, agreed. "The problem is we can hit our targets by de-industrialising New Zealand but the cost and social ramifications and risks of this are large and haven't been factored in sufficiently. We need to change behaviour and culture first."

> We have assumed too much. New Zealand's wealth disparity means many will be unable to afford some of the assumptions being made, for example, the timeframe for switching to electric vehicles.
>
> Vanessa Stoddart (independent director)

A banking executive said: "85 per cent renewable (energy), take a bow." Gavin Lennox, chief executive of The Icehouse, said "There are two major issues — transport and agriculture."

An oil and gas exploration leader said: "We are doing more than our fair share and it will lead to very poor outcomes for an export/import exposed country. But it will be a nice cheap place for billionaires who have made their money elsewhere."

The business leaders were also asked if the Climate Change Commission was on the right track by setting tradeoffs for New Zealand to meet its international obligations.

Nearly 50 per cent of the respondents favoured the commission's approach; 28 per cent believed it was not on the right track and 23 per cent were unsure.

The commission has called for progressively deeper emissions reductions — 15 per cent by 2025 and up to 63 per cent by 2035 for long-lived greenhouse gases; and 8 per cent by 2025, 12 per cent by 2030 and 17 per cent for biogenic (plants and animals) methane. By 2050 the target range for biogenic methane is 24-47 per cent reduction.

The commission has also recommended that nearly all cars imported by 2025 must be electric; road transport be almost completely decarbonised by 2050; phase out coal as soon as possible; and immediately start expanding the electricity system.

To reach 47 per cent reduction in biogenic methane for agriculture, the sector would need to cut production from livestock unless new technology came online, the commission suggested.

Also, the sector needed a farm emission carbon price scheme.

An airport executive said the commission had mixed its drinks. It should narrow its focus to actions that actually manage carbon risks and leave carbon emitters to figure out the best method/technology to manage their own risk.

Peterson said "While the speed of change might be challenging and confronting for some, we don't have any choice.

"At the end of the day, New Zealand is a price taker in international wholesale markets."

Lowe said there were many complex systems that needed to change to create the emissions reduction. "Some big debates need to happen — for example, where will our future energy come from, how and when will it be created, and what will it cost?"

A banking leader said the commission greatly underestimated the difficulty of replacing fossil fuels in several areas, in particular industrial heat, and scaling up electricity generating capacity sufficiently to replace fossil fuels.

A television executive, however, said "we are not going far enough. We are too focused on spreading the burden equally versus prioritising the biggest potential drivers of change."

Stoddart said the quick win of de-industrialising New Zealand was not in the country's interest long-term. "We have assumed too much. New Zealand's wealth disparity means many will be unable to afford some of the assumptions being made, for example, the timeframe for switching to electric vehicles."

Stobo chimed in: "I was surprised that our world class 2008 Emissions Trading Scheme, our primary tool to reduce greenhouse gas emissions, did not get more support. Providing subsidies to electric cars does not reduce total allowable emissions under the scheme at all."

## How does Government, business and society build a consensus on a roadmap for embracing new technologies and leading initiatives to lower NZ's carbon emissions? CEOs respond.

Energy solutions for heavy industry will be different from energy solutions for heavy and light transport, for example. We are likely to see many different technology solutions and we need to get on with trialling them now so we understand which ones suit which application.
**— Greg Lowe, Beca**

Industry (esp Agriculture) feels the Government doesn't understand its challenges to make the necessary progress. At the same time, concessions have been in place for years. I think it is somewhere from the middle a roadmap will emerge. **— Erica Crawford, Loveblock Wines**

Need to embrace a collaborative and bi-partisan approach to addressing the problem. This cannot be the sole domain of politicians and academics.
**— Cos Bruyn, Fulton Hogan**

Building infrastructure to support business and society to embrace new technologies would be a good start.
**— Don Braid, Mainfreight**

The Climate Change Commission quite rightly focused on existing technologies in its first set of advice to Government. But we believe there is an opportunity to explore the potential of new and emerging technologies in future advice. We are early on in the development of our Internet of Things (IoT) business. Already close to half of our IoT revenues are linked to sustainability-related applications, like asset tracking that improves the utilisation of vehicles on the road, smart cities, and water quality monitoring.
**— Jolie Hodson, Spark**

By creating local and international working groups eg. The Aotearoa Circle/Centre for Sustainable Finance and Central Banks working on a common reporting framework.
**— Vittoria Shortt, ASB**

It needs to have a serious discussion around science and innovation including genetic modification — surely that is a lesser evil if it reduces NZ's carbon footprint. **— Terry Copeland, Federated Farmers**

Government and business jointly need to look to the opportunities from a positive response to climate change. Behaviour change will require incentives. The discussion needs to avoid rural/urban and generational distinctions.
**— Hayden Wilson, Dentons Kensington Swan**

The pricing mechanism in the ETS will achieve this.
**— Roger Partridge, NZ Initiative**

The great imponderable. We have to build cross party consensus. We floundered with superannuation for decades because of a lack of cross party consensus and were very late to KiwiSaver. We can't afford for the same outcome on climate.
**— Rob Fyfe, Michael Hill International**

Understanding the implications of not doing this. Not just the "world as we know it is actually ending already" scenarios — but also in terms of likely reactions from trading partners in the form of climate sanctions if we do not. Lay out the change we need, and the tools we need to make that happen. De-politicise it, if that's even possible. Recognise and talk about what the rural sector has been and is doing, as well as what still needs to be done and by when. Establish a fund on an aggressive VC basis (i.e. 97 fail, 2 do OK, 1 unicorn) to specifically fund blue sky research into tools that reduce cow methane, capture wave power, and dozens of things I'm not smart enough to think of but somebody is.
**— Helen O'Sullivan, Crockers Property Group**

MOOD OF THE BOARDROOM

CLIMATE CHANGE

# Methane emissions — a touchy subject

Graham Skellern

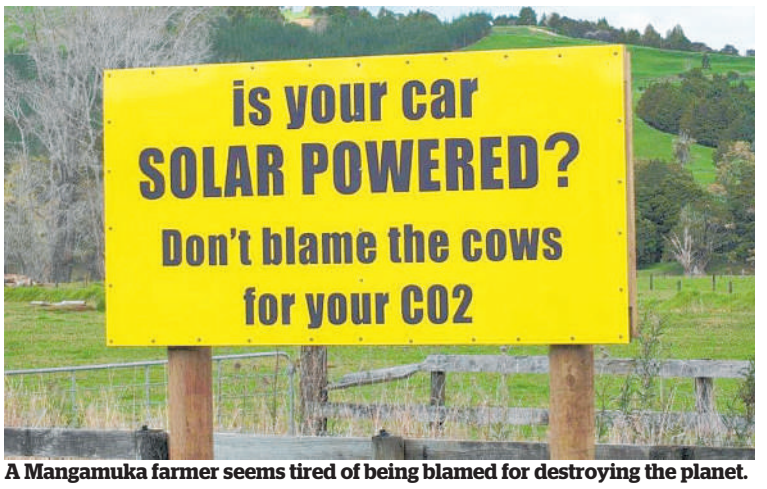
There's one issue the business leaders are pretty much in unison on — New Zealand should be investing more in research to reduce methane emissions in the dairy and beef herds on the farms.

Some 86 per cent of the respondents agreed the research would lower the impact of major export drivers on New Zealand's emissions profile; 8 per cent disagreed, and 6 per cent were unsure.

On another "touchy" issue — agriculture will not be included in the Emissions Trading Scheme (ETS) until 2025 — 59 per cent of the respondents agreed with this timetable; 29 per cent didn't; and 12 per cent were unsure.

Fonterra director Cathy Quinn said 2025 is hardly very far away. "We need the science folk and the industry to work hard to find viable solutions to address the problem before we require farmers to do something for which there currently is not a solution.

"Suggesting farmers simply cut stock numbers is hardly a solution. How would you feel if you were told to cut your production by 50 per cent and your business is uneconomic for the better good of mankind? Agriculture, including dairy, has been a key contributor of New Zealand dealing with Covid from an economic sense. Let's support our farmers to find solutions," she said.




A Mangamuka farmer seems tired of being blamed for destroying the planet.

Roger Partridge, chairman of the New Zealand Initiative, said there was no point penalising farmers. This will simply see emissions exported overseas. A banker said: "Sort coal first before we worry about cows."

An oil industry executive said flexibility and long lead times are always preferable for business, including agriculture, so the appropriate changes can be made without significant impact.

An investment banker said, however, "I've never understood why farmers are treated differently from any other small business.

"To not have used the last 10 years, and the $70 billion Covid fund, to assist with transition is a waste."

A forestry leader said methane accounts for 60 per cent of the global heating effect. Leaving agriculture out of the ETS is purely political, not science based. "Farmers vote, businesses don't vote — simple as that."

Terry Copeland, Federated Farmers chief executive, said the timetable gives industry, government and iwi partnership He Waka Eke Noa time to present a better option to reduce emissions than simply taxing them and raising the cost of food production, which is already too high for a lot of Kiwis to afford.

Tony Carter, Datacom's chair, also warned: "Be aware of unintended consequences. I recall when biofuels were all the rage. The impact was a rapid increase in food prices which had significant negative consequences, especially for the most vulnerable."

A dairy company executive said the agricultural sector was working with government, iwi and others to meet the reduction targets and establishing farm level pricing mechanisms for incentivising greenhouse gas emission reductions.

The ETS was the backstop if they don't deliver.

"Agriculture is such an important export sector where we lead the world with lowest emissions per kg milk solids. I support further reductions, and we should market this unique position as a strength," he said.

A banking leader said the argument for deferring the inclusion of agriculture in the ETS is that the technology to reduce the greenhouse gases produced by ruminant livestock does not exist. "I am personally aware of a technology which significantly reduces both nitrous oxide and methane emissions."

Rob Fyfe, Michael Hill International chairman, said there's a massive prize for innovation in this space. "Quite frankly if we can't, the consumer will make the decision for us.

"The trend to plant-based milks and meats is accelerating, and dairy and animal meat will become increasingly irrelevant if we don't solve these problems."

## What companies are doing to lower emissions.

We've moved into a green star rated building. Reviewing our carbon footprint. Our assessors are reducing their travel by completing some assessments via video. We joined the Sustainable Business Council to contribute to broader corporate action, and we're proactively including sustainability elements into our decision making.

**Blair Turnbull, Tower**

1. Currently moving to EV/Hybrid (firstly car fleet and then making available for personal use) 2. Hybrid working — less local travel for our people. 3. Earmarked Funding for Lending funding (and passing cost benefit on) to lend to customers for climate transition initiatives. We have a number of focuses in supply chain with and end-to-end view of how we manufacture, move and package products. Our energy consumption is constantly under review and we have accelerated the use of LED lighting and solar power with battery storage.

**Banker**

Taking ownership of what we can control. Solar power for all new buildings, water collection to potable standards from all buildings, electric handling equipment and the trialing of electric trucks. The ability for our customers to measure the carbon footprint per consignment and the choice of mode, Rail vs Road.

**Don Braid, Mainfreight**

We measure emissions and where it makes sense we have plans to reduce them eg lighting etc but Governement regulation will drive adverse outcomes (Natural gas is needed now).

**David William Mair, Skellerup**

Investing capital and opex in sustainable aviation fuel and green hydrogen/electric planes. Supporting studies.

**Aviation leader**

Electrified our dealer network with charging stations and have introduced the Transit PHEV and Escape PHEV and plan to launch an all electric Transit in Q2 '22.

**Simon Rutherford, Ford NZ**

## Balance is key to fraught climate-change debate

Cathy Quinn

I think we need to get the balance right. Every business I am involved with is aware of the need to reduce emissions. Regardless of regulations our customers and investors are demanding it. Indeed we also get its the right thing to do!

All those businesses are also investing in technologies and looking globally for solutions. From a regulatory perspective, I don't think it makes sense to impose regulation to require emissions to be reduced, for example in agriculture, before there are viable solutions available to be adopted.

