Tuesday, September 24, 2019

Mood of the BOARDROOM

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Walking a tightrope

150+ CEOs share their views

INSIDE • Fran O'Sullivan • Thomas Pippos
• Gill South • Liam Dann
• Tim McCready • Duncan Bridgeman

Mood of the Boardroom 2019

The *Herald*'s Mood of the Boardroom 2019 CEOs Survey attracted participation from 157 respondents. This year there were some 140 chief executives including CEOs of some of NZ's biggest companies, some publicly owned institutions and heads of several influential business organisations and several directors.
The *Herald* survey is conducted in association with BusinessNZ.
BusinessNZ put 15 questions from the survey to its membership attracting a further 150 responses from business heads.
The survey is now in its 18th year having been launched in December 2002 within a *NZ Herald* State of the Nation report.

Watch the debate
Finance Minister Grant Robertson and National's Finance Spokesperson Paul Goldsmith will debate the survey results at a breakfast at the Cordis Hotel in Auckland this morning.
The debate will be chaired by NZME managing editor Shayne Currie.
nzherald.co.nz will feature video from the debate and interviews with leading CEOs attending the breakfast.

MOOD OF THE BOARDROOM
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What's inside

MOOD OF THE BOARDROOM

Walking a tightrope

PM loses ground in survey as CEOs cite lack of execution and failure to ignite business confidence

Mood of the Boardroom
Fran O'Sullivan

Prime Minister Jacinda Ardern's standing has taken a tumble among CEOs responding to the *Herald*'s 2019 Mood of the Boardroom Survey.

They now rank her fifth among the Cabinet Ministers on her ministerial performance, marginally ahead of New Zealand First leader Winston Peters and down from her second place ranking last year where she was seen as the Government's overall standout performer.

The *Herald* survey, which is taken in conjunction with BusinessNZ, attracted 157 respondents from the "big end of town" with a further 150 SME leaders who responded to a shorter version. Many of the NZX Top 50 listed companies were contributors along with chief executives from all major trading banks, key dairy sector players, a raft of professional advisory firms and several well-placed directors.

They cite the Prime Minister's strengths as her celebrity and performance on the international stage. Her handling of the Christchurch massacre has been applauded by chief executives. But they say her Government's failure to execute in a timely fashion on key Government policies, combined with an inability to stoke business confidence, is contributing to an overall loss of confidence in the New Zealand economy.

Business confidence as measured by the *Herald* survey is now at its lowest ebb across all three metrics since the Global Financial Crisis.

The upshot is the Ardern Government is now walking a tightrope as it endeavours to build momentum and restore domestic confidence before any further international disruption drives sentiment down further.

A leadership vacuum has opened up domestically as the Coalition makes heavy weather out of its efforts to cement successes in what it has promoted as its "