We should also take account of the fact that some of our industries, including agriculture, are already lower in emissions compared to global competitors who operate more intensive (less green) farming systems.

Cathy Quinn

So, let's not harm our economy for the sake of trumpeting doing something about climate change when it will make little difference globally and there are not practical solutions available to address the problem.

We need to similarly take care that we don't kill local manufacturing by imposing tariffs and taxes that importers of those products don't bear. That makes no sense for our economy and does not contribute to reducing global emissions (as the same products are imported and thus come with more transport emissions).

I fear that it is becoming hard to have a rational debate about this in New Zealand. Anyone suggesting we seek some balance to protect the economy, jobs and the livelihoods of producers and businesses tends to get pilloried as not caring about climate change and playing our part.

In reality that is not the case. It's very easy to criticise farmers from your comfortable abode or tower in Auckland and Wellington when you don't face the challenge of actually needing to find viable solutions on farm when they have not yet been developed. Farmers do care very much about our environment and playing their part on climate change — I'm sure we'll develop solutions suitable for adoption in New Zealand — but we need time for that innovation to occur.

● *Cathy Quinn is director at Fonterra, Fletcher Building, and Tourism Holdings.*

# 'We need to be one step ahead of the rest'

Graham Skellern

New Zealand can take a leadership role in using science and innovation to reduce methane emissions in the dairy sector — but its own solution may not be the same as the rest of the world.

Miles Hurrell, chief executive of the country's biggest company Fonterra, says New Zealand has an unique farming system with the pasture-based free roaming cows — to a lesser extent Ireland operates a similar system.

"We are the most carbon efficient producer of dairy in the world and that puts us in a good position. To maintain our competitive advantage, we need to be one step ahead.

"Yes, we have a leadership role to play but at the same time we will be slightly different, I think, in our approach."

Hurrell agreed that New Zealand's solution for reducing methane gases needs to suit pasture-based farming that is accepted internationally.

"When you are putting something in the animal's diet or removing it, you have to make sure you know the consequences. There will be a timeline for understanding this — and science and innovation will be a key."

The carbon footprint of New Zealand's on-farm milk supply is less than one-third of the global average and up to 30 per cent lower than greenhouse gas footprints of European and North American milk production.

> We are so far away from our markets — whether it is goods or services — and we have to go the extra mile to be close to customers. We can't lose sight of this.
>
> Miles Hurrell

A litre of milk produced in New Zealand creates 0.91kg of carbon dioxide emissions — compared with the global average of 2.5kg of emissions. Fonterra has customers in more than 140 countries.

Commenting on the Climate Change Commission's recommendations calling for progressively deeper emissions reductions, Hurrell said: "We all want the same outcome over time and what we advocate is to make sure we can do things at a timeline that works for everyone."

Fonterra's commitment to dealing with climate change isn't limited to farms. It is investing in innovation and infrastructure to remove greenhouse gas emissions at its manufacturing sites.

"A strong, healthy environment is important to us, and the big announcement we made months ago to be out of coal by 2037 does align with the commission's report," says Hurrell.

Nine of Fonterra's 29 manufacturing facilities use coal, and last year it achieved the target of 20 per cent reduction in energy intensity from a 2003 baseline. Fonterra believes lifting energy efficiency is a valuable prerequisite to larger investments.

The coal-fired boilers at the Brightwater site near Nelson and at the Te Awamutu facility were converted to burning wood pellets. Fonterra says converting or replacing existing coal boilers to renewable energy is a significant, logistical, technical and financial undertaking — but solutions are sustainable.

Fonterra is also replacing a third of its light fleet to electric vehicles and installing more charging stations at its sites. The Milk Vat Monitoring systems installed on farms optimises tanker pick-up schedules, and Fonterra is budgeting for five less tankers from next year.

On Covid-19, Hurrell says from a New Zealand perspective the strategy over the past 18 months is hard to dispute given the low number of deaths and hospitalisations.

But he warns: "As the rest of the world starts to live with Covid, through high vaccination rates, we have got to be really careful as a nation that we are not left behind.

"We are so far away from our markets — whether it is goods or services — and we have to go the extra mile to be close to customers. We can't lose sight of this.

"We need to go hard on getting as many people vaccinated as we can so at some point we can learn to live with Covid, in some form. It's something the Government needs to be focused on."

Hurrell says the government seems loathe to setting vaccination targets leading to the re-opening of the border for fear of things changing on them that are out of their control.

"But that's how we operate businesses every day. You deal with uncertainty, you deal with risks, and the more transparent and open you can be is helpful.

"Most of the New Zealand public would recognise that we are dealing with something that's unknown to all of us in Covid. If the government sets a target and a goal of what we are going to be doing by the next date and the goalposts move out of their control, then people will acknowledge and understand that," says Hurrell. "It's about managing those risks."

Hurrell says farmers getting labour is a real issue and some support around this, especially increasing managed isolation and quarantine spots, would be welcomed.

"We are starting to see some farmers packing up and workers moving to other parts of the world. So it gets back to my earlier point that we are going to be overtaken by the rest of the world, if we are not careful."

MOOD OF THE BOARDROOM

# A national energy strategy

Graham Skellern

Operating a 100 per cent renewable energy system in New Zealand is just not plausible, says Marc England, chief executive of Genesis Energy.

"The problem for electricity is that as you become more renewable, you become more dependent on the weather, and the weather doesn't always play ball."

England says electricity was presently 84-85 per cent renewable in New Zealand but overall the energy system (including gas and coal) was about 40 per cent renewable.

"We believe the new builds announced in the last year or so will get us to 95 per cent renewable. But we haven't had the honest discussion with government over how we make sure that 95 per cent renewable electricity is stable and ensures energy security. There are lots of interdependencies across the energy system. The interdependency between gas consumption demand and supply versus coal demand and supply; the interplay of the dynamics of different renewable; and how do we use electricity that is very renewable already to decarbonise other sectors — and get New Zealand on the trajectory to a lower carbon energy system overall.

"Too often in my mind, electricity and energy are conflated and confused. We think the sector has a lot of heavy lifting it can do for the country as we decarbonise.

"But we've got to be allowed to have discussions and get the right strategy and settings."

England says there have been lots of consultations and lots of things put out there for discussion. The electricity sector's view matters and "I think in the last few years, at times that view has been disregarded. We need an orchestrated review and an energy strategy."

We haven't had the honest discussion with government over how we make sure that 95 per cent renewable electricity is stable and ensures energy security.

Marc England

Genesis Energy has a goal of becoming more renewable. "We are committed to enabling more renewable electricity in the sense that we have science-based targets," he says.

### Marc England's three issues

- Opening the borders and learning to live with Covid.
- Decarbonising the NZ economy.
- Addressing housing affordability by building capacity to plan, consent and build.

One target is reducing 1.2 million tonnes of annual emissions between 2020 and 2025, as well as gigawatt hours.

England says over the past 10 years energy back-up has been disincentivised. People can point to the decisions the electricity authority took eight to 10 years ago that have made it harder for thermal generation economics to stack up.

"One of the sub-debates around energy strategy is how do we make sure the market settings are correct for thermal back-up. As we go through this transition, we can make sure we do it in a stable, reliable way for the economy."

England says the electricity market as it is designed today is an energy-only market. "We only get paid for a megawatt hour when we are generating the electricity, not getting paid for having a megawatt available for back-up. As we become more renewable, we are going to use our thermal back-up less.

"But we need it to be there. The problem today is the market setting that encourages and enables the back-up to be available is not there because you are not getting paid if you are not running.

"The outages on August 9 were a warning sign of what could come if we don't get things right," he says.

England suggests that discussions on an energy strategy should include location of new hydro storage schemes — for example, the Lake Onslow project in Central Otago, estimated to cost $4 billion and storing 5-7TWh (terawatt-hour) for use in the dry years, instead of using coal and gas to fill the gaps in energy supply.

"Apart from the fact that it's very expensive to build, the idea that you put so much dependency on South Island generation when most of the demand is in the North Island is a single point of failure for the market. We need more energy storage in the North Island. "

England talks of a Catch-22 situation when it comes to attracting and retaining skilled staff.

There are short-term solutions like enabling easier access across the border and visas, and hiring talent from overseas, he says. "We are a relatively small market and if we can bring people in, then it's easy to solve the short-term problem.

"But I suspect we are looking at a longer-term issue globally and we need to be incubating and developing people here in New Zealand to play those roles in the future."

Offering larger pay packets is not the ultimate solution, England says. "We will likely have to do that to retain some talent in the short term. But then it just becomes an escalation — everyone doing the same thing and it doesn't grow the resources."

Genesis is digitising its retail business, and England says: "It feels like pretty much every company in New Zealand is embarking on a digital transformation and we need to hire lots of people — and they are just not there.

"We are having more of our technical abilities poached from us, and we are seeing, potentially, huge wage inflation in those areas."

There is a pyramid or hierarchy of job roles, says England. "Companies like us are having people poached to consultancies and then charge back to us at higher prices. Those consultancies, and ourselves, are being poached overseas such as Australia who have higher purchasing power.

"Also, post-Covid, companies are happy to have people sitting in New Zealand working for them remotely. So moving is no longer a barrier to applying for a job in Australia when they can work behind a computer screen in New Zealand — and earn more.

"That kind of hierarchy is evolving. It's real. We can't fill all of our vacancies right now and that's the first time in five years to us," says England.

And there's another irony. A part of Genesis' digital transformation is being negotiated by a party who will be providing some of the resource from overseas. "There's no reason why it shouldn't be here but it can't be because the talent doesn't exist," England says.

# Renewables offer a cheaper solution

National grid owner Transpower has over 11,000 kilometres of high voltage lines and more that 170 substations through the length of New Zealand. Its chief executive Alison Andrew talks about the future of the energy system – its challenges and opportunities.

With good demand side participation from distributed energy resources and management of peaks, by 2050 we can avoid about seven billion dollars of infrastructure build, including transmission, distribution and extra generation.

Alison Andrew

**Herald: What are the big issues around planning for the future in an environment with increasing renewable energy?**

**Alison Andrew:** We all know climate change is a big deal and meeting the net carbon zero 2050 is going to be a massive challenge for the country, let alone the world. The challenge for us is how we make that transition and look after the energy reliability, affordability and sustainability.

We are well placed in New Zealand with our largely renewable system. It's been luckily endowed with a good hydro, geothermal system, but getting the last hydrocarbons out of our electricity system is going to be challenging which is why the commissioners are saying "you're better off to focus on decarbonising the energy sector".

**Herald: So where are the challenges and opportunities?**

**Andrew:** The big opportunities for the country are in electric vehicles and decarbonising transport, and then decarbonising process heat – these two are the biggest uses of hydrocarbons. The big challenge at Transpower is enabling that transition. To meet the decarbonising goals, you need about 50 to 70 per cent more electricity in the system by 2050. And by 2035 we are anticipating 50 to 60 new or upgraded connections for distribution businesses and new grid scale power plants.

**Herald: How do you make sure that you have the right infrastructure in the right place at the right time?**

**Andrew:** Technology is our friend and there's some amazing things happening. If you look at the cost of wind and solar, you can now build new renewables cheaper than you can actually run thermal plants.

We've got a market that's been very one-sided - it's mainly a supply push up to consumers, and it's quite exciting to think about how we can get the demand side to participate.

A new market participant, an aggregator, may come in and manage your home energy system. You may have solar panels on the roof, an electric car, and all the smart home appliances – we could use those devices to take power out when needed and push it back to manage peaks and infrastructure - and you will get financially rewarded in the process.

With good demand side participation and managing the peaks, by 2050 we can avoid about seven billion dollars of infrastructure build, including transmission, distribution and extra generation.

**Herald: The Tiwai Point aluminium smelter uses about 13 per cent of the country's power and if it closes, can this chunk of power be used elsewhere in the national grid?**

**Andrew:** We are completing the Clutha to Upper Waitaki Lines project to increase capacity to and from the lower South Island.

It is a rewiring project, costing $100 million, by duplexing or doubling the Roxburgh to Livingstone lines, as well as strengthening towers and foundations.

That will allow the 570 megawatts that goes to Tiwai Point to be moved into the South Island. The Clutha to Upper Waitaki is a very important project to de-bottleneck.

The next constraint is the high-voltage direct current (HVDC) transmission link between Benmore and Haywards in Lower Hutt, effectively the big electricity transfer between the islands and going through the Cook Strait cable.

The HVDC has spare capacity but not at peak times. If the smelter was to close and Meridian was unable to find any more load in the South Island, it could move it into the North Island quite a lot of the time. It just couldn't go across when the cables are constrained.

**Herald: So, will Meridian be stuck or is there another alternative?**

**Andrew:** We are working hard on what extra grid capacity is needed to enable renewables. This is called Net Zero Grid Pathways that looks at the whole power system and modelling that includes decarbonisation and investment. Do we need another Cook Strait cable to increase capacity to send power up from the South Island? That will come up for renewal, anyway.

You will be familiar with the pylons or power lines that run from Palmerston North across the central North Island plateau. That's another transmission route that will actually bind in terms of capacity, so when do we upgrade that?

We have the Waikato Upper North Island Voltage Management project which is looking at investments in the grid to ensure that all power can get into Auckland, even if Huntly isn't there in future. The generation in the south is a long way from the load in Auckland and you need to ensure the grid will still deliver when we don't have major thermal generators near Auckland.

**Herald: How will the transformation to a net zero carbon economy impact industry sectors and businesses?**

**Andrew:** There are some sectors that are quite hard to decarbonise, and you need to think differently. Take steel – how important is it as a country to have some strategic steel manufacture? You can argue that the Auckland Harbour Bridge repair showed there is value in having steel manufacturing here.

I think of pulp and paper and New Zealand clearly has an advantage with its forestry.

The Marsden Point refinery is now importing finished goods, yet we are not going to have hydrocarbons to drive our cars at some stage in the future.

The transformation may well present some challenges for existing businesses but there could be really good opportunities for new businesses. We're already seeing significant new sums of investment proposed in data centres in New Zealand by the likes of Microsoft and Amazon.

In part they are attracted by our highly renewable electricity system. Having an affordable, reliable, sustainable energy system could be a real bonus for people who want to do things.

Take agriculture, will we go to plant-based diets? Who knows. New Zealand could be a great place to do plant-based protein and things.

I'm in the camp that, yes there may be some changes to our manufacturing mix, but there are opportunities as well.

MOOD OF THE BOARDROOM

# Second harbour crossing takes priority

Fran O'Sullivan

Chief executives rate a second harbour crossing in Auckland as the most important priority among a suite of future infrastructure projects.

They rated it at an average 6.82/10 on a scale of 1-10 where one equals not important and 10 equals extremely important.

But CEOs from companies whose business is dependent on reliable transport across the city rated the importance of a second crossing — preferably a tunnel — even higher.

Finance Minister Grant Robertson said last month that $50 million had been put aside to fund a business case on a second harbour crossing.

The estimated $10 billion project is not scheduled to begin until the 2030s.

But an accident on the bridge last year, which resulted in several lanes being closed for a prolonged period, has highlighted the necessity for an alternative crossing.

It was back to the drawing board for project planners earlier this year, when construction costs escalated for the Government's flagship infrastructure programme, as a result of Covid.

In June, Grant Robertson announced over two-thirds of the projects would proceed with the Government increasing its investment in the New Zealand Upgrade Programme (NZUP) to support New Zealand's economic recovery.

"Fully funding the new estimated costs for every project would have cost up to $6b extra on top of the original $6.8b.

"So instead we've taken a balanced approach with a mix of additional investment and a handful of projects being re-scoped while also keeping a lid on debt."

The Government last year announced it would fund 150 "shovel-ready" projects worth some $2.6b to boost activity during the pandemic.

But just 44 per cent of the 150 projects were under construction by February.

CEOs were scornful: "Shovel-ready — has been a disgrace" — was a common refrain.

"The shovel-ready projects are important as they are costing a lot of the country's treasure," said a utilities firm boss. "However there is no evidence as to whether they are the right ones to do and there seems to be a general lack of economic rigor and analysis around them.

Said Accordant's Simon Bennett: "The shovel-ready is important but has not been executed."

> The shovel-ready is important, but has not been executed.
>
> Simon Bennett, Accordant

## Infrastructure priorities

**Second harbour crossing (tunnel) in Auckland**
**6.82/10**

**'Shovel ready' projects**
**6.21**

**Freeing up Tiwai Pt electricity**
**5.92**

**Three Waters programme**
**5.87**

**Onslow power project**
**5.03**

**Auckland light rail**
**4.05**

**Cycleway/bridge across Auckland harbour**
**1.92**

*CEOs rated the importance of these projects on a scale of 1-10 where 1 equals not important and 10 equals extremely important.*

"If we had shovel-ready (typically funded to date by private equity) projects — these could alleviate our social benefit funding and give dignity back to unemployed," said an educator.

The controversial "Three Waters" reform proposal by the Government, based on advice from the Water Industry Commission for Scotland (WICS), promises to deliver sustainable outcomes by replacing local government ownership and management with four regional entities.

Councils are concerned that local accountability and control of key assets will be lost.

"The Three Waters project being centralised is just downright stupid," said Mainfreight CEO Don Braid. "Water is used and looked after differently in the regions.

"Losing the skills and knowledge from the regions will be a disaster."

"Three Waters is a waste of time unless settings are changed to facilitate private sector involvement," added an investment banker.

CEOs gave the proposed $785m cycling and walking bridge in Auckland the thumbs down.

Last Friday, the Government quashed plans for the bridge just months after unveiling it.

The project had been widely criticised, even by cycling advocates, many of whom considered it an over-expensive means of providing cycle and walking links across the Waitematā Harbour.

"I would happily reallocate some the Auckland Harbour Bridge Cycleway fiasco costs to fix the existing bridge and add a second bridge for our Ashburton colleagues; to rebuild Marlborough and West Coast infrastructure after their floods; and put the deposit down on the new harbour tunnel," said the LGFA's Craig Stobo.

A banking CEO suggested Auckland needs a second harbour crossing that allows for cycling and walking rather than a dedicated bridge.

### Local Government performance

The *Herald* survey also asked respondents to comment on how well their local council has performed in facilitating growth and development.

The weighted average score was just 2.28/5.

Auckland Council's ratings were variable. "Sadly, the Auckland Council struggles for relevance here", " Auckland Council and its operating entities perform poorly", and "Auckland is dysfunctional" were typical comments.

Said a banker: "Auckland Council, through its CCO Auckland Transport, seems intent on creating congestion in the CBD and totally uninterested in doing anything to ease congestion on major highways.

Wellington City Council's rating was negative. "Very Green. Won't promote road transport or infrastructure and is leading to a strangulation of Wellington, while vanity projects around bicycle transport and conference centers take priority away from providing basic infrastructure like sewerage and a library" said a utility CEO.

Some respondents suggested that councils weren't really set up to facilitate growth arguing that new models like GST sharing should be considered.

Accordant's Simon Bennett underscored this: "They have few tools and little capability but that does not mean that localism does not have potential."

MOOD OF THE BOARDROOM

# Fixing supply chain headaches

## Businesses are keeping a close eye on inventory to continue operating at optimum levels

**Mood of the Boardroom**
**Graham Skellern**

From chartering ships to increasing inventory, businesses have quickly made operational adjustments to keep momentum going.

Businesses are being forced to stockpile inventory — placing pressure on working capital — to overcome the global supply disruption that has seen freight rates soar and deliveries delayed.

In the *Herald*'s 2021 CEOs survey, the country's CEOs cited shipping delays, including delays at New Zealand ports, rising freight costs and price escalation for imported products as the main constraints on the chain supply.

Most shipping trade lanes are affected by the delay in getting freight out of ports, the worst being the Trans-Pacific eastbound, and air freight space is limited because of the lack of passenger flights.

The constraints have particularly affected the primary exporters, dairy, meat, fruit and seafood; and the suppliers of imported goods such as new vehicles, electronics and appliances, liquor, farm machinery and office equipment; the port companies through congestion; construction companies needing vital materials from overseas; and transport and logistics operators.

They have found ways around the supply disruption with forward planning — ordering important components, ingredients and stock in advance; and in the case of global kiwifruit marketer Zespri chartering their own container vessels to get the produce to markets on time.

The agile businesses have had to soak up the additional costs and some may eventually be able to pass them on through price increases.

Don Braid, managing director of global transport firm Mainfreight, said procurement of available air and sea freight is a key priority, and pricing is at levels never experienced in the past.

"We remain concerned for our customers' supply chains and are working hard to reduce these effects wherever possible. But expect demand/shortages and pricing issues to continue to at least early 2022," he said.

In providing a market update, Sanford said it has faced increased costs and delays shipping frozen seafood products to key markets such as the United States and Asia because of the wider issues around global supply chains.

Total supply chain costs were up by $5 million on the previous corresponding period, which represented a 17 per cent increase on a cost per tonne basis. Sanford is seeking to recover these additional costs through pricing increases, albeit with a lag between these cost increases and pricing recoveries.

The recent Eboss construction supply chain report said the struggle to get goods to New Zealand has resulted in freight costs increasing almost 100 per cent in the last six months.;

The report said supplies of building materials were at the mercy of imported products, and even New Zealand manufacturers were heavily reliant on imported materials. "Given the situation with freight and staffing, lead times are likely to continue to increase."

One chief executive said in the Mood of Boardroom survey that freight rates have returned to pre-global financial crisis levels following 10 years of downward pressure, but the correction has been swift and continues to escalate.

Cos Bruyn, Fulton Hogan managing director in New Zealand, said his company needs to plan well ahead to secure plant and equipment, and costs and delays are growing by the day.

Another construction boss said quotation validity of shipping costs was 48 hours and "you have to order ahead of need and cash flow and develop 'a store' mentality".

The New Zealand chief of a multinational technology company said lead times have increased from eight weeks to five months.

So, businesses are keeping a close eye on inventory to continue operating at an optimum level.

Jolie Hodson, Spark chief executive, said lead times are increasing for products across networks and IT including handsets and modems, and constrained products are being allocated.

"We are lengthening our forecasting periods with our key suppliers and customers to better manage future product demand, we are increasing onshore inventory, and we are identifying alternative products or suppliers where it is necessary and possible to do so," she said.

Ben Camrie, director, Bunnings NZ, said "we have to predict future demand further out, and we are doing this to ensure raw materials and production times". Timothy Myers, chief executive of farm machinery supplier Norwood, said: "Longer lead times, longer cash cycle, more in-transit inventory, and lack of visibility into logistics detail/arrival."

Colin Henderson, managing director of Hewlett Packard Enterprise New Zealand, said his firm was unable to fulfil major clients' requirements in the IT industry. A specialist food retailer said it was unable to supply customers with certain products and this was reducing sales.

Tony Carter, chair of Datacom, "we previously only ordered computer hardware against confirmed customer orders. Now we are ordering on spec on the basis that we need to be able to respond to customer orders in a more timely manner."

The boss of one of New Zealand's leading manufacturers in the health sector, said he had no choice but to carry more stock/raw materials and finished goods.

A dairy company executive said "we are diversifying on sources of inbound ingredients to better secure ongoing availability — it is less about price now. We are holding higher stocks of raw materials, as are our customers, and this has a funding cost."

A property management leader said "anything we need which has an important component — such as furniture, appliances, technology, electrical cables — we are ordering months in advance and arranging to store. This ties up capital and logistically challenging but preferable to being caught short."

The chief executive of a wholesale food distributor said he has factored uncertainty and increased lead times into significantly higher inventory levels to provide a buffer against delays.

A multi-national based in New Zealand said it was looking at carrying lower stock to reduce costs of capital and change distribution based on orders. A local timber exporter has changed from freighting products in containers to break bulk — which was less efficient but more affordable.

A pulp and paper operator can't get major projects done because of the delay in equipment deliveries and lack of managed isolation and quarantine spots.

Jimmy Higgins, chief executive of Suncorp New Zealand, said supply chain disruption will impact input costs for insurance claims. Consumers will wait longer for cars to be repaired; and disrupted supply of building materials will push up prices, making home repairs more expensive or take longer for us to repair homes following increased natural disasters.

Another insurance boss said "all of this inherent construction and supply chain inflation will ultimately increase costs for New Zealand consumers and reduce our competitiveness."

A professional director had the final say: "It has brought renewed focus on the benefits of local manufacturing. The Government and New Zealand business need to recognise the value of local manufacturing from a security of supply perspective as well as job creation and benefit to the economy."

**The Covid crisis "has brought renewed focus on the benefits of local manufacturing" says a director.** Photo / Dean Purcell

Supply chain bottlenecks and rising costs are disrupting businesses. NZ CEOs say how their businesses have been affected. Rated on a 1-10 scale where 1 = not affected at all and 10 = extremely affected.

**6.34** Rising freight costs
**6.22** Shipping delays
**6.19** Supply chain bottlenecks
**6.09** Price escalation for imported products
**6.07** Delays at NZ ports
**5.54** Price escalation for domestically sourced products
**4.83** Driver shortages

*Source: NZ Herald Mood of the Boardroom 2021 Survey*

## Doubling up on safety stock to beat disruption

Richard Wyeth, chief executive of Westland Milk Products says: "We are holding more packaging and ingredients for our finished goods. For example, in a normal year when shipping channels are reliable, we may have two months of ingredients or packaging in the warehouse at any one time.

"Given the current challenges, most companies will be trying to have at least double their normal safety stock.

"We work together as an industry to shift common ingredients between plants.

"However, for specific packaging you cannot afford to run out.

"These types of costs cannot be passed through to the customer.

"The current supply chain has been manageable for us, but the challenge will be leading into the free trade window for China post our peak production months of September to November, and trying to get that product into market."

Westland Milk, owned by Chinese dairy company Yili Group, exports Westgold butter, milk powders, UHT milk and cream, and infant nutrition products to more than 40 countries.

## Imported product causing delays

Peter Reidy, co-chair of the NZ Construction Accord and Fletcher Construction chief executive, says any materials manufactured offshore are experiencing delays but particularly long-lead items such as pipes, electrical cable and structural steel.

"Our New Zealand construction industry manufacturers have very good just-in-time supply systems in place, but it is imported product and specific items which are having an impact.

"This won't hold back the industry's momentum, but there will undoubtedly be an impact on project programmes and cost for both large and small projects."

Reidy says to manage risk at a contracting level, the industry has to limit the period of time they can commit price certainty. For smaller companies in particular, delays in long-lead items can have cash flow impacts and it requires fair risk allocation from all parties to ensure the industry remains strong.

"Fair risk allocation is a core principle of the Construction Accord partnership with Government."

Significant skills shortage in the industry due to border closures and strong market demand is also having an impact on projects, says Reidy.

"The Government is working collaboratively with the industry through the accord to align immigration processes with skills required and managed isolation and quarantine availability (MIQ).

"An example of this is that 60 MIQ places are allocated to construction each month for highly skilled workers.

"It is also pleasing to see the big increase in apprenticeships in the industry, but this won't replace the skilled labour needed for some time to come."

MOOD OF THE BOARDROOM

# Port navigates the Covid storm

Andrea Fox

It would take a brave soul to predict when the shipping space and supply chain choke gripping NZ Inc will end, but Port of Tauranga chief executive Leonard Sampson is certain of at least a couple of things.

Neither may bring immediate relief, but they offer some hope.

First, there's a container vessel building boom on.

Second, with no sign of congestion easing or vessel call frequency becoming reliable, an idea whose time has come is for shippers to plan how to keep their container storage away from a major supply chain "release valve" like the Port of Tauranga, says Sampson.

It doesn't make sense to use a gateway port as a storage point and create a bottleneck, he says.

Some of the current pressure could be eased by shippers creating offsite hubs for staging container movement to a port.

"There's no question it comes at a cost but it's better to have that cost away from the port."

The Ruakura Superhub, in which the Tauranga port has a stake, is a mega-example of the staging strategy. It is due to open mid next year.

Back to the container vessel building spree.

The world's ship builders have the second highest number of orders in history and the highest in the past five years, says Sampson.

Sector analysts estimated back in March the order book was already worth at least US$10 billion ($14.6b).

While the response is hardly surprising given pandemic demand is clearly swamping shipping space supply as global consumers spend on goods instead of services like tourism and travel, what is interesting is that a little over 12 months ago, the number of idle, parked up container vessels was also the highest in history.

It's been a massive situation reversal in a blink of time, the result of the sort of topsy turvy predictions that have been a hallmark of pandemic economic forecasting — like the economic downturn and soaring unemployment New Zealand was forecast to get.

"If you were talking to shipping lines in the first half of last calendar year the predictions were dire. Container vessels were parked up as a result of China lockdowns and then manufacturing reductions," says Sampson.

"Roll forward to the end of 2020 and clearly what we got wrong globally was the effect of the stimulus being put into economies which went from purchasing services to products. That led to people buying things and the rise of online shopping."

With more demand for shipping than supply, and more cargo than capacity, has come port congestion, delays in transit times, missed port calls and cargo handling delays.

And skyrocketing freight costs for shippers. Sampson says in some trade lanes freight costs have risen more than 400 and 500 per cent.

Of course the new container ship crop — many monsters that will carry 20,000-plus containers — won't come on stream overnight.

And won't necessarily all call at New Zealand.

Not that New Zealand importers and exporters need reminding, but international shipping lines are making top money in the capacity drought and on the east-west trade lanes they're "extremely good returns", says Sampson.

"I had one shipping line explain to me they can get US$40,000 freight rates for a 40 foot container between Asia and Europe.

"Sending a vessel down to New Zealand that could be used (on that route) is a tough proposition."

Also, another boom and bust shipping cycle carries its own risks.

Yes, lower freight prices would be welcome right now. But low prices traditionally have led to extremely poor returns for shipping lines.

This results in further sector consolidation as large carriers buy up smaller operators in financial difficulty.

"In the long run this further reduces competition, which is not good for New Zealand shippers or service providers like port companies," says Sampson.

Clearly what we got wrong globally was the effect of the stimulus being put into economies which went from purchasing services to products.

Leonard Sampson

### Leonard Sampson's top three issues

- Ineffectual political leadership resulting in slow or no action.
- Resilient national infrastructure — we need a revised framework for shovel ready and fast track projects.
- Housing affordability.

MOOD OF THE BOARDROOM

# Why a tax on wealth is not seen as the answer

The Green party has suggested a wealth tax as a solution to help close the inequality gap between people who own and people who earn. This has been proposed at 1 per cent on net wealth over $1 million and 2 per cent on net wealth over $2m (applying at an individual rather than household level). The Greens estimate this is likely to raise around $7.9 billion in its first year. Business leaders are not in favour, with a combined 82 per cent of survey respondents saying they do not support the consideration of a wealth tax.

"If we had a properly functioning housing market, the whole question of extremely large increases in personal wealth would largely go away," said ICBC (NZ) chair Don Brash, a former Reserve Bank Governor. "What is so offensive in the current situation is that most of the huge increases in wealth are not the result of hard work, or of inventing something new, or of building a business but just the result of buying lots of land with borrowed money and waiting."

Many suggested this form of tax would fail.

Said SkyCity Entertainment director Silvana Schenone, "people who will be caught by this will also be able to restructure their affairs or seek advice to not trigger the wealth tax. Also, wealth inequality should be addressed at the root of the problem, not as a punishment to the wealthier end.

Wealth inequality should be addressed at the root of the problem, not as a punishment to the wealthier end.

Silvana Schenone

"Wealthy New Zealanders would leave or restructure their affairs," agreed Devon Funds Management's Paul Glass.

"All a wealth tax will do is result in people shifting their assets to more desirable jurisdictions," says an investment company CEO. "We want to attract capital, not send it offshore."

A property boss observed wealth taxes are extraordinarily complex — "the people with good lawyers and trust structures will avoid it, it'll be the middle-class who end up paying it".

Beca's Greg Lowe also questioned how retired Kiwis would find the income to pay an annual tax on the assets they spent their lives building up. A high-profile director put the issue this way, "forcing asset sales to fund wealth taxes undermines the productive efficiency of asset portfolios and investment structures. The vast majority of other nations have solved the problem with capital gains taxes that kick in when gains are realised. This will tax the 'mom and pop' households who do not have access to financial advisors to structure their wealth in a way that escapes the net. It would also be an administrative nightmare, and will consequently have extremely high collection cost."

A number of CEOs — unprompted — also suggested a capital gains tax was the more sensible route.

— *Tim McCready*

### Lowdown on wealth taxes

**39%** are outright opposed to wealth taxes.

**38%** are opposed agreeing they are largely symbolic and don't address wealth inequality.

**5%** are against as the fiscal situation does not require such a measure.

**8%** support wealth taxes but only at materially higher levels than the $1m-$2m proposed.

**1%** would suppoort a wealth tax with a 5-year sunset clause as part of rthe Covid-19 response.

# Picking a way through the mire

Business leaders are not in favour of raising taxation rates, write **Fran O'Sullivan** and **Tim McCready**

Chief executives are against the Government raising additional tax revenue through either a further expansion of the tax base or an increase in current tax rates. That's opposed to looking to grow the economy and grow tax revenue accordingly.

An overwhelming majority — some 91 per cent of respondents to the *Herald*'s Mood of the Boardroom survey — said this would not be appropriate. Just 5 per cent were in favour, 4 per cent were unsure.

Several executives responded saying the government should be focused squarely on the growth of the economy, rather than lowering the net income of Kiwis.

"The fastest and most effective way to grow Government revenue is to grow the economy," said Beca CEO Greg Lowe. "We need to work together to make the pie bigger, not focus on slicing the same pie up differently.

"Tax settings in New Zealand since the David Lange and Roger Douglas reforms have been, and still are, relatively balanced and fair."

"Another dumping on the drivers of business and economic growth?" questioned an education provider. "Address the haemorrhaging of funding into social housing and unemployment first, before businesses and taxpayers are hit again!"

Not everyone is singing in the same key.

Meridian Energy's Neal Barclay is among a group of survey respondents that say capital gains tax should still be on the table: "Capital gains tax should still be on the agenda — not as a way to increase the tax take, but more to distribute the tax more fairly," he said.

From another director: "The lack of a capital gains tax has us out of step with most economies — certainly the ones I work in and creates significant tax leakage in the New Zealand system. Surely this must be solved at some point?"

"New Zealanders expect the standards of a Scandinavian country, but not the taxes to pay for it," says an investor. "This is hindering our overall performance and outcomes."

But while some 50 per cent of survey respondents felt the Government should reduce taxes — in any form — to stimulate economic activity, 41 per cent were against.

Barfoot & Thompson's Peter Thompson suggested incentivising small to medium businesses to grow with a preferential tax rate rather than penalising them.

Capital gains tax should still be on the agenda — not as a way to increase the tax take, but more to distribute the tax more fairly.

Neal Barclay, Meridian Energy

The EMA's Brett O'Riley also favoured a reduction "We need to be encouraging businesses to invest in the plant, capacity and skills at a time when costs are rapidly rising, impacting profitability."

The NZ Initiative's Roger Partridge cautioned tax reductions should not be used to stimulate economic activity when the economy was overheating. But he said tax relief may be appropriate for businesses adversely affected by lockdown.

Others suggested any rethink on tax reduction should wait until New Zealand passes the pandemic phase.

"Doing so would need to be part of a comprehensive rebalancing of the tax system as part of a broader post-Covid fiscal strategy," said Spark's Jolie Hodson.

### Are you in favour of the Government raising additional tax revenue through further expansion of the tax base or an increase in current tax rates?

**91%** No

**5%** Yes

**4%** Unsure

**Personal income tax rate hike**

In April, a new top tax rate of 39 per cent on individual incomes earned above $180,000 was introduced along with a raft of other tax changes.

The Government estimated that the change would impact just 2 per cent of earners, and deliver a further $550 million in the coming financial year.

The threshold matches Australia's of A$180,000, although the top personal income tax rate across the Tasman is higher at 45c for every dollar.

The majority of New Zealand's top CEOs — some 64 per cent — say the introduction of this tax rate was not warranted given the future economic projections of a return to Budget surplus by 2025/26. Another 30 per cent say it is acceptable, and 6 per cent are unsure.

A media executive agreed the tax hike was necessary saying it would "take many years of surpluses to repay the expanded Government debt due to funding the response to the Covid pandemic".

"On an international scale the 39 per cent tax rate is not out of line," added Datacom chair Tony Carter. "And remember we have an imputation credit regime which means there isn't double taxation which is common in many other countries."

Others who commented were dismissive.

An agribusiness boss said:" I believe it is purely a politically motivated tax — raised $500m? In the scheme of things how about the team of 5 million all pay 1 per cent more at whatever their rate and be all in this together?"

Others said the revenue gathering impact was relatively immaterial "It was driven by a political agenda, and as such I expect it is here to stay," added a banking chief.

Federated Farmers CEO Terry Copeland slammed the move as "simply virtue signalling and making very real difference."

Others pointed out the increased tax rate opened the way for tax avoidance.

Fletcher Construction CEO Peter Reidy noted the tax was directed only at PAYE individuals and is not addressing all income levels over $180,000.

The majority of high-net-worth individuals that this tax rate supposedly targets are not paying those taxes in the first place, added a food executive.

"Salary earners have been disadvantaged."

"Makes it worthwhile hiring an accountant to avoid" — agri boss.

A high-profile director concluded while the the revenue gathering impact is relatively immaterial. The policy was driven by a political agenda, " and as such I expect it is here to stay".

### Is the top tax rate of 39 per cent on individual incomes earned above $180,000 warranted?

**64%** No

**30%** Yes

**6%** Unsure

Among those who commented, a number raised the question of a capital gains tax without prompting:

- "A capital gains tax would have been more sensible than this messing around with bright line tests, interest deductibility, etc. skewing fundamental principles of taxation in order to appear to be keeping an election promise." — **food sector boss**
- "I believe we need a capital gains tax to address this issue and to bring us into step with most developed nations." — **high-profile director**
- "You can look at this question depending whether you are paying that rate or not. Some don't mind paying and others don't think it is fair. It discourages building a business by working hard and provide many opportunities for others to then be penalised with higher rates." — **real estate boss**
- "On an international scale the 39 per cent tax rate is not out of line. And remember we have an imputation credit regime which means there isn't double taxation which is common in many other companies." — **Tony Carter, Datacom**
- "Yep. Need CGT." — **professional adviser**

That said, three-quarters of survey respondents agreed that the 39 per cent top tax rate on personal incomes raises equity issues with other tax rates — specifically the trustee tax rate set at 33 per cent and the company rate at 28 per cent.

Some 18 per cent said it doesn't; 6 per cent were unsure.

From a banker: "It certainly mucks up the tax system by strongly incentivising people to channel income into corporate structures."

Others suggested the Government should just close the gap by for instance lifting the tax rate on trustee income to remove an obvious avoidance loophole.

Asked directly if the 39 per cent tax rate on personal incomes further skews the taxation of labour (people) over capital, 68 per cent of respondents agreed it did in a net negative way for New Zealand, 6 per cent felt it did in a net positive way and 26 per cent were unsure.

MOOD OF THE BOARDROOM

# Letting the sleeping tax dogs lie

Business leaders wedge the Government between a rock and a hard place on tax writes **Thomas Pippos**

This year's Mood of the Boardroom survey highlights how business leaders are not really open to the Government doing much more on tax, outside of reducing tax burdens, particularly the corporate tax rate.

This isn't really a new sentiment, or limited to business leaders, as outside of sabre rattling, the mainstream tax policies of successive Governments have predominantly just oscillated on our highest individual tax rate, and whether it should be 33 per cent or 39 per cent.

And on that point, survey respondents remain resolute, the 39 per cent rate continues to be unpopular, largely symbolic, and unduly taxing a small subset of the population who earn high levels of personal income that is not able to be sheltered through other vehicles; not those with real wealth.

Most respondents (64 per cent versus 30 per cent) believe that the 39 per cent rate remains unwarranted given what it raises, the expected return to surplus around 2025/2026 and who it impacts. And an even greater level (76 per cent versus 18 per cent) believe that the 39 per cent rate raises equity issues with other tax rates, with a similar level (68 per cent versus 6 per cent) believing that the 39 per cent rate further skews (in a net negative way) the taxation of labour over capital.

While in some respects these results are not surprising, given that respondents are likely to be over-represented in the subset that are most impacted by the 39 per cent rate, the truism of NZ tax policy is how quickly sentiment moves from accepting a liability to pay at 33 per cent to begrudging that payment 6 per cent higher at 39 per cent.

A sentiment exacerbated when other rates are lower, other forms of economic income are not taxed at all, and those impacted believe that they are carrying a relatively higher tax burden than they should be having in regard to their overall context.

An even higher uniformity of sentiment (91 per cent versus 5 per cent) has no interest in the Government looking to raise additional revenue from either an expansion of the tax base or an increase in the current rates; with the overarching desire being that tax revenue growth is achieved through growing the economy; albeit that there was support for targeted tax measures that brought certain areas into the tax net that were seen to inequitably fall outside of it, and to better direct social and wider support to those in need (to mitigate the need to tax more).

International competitiveness concerns continued to come through, and were heightened.

Though respondents were not overly drawn to general tax reductions, they were overwhelmingly (67 per cent versus 17 per cent) attracted to the Government looking to introduce a phased reduction in the corporate tax rate to 25 per cent by 2027 to match Australia; with the corporate tax rate taking centre stage of concern (64 per cent to 27 per cent) in terms of global competitiveness, given our 28 per cent rate is the 7th highest of the 38 OECD rates. Consistent with this, respondents (65 cent to 31 per cent) are more concerned now about the Government's ability to compete for mobile capital and labour than they were pre-pandemic, with only 4 per cent having a reduced level of concern.

Reinforcing the point, most respondents were not concerned that the Government would capitalise on global sentiment to increase tax levels, and in particular President Joe Biden's tax agenda, given our tax settings are seen as already materially ahead of the pack.

Of course, tax and tax rates pair off with spending and the overall fiscal context that exists.

Positively for the Government, the majority of respondents (56 per cent) are comfortable with the Government's fiscal policy, its priority to return to surplus balanced with reducing net core Crown debt, fewer (34 per cent) thought the Government's plans were too lax, and fewer still (10 per cent) thought they were too severe.

Framing this sentiment, the vast majority of respondents (63 per cent versus 20 per cent) were concerned with how the Covid Response and Recovery Fund was being used wider than was initially understood; which also tied into the majority sentiment (64 per cent versus 34 per cent) concerned around the increasing efficacy of Government spending as the economy and delivery agencies were seen to be severely challenged by capacity constraints; in part, reinforced by the establishment in Budget 2021 of a new "Implementation Unit" within the Department of Prime Minister and Cabinet to be chaired by the Minister of Finance, to ensure the Government delivers on its major policy initiatives.

Capping off the tax sentiments was a growing level of concern (60 per cent versus 39 per cent around wealth inequality, centred on housing affordability. In terms of dealing with that concern, and in addition to looking to address housing in particular, the majority sentiment (56 per cent versus 16 per cent) thought the Government's role was to ensure a heightened safety net through minimum levels of welfare and income, versus taxing wealth and assets; and in terms of the latter, 39 per cent were generally unattracted to wealth tax settings with a further 38 per cent augmenting that negative sentiment with a view that any such matters would be largely symbolic and would not really address wealth inequality.

> The truism of NZ tax policy is how quickly sentiment moves from accepting a liability to pay at 33 per cent to begrudging that payment 6 per cent higher.
> Thomas Pippos

Is any of this surprising?

Probably not and possibly influenced by lockdown fatigue, but it does suggest that the Government could easily lose the dressing room with businesses if it looks to raise more revenue through increased tax setting when the economy seems to be generating enough, and the capacity to spend wisely is being challenged; that it may be better to leave well enough alone on wholesale tax settings, other than the sacrificial 39 per cent rate — to let the sleeping dogs lie, as they say.

● *Thomas Pippos is Chair of Deloitte.*

## 'We're sending prospective business elsewhere'

Almost two-thirds of respondents to the *Herald*'s CEOs survey — 64 per cent — believe New Zealand's headline corporate tax rate is not sufficiently internationally competitive to attract foreign investment.

Some 27 per cent are not concerned and 9 per cent are unsure.

In 2020, New Zealand had the seventh highest headline corporate tax rate of 38 OECD countries, and some of those with higher rates have plans to reduce them in the future.

"This plus our immigration policy is sending prospective business opportunity to other countries like Australia," said real estate boss Peter Thompson. "We need these people bringing their intelligence and businesses to New Zealand."

A high-profile director commented they regularly came across companies structuring their affairs so as to minimise the income they report in New Zealand because of NZ tax rates.

A major funds boss challenged the premise of the question: "What about the total tax impost and general ease of doing business, as opposed to a focus on the headline tax rate? This question is designed to elicit a particular answer."

Others underscored the imputation regime makes the effective New Zealand corporate tax rate lower than that for some NZ investors.

Similar response numbers were elicited when they were asked whether the Government should consider a phased reduction of the headline corporate tax rate to 25 per cent by 2027, to match Australia.

Some 67 per cent say a reduction should be considered, 17 per cent say no, and 16 per cent are unsure.

"Anything higher than the current level of 28 per cent is uncompetitive," said Mainfreight's CEO Don Braid who runs a global logistics business. "I am unsure we need to lower further."

Said a director: "We are part of a global market and need to be internationally competitive — including with tax rates, to make New Zealand a destination of choice."

"We need to do what is right for us — not just match Australia. It may be quicker or slower or could go lower or not as low; but it has to be what is best for New Zealand," said Thompson.

CEOs were also asked to look at the global tightening of policy setting that is occurring. A further natural effect of international stimulus and related measures is a heightened awareness that all taxpayers need to pay their fair share. They were asked to consider the initiatives that US President Joe Biden is looking to introduce to ensure corporate America pays a fairer share which include increasing the US corporate tax rate to 28 per cent and increasing the minimum tax on US multinational corporations to 21 per cent.

Asked if they thought this might influence policy-making in New Zealand, 42 per cent said it wouldn't, agreeing with the proposition that NZ's tax settings were already tighter than most.

Some 34 per cent thought the Government would use the Biden impetus to tighten NZ tax setting further; 9 per cent were unsure.

"The US had a ridiculously high corporate tax rate — 36 per cent — but umpteen loopholes, with the result that any company with a smart accountant did not pay anything like 36 per cent," said a banker. "Reducing the corporate tax rate in the US was a good thing to have done, though I suspect that too many loopholes still exist.

"We already have a 28 per cent corporate tax rate, which is high compared with most of the countries in Asia."

"Sadly, our lot will follow through," — infrastructure boss.

— *Fran O'Sullivan*

Is NZ's corporate tax rate competitive?

**64%** Yes

**27%** No

**9%** Unsure

MOOD OF THE BOARDROOM

# Border restrictions are

Continuing limitations around Covid-19 have caused uncertainty but businesses are gearing up to invest in IT

**Mood of the Boardroom**
**Bill Bennett**

Finding and retaining skilled workers is now a major issue for New Zealand's small to medium businesses (SMEs).

BusinessNZ asked its SME membership how difficult it had been to fill vacancies over the last year.

On a scale of one to five, 38 per cent of survey respondents said it was "very difficult", while no respondents found it "very easy".

When it comes to hiring overseas workers, two-thirds of SME respondents (65 per cent) said that the Covid-19 border restrictions have made matters harder; 15 per cent were unsure. 20 per cent have not run into problems.

VBridge chief executive Todd Cassie says: "More so finding new people. Retention has not been an issue for us — this I believe is part of the challenge.

"People that, pre-Covid, would have been open to a change seem to be hunkering down and sticking with what they know."

Australia is the focus for many leaders when it comes to finding and keeping skilled workers.

Oceanagold's GM Corporate & Legal Affairs Alison Paul says: "We generally train our own workforce, but we then compete with Australia to retain those workers. Border restrictions have been a mixed blessing.

"When borders reopen, we may struggle to hold on to staff. That said, not all expertise can be sourced from within New Zealand and that part has been very difficult. It has held our business back."

EMA CEO Brett O'Riley says salary expectations have gone through the roof as a result of inter-company poaching and Australian companies looking for staff from NZ.

## Spending

**67%**

**of respondents intend to spend more on IT in the coming year.**

### Spending

A major wave of business spending appears to be on the way. More than half (54 per cent) of SME respondents plan to increase capital expenditure in the coming year compared with last year.

Around 21 per cent intend to keep capital budgets at the same level; with 20 per cent saying they expect to authorise less capital expenditure.

Much of the extra expenditure will go to the technology sector. The survey found spending on IT remains a priority with two-thirds (67 per cent) of survey respondents planning to spend more. Another 20 per cent say their spending will stay at 2020 levels. Only 12 per cent say they will cut IT budgets in the coming year.

### Tax

Business chiefs remain concerned about the international competitiveness of headline tax rates.

An industry body chief executive reflects this. He says tax rates are "probably not the biggest constraint at present". The head of a large manufacturer says other factors are more important at the moment.

A real estate leader says, "To attract foreign investment, many of those people would also like to live here so many things need to change, like borders opening and immigration policy changes. Then consideration on corporate tax rate can be looked at and made inviting for those investors; but at the moment it does not worry me."

Some 40 per cent of SME respondents are concerned that the local corporate tax rate is not internationally competitive; A third (34.5 per cent) are not concerned.

## Tax

**40%**

**SME respondents are concerned that the local corporate tax rate is not internationally competitive.**

**continued on B35**

## Achievements and regrets

**Leaders share their best achievement and biggest regret over the past 12 months**

**Best achievement**: Our business grew 25 per cent without increasing our sales team. **Biggest regret:** Our inability to travel internationally has impacted on some of our new developments planned for in the next one to two years.

John Vale, Vynco

**Best achievement:** Significant progress advancing the technical case and towards gaining the permits required to develop new mining projects at our two existing operations. **Biggest regret:** Border restrictions have stopped us gathering the full in-country team that we would have liked to advance our plans for growth, and that has slowed us down. It is difficult for leaders to lead remotely.

Alison Paul, OceanaGold

**Best achievement:** Increase in turnover despite coved 5 week lockdown followed by 3 weeks at level 3 meaning more staff for 50 per cent less customers. **Biggest regret:** A planned sale of the restaurant has not proceeded. Not due to Covid.

Sue Nunn (check), BlueSky

**Best achievement:** Sailing through lockdowns with no real impact on the business and growth ambitions for the year achieved. **Biggest regret:** We won a large customer and although we are happy with the pricing, we probably didn't need to go as low as we did. Basically we left money on the table.

Todd Cassie, vBridge

**Best achievement:** Big project win at one customer adding significant sales. Improving safety culture in the factory **Biggest regret:** Lack of travel to or from overseas business partners.

Tim Loughnane, Azelis New Zealand

# Growing pains with labour shortages

**Graham Skellern**

Industry needs to get closer to the skills generation machine and remove mismatches in the workforce, says BusinessNZ chief executive Kirk Hope.

BusinessNZ is calling on the government to abandon its Fair Pay Agreement proposal, saying it will only "add rigidity to the tight labour market".

Hope says the proposed agreement would not help anyone. "It's an extremely rigid tool. If the government is worried about pay conditions of vulnerable workers, then there is a better way than the Fair Pay Agreement.

"I can't see a rational policy base for doing this, and I'm not sure the government is that clear on the solution it is looking for. I think they made a promise to the union, and that's why they are doing it."

Hope says following the implementation of the agreement, employers will lose flexibility — some will pay more, some will pay less.

"Take the cleaning industry, for instance, half of the workers are in a multi-employer collective agreement. A fair pay agreement wouldn't do much for one half and not touch the other half.

"Bus drivers and aged care workers are publicly funded, and there's chronic under-funding in these areas."

The proposed Fair Pay Agreement system would bring together employers and unions within a sector or industry to bargain for minimum terms and conditions for all employees. The proposed system would include support for parties to help them navigate the bargaining process and reach an outcome, as well as processes to ensure compliance.

If 10 per cent of a workforce or 1000 workers agree, a new Fair Pay Agreement can be enacted. The Fair Pay Agreements Bill is expected to be introduced later this year.

Hope says his organisation made a range of suggestions during the consultation phase, but they have been completely ignored. Pay agreements should be voluntary, not compulsory, and they should meet international obligations.

He says the challenge for many businesses right now is how to meet the growing rather than shrinking pains. "The pains of economic growth within a constrained labour market were not something we were looking at a year ago.

"If you are growing and have demand for your products and services, how do you meet them and how long will the demand last? It may be cyclical, and there is a sense of frustration of wanting to take advantage while the demand is there.

"We have a skills gap that presently can't be met in the domestic market. Essentially businesses have to increase salaries and wages to get someone to fill the job. And the pay may not be directly related to productivity.

"This has an impact on costs over time. We are seeing the fastest rate of inflation in 10 years, and I'm sure everyone in the (Mood of the Boardroom) survey will be reflecting on the pressure this puts on wages and salaries."

### Kirk Hope's top three issues

- **Vaccine rollout:** How New Zealand reconnects with the world.
- **Greater use of saliva testing:** At the border and also more tracing technologies ( such as mobile phone/Eftpos tracking).
- **More growth:** Than redistribution-focused government policy.

Hope says the New Zealand education system hasn't been able to meet the labour demand, and we need to rely on international skills at the moment — that's really challenging.

"We are in the middle of vocational reform but the reality is that we have had skills mismatches for a long period. The education system has operated from a learner perspective, not industry perspective. Industry needs to get closer to the heart of the skills generation machine." Hope says at present there are skill shortages right across the board — from auditors, engineers to hospitality and health workers.

The agriculture and horticulture sectors are reducing production because their workforce is getting tired. Restaurants are not opening on certain days because staff needed to have time off. "These are growing pains, not shrinking pains," Hope says.

He backs the Government plan of increasing the vaccination rate and reconnecting New Zealand with the world in 2022. "There is a pathway and the important touch point is getting the percentage of the population vaccinated as the government re-opens the border."

But there is a need to get more skilled people in the country right now. "There are 50,000 applications or more from people who want to come and work here. The applications are not being processed while the border is shut.

"How long will this pipeline last? We may have an outflow of people. Other countries have skill shortages too and will we be able to hold on to these people?"

Hope says some of the signalling from the government needs to be a little different, and the country should remain open to low and mid-skilled migrants. "We need them to grow the economy, and the government should focus on more growth rather than redistribution policy in the post-pandemic world."

MOOD OF THE BOARDROOM

# 'a mixed blessing'

continued from B34

A software business head says, "I think that lower corporate tax rates would attract more investment from overseas. Singapore is a good example."

Parity with Australia's lower headline corporate tax rate remains a popular idea. 67 per cent of the company heads surveyed said they want the government to consider a phased reduction of local headline corporate tax rates to fit in line with Australia's 25 per cent rate by 2027.

The idea was dismissed by 22 per cent of the respondents with 18 per cent saying they don't know.

Clemenger Group chief executive Strahan Wallis says New Zealand needs to remain competitive with Australia on taxes.

A manufacturing sector CEO adds, "That would be helpful to many business owners to offset the added costs recently imposed on us."

The head of an accounting business pointed out the potential complexity of such a move saying: "Change it or don't change it, but it would be a nightmare if it was a phased reduction."

## Housing

**25%**

**of respondents say the unavailability of affordable housing means they are finding it hard to attract or retain workers.**

**Housing**

One in four of SME respondents to the BusinessNZ survey say the unavailability of affordable housing means they are finding it hard to attract or retain workers. Fifty per cent were unaffected; 25 per cent are unsure.

Oceanagold's Alison Paul says, "We operate in regions that are seeing the knock-on impacts of housing shortages in the large urban centres.

As a sector that pays well, housing affordability has not usually been an issue for our workforce."

The head of a print and packaging firm adds "Prices are way out of line even in rural locations".

Others pointed out they have suppliers who are losing good staff due to housing problems. But job security is also a factor.

**RMA**

The Resource Management Act continues to be to rate how well the RMA has worked to facilitate growth and development on a scale of one to five, one-third (34 per cent) of respondents gave it a score of one; not impressive. The same number scored the Act at two. A little over 20 per cent offered "no opinion".

Local councils continue to underperform from a business point of view. Asked if their local council performs to facilitate growth and development on a scale of one to five, just a single respondent gave a score of 5.

## RMA

**34%**

**of respondents gave the RMA a score of one; not impressive.**

## The Top Priorities

**Joe Jakicevich, Hancocks**
- Staff development and retention.
- Supply chain alternatives options.
- Looking forward rather than to the now.

**Rod Younger, Alchemis Ltd**
- Expand through acquisition and organic growth.
- Pay back debt.
- Develop new markets.

**Ruth Cobb, PrintNZ**
- Ensuring no disruption to supplies.
- Retaining staff.
- Maintaining business confidence.

**Strahan Wallis, Clemenger Group**
- Continuing to deliver global best-in-class marketing services for our clients.
- Stabilising in the post Covid-19 era and adjusting well to the new realities that brings.
- Growth: for our clients and our people.

**Stefan Vermeulen, Nespresso**
- Carbon neutrality.
- Customer loyalty.
- Launch new innovation.

Over half the respondents said staffing was a priority; for most, retaining or recruiting new employees.
For others, key was staff development or growth. Many mentioned staff wellbeing. Dealing with supply chain disruptions was a common priority with some worrying about shifting global trade patterns. Climate change and sustainability were prominent, in some cases with reference to regulatory change.

> For the first time in a generation we have an economy working at capacity yet there is probably more uncertainty internationally, because of Covid and China, than ever before."
>
> Banking executive

## Key findings

**Skills shortages and immigration** — Nearly seven in ten respondents (68 per cent) name skills and labour shortages when listing their top five concerns affecting confidence in the wider business community. Almost the same number (67 per cent) nominate skills and labour shortages as the main concern for their own business. Skills shortages are closely linked to immigration restrictions and closed borders, which were named by 56 per cent as a business confidence problem for the wider community. When it comes to how closed borders impact their own companies, a little under half of respondents (47 per cent) name it as a concern.

**International trade and transport cost fears** — Almost half (48 per cent) of survey respondents list international transport and logistics costs among the factors affecting confidence in the wider business community. That makes it the second biggest concern. Fewer company heads (43 per cent) say transport and logistics affects their own business. One quarter of companies say the international trade environment is having an effect on the general business community. Yet only 13 per cent see this as a confidence problem when they look at the question from their own company's point of view.

**Uncertainty** — Over four in 10 of the companies (42 per cent) business chief respondents name general uncertainty about the impact and direction of government policies as having an effect on the wider business community. When it comes to the impact on their own companies, the number was lower at 38 per cent.

MOOD OF THE BOARDROOM

# A Covid caveat for business

Latest lockdown has made forecasting uncertain for some of NZ's biggest firms, writes **Fran O'Sullivan**

## Expectation of profit and revenue over the next 12 months by sector

| | Profit | Revenue |
|---|---|---|
| Advertising, Media, Marketing | 67% ↑<br>33% ↓<br>0% - | 100% ↑<br>0% ↓<br>0% - |
| Agriculture / Agribusiness | 50% ↑<br>20% ↓<br>30% - | 80% ↑<br>20% ↓<br>0% - |
| Automotive | 0% ↑<br>100% ↓<br>0% - | 0% ↑<br>100% ↓<br>0% - |
| Construction & Machinery | 33% ↑<br>50% ↓<br>17% - | 33% ↑<br>17% ↓<br>50% - |
| Education | 50% ↑<br>33% ↓<br>17% - | 50% ↑<br>17% ↓<br>17% - |
| Finance & Financial Services | 53% ↑<br>13% ↓<br>27% - | 73% ↑<br>0% ↓<br>20% - |
| Food & Beverage | 40% ↑<br>40% ↓<br>20% - | 60% ↑<br>20% ↓<br>20% - |
| Healthcare & Pharmaceuticals | 75% ↑<br>25% ↓<br>0% - | 75% ↑<br>0% ↓<br>0% - |
| Insurance | 100% ↑<br>0% ↓<br>0% - | 100% ↑<br>0% ↓<br>0% - |
| Manufacturing | 25% ↑<br>25% ↓<br>50% - | 50% ↑<br>0% ↓<br>50% - |
| Non-profit | 33% ↑<br>0% ↓<br>67% - | 33% ↑<br>0% ↓<br>67% - |
| Professional services | 56% ↑<br>6% ↓<br>33% - | 78% ↑<br>6% ↓<br>11% - |
| Real Estate | 57% ↑<br>0% ↓<br>14% - | 86% ↑<br>0% ↓<br>0% - |
| Retail & Consumer Durables | 75% ↑<br>13% ↓<br>0% - | 88% ↑<br>0% ↓<br>0% - |
| Telecommunications &Technology | 92% ↑<br>0% ↓<br>8% - | 100% ↑<br>0% ↓<br>0% - |
| Transportation, Delivery, Logistics | 67% ↑<br>17% ↓<br>0% - | 67% ↑<br>0% ↓<br>17% - |
| Utilities, Energy, and Extraction | 70% ↑<br>20% ↓<br>10% - | 70% ↑<br>10% ↓<br>20% - |

↑ = increase compared to previous 12 months
↓ = decrease compared to previous 12 months
- = same as the previous 12 months

'Unsure' percentages not shown in table.

If this unreliable supply pattern persists, buyers may head to other wine producing countries.

Erica Crawford, Loveblock Wines

There was lower activity in Australia through the rolling lockdowns taking place there.

Bruce Hassall, Fletcher Building

After the 2020 lockdowns the sales momentum was enormous. Very unsure this time whether customers will be more concerned given how contagious the Delta variant is.

Joan Withers, The Warehouse

New Zealand's latest — and longest — Covid-19 lockdown has made financial forecasting uncertain for some of NZ's biggest firms.

The majority of respondents to the *Herald*'s CEOs survey — 74 per cent — are forecasting increased revenue in the next 12 months. For some there is a caveat: the impact from the latest Covid-19 lockdown.

While revenue forecasts are buoyant, profit growth expectations have clearly been impacted by rising costs.

Fletcher Building chair Bruce Hassall is among those unsure what the impact of the latest lockdown in New Zealand will be on the infrastructure company's revenue.

"Fletcher's entire New Zealand business was shutdown. And there was lower activity in Australia through the rolling lockdowns taking place there."

The Warehouse chair Joan Withers said Covid uncertainty makes assumptions around revenue growth impossible — similarly with profit projections. "Again with the uncertainty about lockdowns, impossible to forecast.

"After the 2020 lockdowns the sales momentum was enormous. Very unsure this time whether customers will be more concerned given how contagious the Delta variant is."

Says wine exporter, Erica Crawford, of Loveblock Wines, "it's very difficult to project. Demand is there at the moment, however supply reaches those markets on a very delayed and erratic 'schedule' due to shipping difficulties. If this unreliable supply pattern persists, buyers may head to other wine producing countries from which shipping and supply is more reliable."

### CEOs revenue projections

**Increase**
**74%**
**Decrease**
**6%**
**Same**
**14%**
**Unsure**
**6%**

For advisory firms the outlook is optimistic. Lawyers and accountants say there are a lot of mandates off the back of an increase in mergers and acquisitions. While offshore principals cannot easily get across the NZ border, digital due diligence is in vogue as they kick the tyres virtually.

Beca's Greg Lowe's says most of the firm's clients are "looking through" the impact of the pandemic and working on longer term strategies. "Challenges around sustainability, decarbonisation, energy transition and climate change are being addressed by our clients in all markets and all geographies that we work in, internationally as well as locally.

"We see growing demand for technical skills in these areas."

The adjoining table indicates gives an indication of how various sectors are faring. For instance, just 50 per cent of respondents in education say they are expecting an increase in revenue over the coming year, compared to 100 per cent in advertising and media.

The outlook is mixed when it comes to profits: for the food and beverage industry, respondents were split, with 40 per cent of respondents expecting a profit increase and 40 per cent expecting a profit decrease, with the remainder expecting profit to remain the same.

### CEOs profit expectations

**Increase**
**54%**
**Decrease**
**16%**
**Same**
**22%**
**Unsure**
**4%**

Half of all respondents in the construction and machinery sector expect a fall in profit over the coming year. Such firms cannot operate which under Alert Level 4.

Fulton Hogan CEO Cos Bruyn says the Covid lockdown in New Zealand and ongoing issues in Australia may constrain capital spend — dependent on the ongoing duration of business disruptions. "There is also the issue of international supply chain and shipping disruption that will impact on our ability to spend to consider."

"The removal of stimulus spend will impact in Australia, as well as a reduction in revenue on both sides of the Tasman due to Covid."

Another construction firm expects revenue to flatline.

"Growth is not anticipated due to coming off an exceptional 2020/21. Is it likely to be impacted by supply chain and labour constraints. If the Government keeps the same Covid strategy there is likely to be more lockdowns than last year given the Delta variant."

Z Energy's Mike Bennett is expecting growth — "a mixture of Covid recovery and new growth initiatives".

A major Auckland hotelier — who has a strong events business alongside accommodation — said the outlook was dependent on the opening of borders and the reduced amount of hard lockdowns; a view that was replicated by a food supplier to the hospitality sector. Aviation and airport businesses are also challenged by the pause on the transtasman bubble.

There's some optimism among industry organisations. "The impact of Covid will see many organisations lose some areas of revenue and replace that with new areas," says Auckland Business Chamber's Michael Barnett.

When it comes to the agribusiness the outlook is mixed.

Dairy chiefs say demand for dairy remains very buoyant in just about all markets.

Even with the enormous challenges around shipping they are forecasting growth. But increased revenue growth is being affected by significant cost increases in a number of areas — notably shipping.

Horticulture firms are projecting strong returns. Wood processing is another industry where revenue is being eaten up by energy costs. The fishing sector is finding it tough.

The real estate sector has had a very active market in the last 12 months. "It would be foolish to attempt to guess ahead, especially right now," says a real estate boss. "The supply of new housing stock to assist demand remains constrained."

### Staff numbers

**Increase**
**45%**
**Decrease**
**18%**
**Same**
**34%**
**Unsure**
**3%**

Barfoot & Thompson's Peter Thompson, expects staff numbers to stay the same.

"Salespeople come and go.

"The difference today is that applicants are of a higher standard, many coming from other service industries.

"We all made staff cuts during the previous calendar year when Covid first hit New Zealand with our first level 4 lockdown," says a director, who pointed to a general reluctance to cut staff numbers again due to lockdowns.'

"If they continue and there is no insight of when international borders will reopen, I think more redundancies and mothballing of businesses will be inevitable."

— *Additional reporting Tim McCready*

MOOD OF THE BOARDROOM

# Technology — a godsend under Covid

Fran O'Sullivan

Zoom or Team meetings have become the byword for managing teams working from home and doing business during Covid-19 lockdowns.

Even "drinks" after work to keep staff morale up at week's end.

This is just the sharp end of a technological shift that was already underway before the pandemic began.

The *Herald's* CEOs survey asked business leaders to rank the importance of various technologies to them in the light of the lengthy pandemic.

Particularly, to assist businesses continue to ensure productivity gains; not just in the face of the pandemic but the resultant very tight labour conditions.

The reliance on mobile computing and Cloud computing has also stepped up. Fletcher Construction CEO Peter Reidy says they will be pushing into digital construction methods with their clients and key stakeholders to improve field productivity and drive project delivery efficiency.

"As a technology company we see first-hand, every day, how transformative digital technology can be," explains Spark CEO Jolie Hodson. "We use a range of modern technologies at Spark from — 5G to IoT, cloud computing and AI — and we continue to digitise and automate our own services over time. We support businesses big and small on their own digitisation journeys and help them to achieve significant productivity improvements from doing so. This is only going to get more important as we recover from Covid-19, which has accelerated the shift from physical to digital, and as we need to find smarter ways to work to address climate change.

Digital trade is in fact booming along with other e-commerce trends.

Access Economics has produced figures showing when borders shut in early 2020 as Covid-19 hit, 5-8 years of projected digital transformation was crammed into the first eight weeks of lockdown as people worked from home. "The digital transformation driven by Covid was painful at the time," says a property management head. "But it has had a silver lining.

"The change readiness of both the team and customers could never have been replicated under any other circumstance. Our team and our investors' showed an extraordinary willingness to embrace ways of working I could not otherwise have launched in a year of solid talking.

"Never waste a good crisis, no matter how many grey hairs it gives you. The key now is to maintain at least some of that openness to change and collaboration, while giving people some semblance of stability."

Tower CEO Blair Turnbull says his firm is increasingly leveraging all of the technologies. "Covid has been a catalyst for some, e.g. Teams, but the balance were largely a natural progression of technology and business evolving."

Others said digital transformation was a core strategy with advisory firms relying on it to improve their business outcomes.

Mainfreight boss Don Braid says the global logistics company is currently introducing automation via advanced robotics into warehouses in Australia, the US and Europe.

"Cloud computing is a given." adds Skellerup Holdings David Mair. "Advanced robotics is usually a dream — there is a process standardisation mechanisation; automation and only then robotics.

"Ultimately robotics is the deep learning software applied across a number of mechanical automation arms.

"We are looking for the answer to something by buying robots. They are not mechanical people; that's so 80s"

## How CEOs are keeping productivity up

Zoom and/or Teams meeting
**9.13/10**

Mobile computing
**8.47/10**

Cloud computing
**8.36/10**

Automation
**6.16/10**

Digital trade
**5.82/10**

Artificial intelligence / machine learning
**5.41/10**

Remote sensors and the Internet of Things
**5.13/10**

Advanced robotics
**4.18/10**

Virtual reality
**3.96/10**

Blockchain
**3.80/10**

Nanotechnology
**3.43/10**

Drones
**3.10/10**

3D printing
**2.90/10**

CEOs rated various technologies on a 1-10 scale where 1 equals not important and 10 equals extremely important.

# Top issues facing the nation — CEOs have the final word

**The *Herald* asked survey respondents what they saw as the top issues facing the nation — and how they would resolve them. Here's just some of their responses:**

### Agribusiness CEO

● An incompetent inexperienced and naive Government that appear to be drunk on power and prepared to compromise what is right for the country in favour of political popularity. Foreign policy clumsiness, centralisation, ill considered policies and decisions — flip/flop on the cycle bridge as a well-publicised example. Apparent reluctance to engage with business, economists, experts when considering policy choices.

● Housing availability and prices. Encourage investors to build houses Incentivise the housing supply through tax incentives for new home investors. Private investors will always build houses more efficiently than the public sector. Incentivise them to get on with it.
Requires a strong supply side response. Would be good to have up in lights a line- by-line cost comparison of building a house in New Zealand vs Australia. Where are we paying too much — be transparent, do something about it.

● Labour shortages. Completely unacceptable for fruit to be rotting because there are insufficient workforce willing to pick, market gardeners selling out because they can no longer get crops picked. Restricting migrant workers won't drive redundant airline pilots into picking apples or asparagus, it will drive businesses broke. Farmers are short of workers. This equals massive stress. Not everyone in NZ is willing or well suited to working on a farm — Filipinos are and they value working in NZ but they can't join us. Many of those who are here are leaving because they haven't seen their families for up to two years — they can't get back here once they leave. Immigration policy is a mess.

### Transport CEO

● Shifting the Covid management strategy from elimination to active management. Invest in healthcare system, tools, technology and much better governance

● Immigration settings: overhaul immigration approach and aggressively clear the backlog. Improve governance.

● Increasingly inward-focused approach from the Government that seems to have forgotten that for our country to prosper we must trade with the world. To do that we need future focused policies on the flows of people, trade, capital, ideas. Right now it feels like we are regressing.

### Logistics CEO

● Targets for vaccination. A clear plan for opening up to the world including restarting key sectors — tourism, hospo, etc.

● Addressing skill shortages. Opening up to targeted immigration as part of the plan.

● Managing inflation, without triggering a house price collapse.

### Auckland chair

● The Government doesn't have the capability (experience) to manage through the current complex environment. Not sure this can be solved in the short to medium term, but CEOs need to step up to fill the void and create the future in many instances — not just sit back and wait for the Government to step in.

● The chronic skills shortage, right across the board but particularly in high skills areas will have a massive impact of the ability of NZ to keep pace with the world — particularly if we still have a fortress mentality. Border settings need to change significantly.

● We lack any vision on infrastructure.We all know that we have a 30-year deficit and its an intergenerational issue. Post-Covid we need to open up investment from overseas parties. There's plenty of cash around.

### Erica Crawford
### Loveblock Wines

● Housing — increase supply.

● Skills shortage: Immigration policy prevents execution of infrastructure, housing build. NZ simply doesn't have enough skilled people. Open the borders to these people and their families.

● Naive government policies, such as the collective agreements and increase in student living allowance (immediately swallowed by landlords).

### Commercial Real Estate boss

● Political leadership. Change the Government.

● Civil service hollowed out and politicised. Reinstate an independent and competent civil service — professionally-led and made to be a career of choice.

● A dependency culture and the deterioration of self-reliance and independent thought.

### Company chair

● Solving the Covid crisis. We need international tourism.

● Current skill shortages — likelihood of brain drain if other economies, especially if Australia starts to outperform NZ.

● A properly functioning Opposition to hold this Government to account

### Consulting firm boss

● Isolation due to Covid response. Set a target immunisation level that will allow boarders to reopen and abandon elimination policy.

● Openness of Government to accept solutions from outside its own resources. Be open to accepting help from capable professionals in business and social sectors — ask for help, accept it and act on it rapidly.

● Growth of a generation dependent on social support — with all of the social, mental health and general wellbeing issues that come with that. Create affordable, quality rental housing with strong social connectivity with a pathway to create sustainable generational wealth other than through home ownership.

# A well-educated workforce is the key to prosperity

**Roger Partridge**

> The stock of human capital in New Zealand is in long term decline. Or at least it is if you measure it by the educational achievement of successive generations of school leavers.
> Roger Partridge

"For every economist, there exists an equal and opposite economist." Or so satirists of the economics profession claim. The truth is most economists agree on most of economics. And even though they disagree on some things, all economists agree that human capital is critical for productivity. A country's prosperity depends on the skills, knowledge, and experience of its workforce.

Sadly, the stock of human capital in New Zealand is in long term decline. Or at least it is if you measure it by the educational achievement of successive generations of school leavers.

A growing proportion of children leave school unable to read an instruction manual or do basic maths. Over the past 20 years, New Zealand's education system has slipped from being the envy of the world to barely mediocre.

The *Progress in International Reading and Literacy Study* compares the literacy skills of Year 5 school children. In the latest study, New Zealand students placed last among all English-speaking countries. We were 24th out of all 26 participating OECD countries.

The international evidence shows a similar decline in mathematics. The Trends in International Mathematics and Science Study compares maths knowledge in Year 9 students. The most recent study in 2018/19 shows New Zealand students' maths knowledge in Year 9 has fallen below all other English-speaking countries.

The drop isn't because children from other countries have overtaken our students. The decline in ranking mirrors a decline in student attainment. By 2018, Kiwi children were 1.5 years' worth of schooling behind their peers just eighteen years earlier.

The results of a recent survey conducted by the Tertiary Education Commission are even more alarming. The Commission studied 800 Year 12 students, all of whom had successfully achieved NCEA Level 2. Forty per cent failed to meet an international benchmark for functional literacy. Forty-two per cent failed it for numeracy.

The New Zealand education system is also now one of the most unequal in the world. The gap between the educational "haves" and "have nots" eclipses all our English-speaking OECD peers.

And all this, despite government spending per child increasing in real terms by more than 30 per cent since 2001.

These trends are worrying enough. But the rise of automation, artificial intelligence, and pressures from developing economies compound the problem. Poorly educated school leavers will find it harder and harder to find jobs.

The country is fortunate that Kiwi students participate in international studies of student achievement. Our education system is so corrupt that data from our national assessment, NCEA, suggests education outcomes are improving rather than falling.

If NCEA data paints a picture of constant improvement, while almost all other measures disclose a decline, New Zealand has a fundamental problem with education assessment.

Two reports from New Zealand Initiative research fellow, Briar Lipson, identify the failings at the heart of NCEA. The first report, *Spoiled by Choice. How NCEA hampers education, and what it needs to succeed*, identifies a core part of the problem is NCEA's extreme flexibility. Students are presented with over 7000 subject matter choices. Literacy and numeracy requirements are modest. These modest requirements aside, all subjects — from mathematics to meat processing — are valued equally.

This means well-advised or motivated students can still achieve a broad and valuable education under NCEA. However, for less fortunate students NCEA offers a plethora of safer options. The cost of NCEA's flexibility is huge inequality in student achievement. And of widening — and now alarming — levels of functional illiteracy and innumeracy.

Lipson's second report, *New Zealand's Great Education Illusion: How bad ideas ruined a once world-leading school system*, was published last year. Relying on evidence from empirical studies and cognitive science, the report argues that the solution to New Zealand's education woes is to strengthen the role of knowledge in the New Zealand Curriculum.

Education reforms in England provide support for Lipson's recommendations. Over the last decade, England undertook a dramatic overhaul of that country's national curriculum. The outcome has been remarkable. English students have shown dramatic increases in their scores in international assessments.

If New Zealand is to solve its poor educational outcomes, the evidence suggests similar reforms are needed here.

Education reform will benefit the economy. But the real winners will be the Kiwi school children the education system is currently failing.

● *Roger Partridge is chair of the NZ Initiative.*

## MOOD OF THE BOARDROOM

# Top issues facing the nation — CEOs have the final word

**Banker**
- Global/NZ Covid response — NZ needs to move on from elimination approach once vaccine at appropriate levels.
- Border/visa settings — ease to assist with labour shortages.
- Housing affordability. Need to resolve the whole supply chain: RMA, labour, land release, infrastructure.

**Food executive**
- Climate change.
- Current and continuing threat of zoonotic diseases.
- Reliance on traditional agribusiness (red meat and dairy).

**Dairy boss**
- Opening of borders which has to be addressed now in terms of vaccine rollout.
- Avoiding an Auckland/not Auckland divide — ensuring benefits and costs are fairly attributed.
- Lack of traction on innovation and R&D. Get policy and tax settings right, keep and attract talent.

**Automotive CEO**
- Covid economic impact — move swiftly to a 2 tier privilege system like Italy on "vaccinated vs not".
- Energy security — expand the "go-to" back-ups sourced locally whilst creating jobs.
- Divisiveness of policies: not inclusive/not together and creating societal divides should be avoided.

**Professional firm CEO**
- Covid management to minimise lockdowns. Vaccination rollout asap, stricter border control.
- Maintaining strong economy. Balance of Covid management and connectivity to global markets, ensure necessary skills/people available to maintain productivity.
- Growing equity gap. Intervention to ensure minimum standards are maintained, particularly around health and housing at lower socio-demographic and also a specific strategy to enable Māori and Pasifika to maintain minimum standards.

**Banker**
- Serious unaffordability of housing, which is the cause of much current social distress. Simplest solution is scrapping current restraints on urban development.
- Continuation of very poor growth in productivity (over many years). No one solution, but measures which would help includes: radically reformed RMA, freeing up of foreign investment rules (at least from OECD countries), and reduction of low skilled immigration.
- Rapidly increasing racial divisiveness (e.g. separate Māori Health Authority, Three Waters giving a veto to iwi over all decisions, proposals in He Puapua report, etc). Solution involves scrapping the notion that the Treaty of Waitangi created a "partnership", and reaffirming Article III of the Treaty

**Digital CEO**
- Populist Political Policies by current Government.
- Lack of transparency into Government policy execution.
- Rise of street/gang crime due to lack of direction to police by Government.

**Food boss**
- Elimination strategy for Covid was correct short term solution, but needed aggressive, early vaccination initiative. We now run the risk of being isolated, which means losing skills to other markets and not being able to replace them easily via immigration. Only solution is a vastly accelerated vaccination programme — with TARGETS!
- Skills shortage — anyone who suggests that the 4 per cent who are currently not employed are the solution to our staff shortages is out of touch. No clear immigration strategy, and MIQ bottlenecks, make it impossible to recruit staff offshore, and challenging to retain staff who have valid visas due to expire soon. Solution — a clear immigration policy that listens to the needs to business.
- Increasingly bloated and inefficient bureaucracy. More and more controls and administration being centralised to Wellington, which will slow decision-making and implementation.

**Transport chair**
- Lack of risk-based plan for Covid management at the border. Need a risk-based approach with accounts for vaccinations, risk of country exposure.
- Skills shortage — need exemptions for relevant skills, linked to a risk-based approach to opening border.
- Growing inequity — we need a more comprehensive long- term plan. Nothing is currently working.

**Educator**
- Blatant socialism, major policies implemented without consensus.
- Rise of two-tier Māori v Others rights, governance.
- Inept outcomes on housing, poverty, infrastructure, education, transport, social housing list growth = total failures.

**Retirement living CEO**
- Lockdown and its impact on businesses. We need to work out how to live with Covid and other pandemics which still allow people to work and live.
- Political "niceness" and lack of actual performance. Need to see results, or change power. The question is to who, and right now there is no real alternative.
- Immigration leading to labour shortages. Change the MIQ system, we need to let more people in.

**Agribusiness boss**
- The Government's complete lack of understanding of policies on business. They have no personal experience in business, so they just don't know what they don't know.
- Energy scarcity undermining investment in manufacturing.
- Allow more immigration to fill roles urgently.

**Supermarkets boss**
- More police needed with consequences for minor crime.
- Better funding for hospitals for staffing and resources.

**Construction CEO**
- Prohibitive Immigration settings — relax them.
- Unemployable/drugs. Conscript/police.
- Political flip-flops in public infrastructure. Act on Infrastructure Commission.

**Commercial Property CEO**
- Infrastructure underspend is our major issue. We need a 50 year+ plan, particularly for our urban areas and bi-partisan agreement on key projects.
- Income inequality and food security — need greater redistribution of wealth, particularly when those with assets have got richer and those without poorer. No one should go hungry in our country. Greater co-ordination of food redistribution would also help.

**Investment banker**
- Opening the borders. Need to put a deadline around vaccination and then just do it.
- Education. We have slipped horribly over the last 20 years and the quality of younger staff reflects this. Need to under do the reforms of the last 20 years.
- Getting rid of a Government that regulates from the hip and then tries to further regulate away the unintended consequences of the first ill-designed regulation.

**Media CEO**
- Skilled labour shortage. Ramp up MIQ capacity and relax immigration restrictions.
- Cost of housing (both buying and renting). Introduce capital gains tax and tilt investment incentives to more productive options.
- Rising Government debt + ageing population + high concentration of tax revenue from small base of taxpayers. Rein in unproductive Government expenditure (eg light rail to Auckland Airport) and increase superannuation age.

**Utility boss**
- Ineffectual Political Leadership resulting in slow or no action.
- Resilient National Infrastructure — revised framework for Shovel ready/Fast track.
- Housing affordability.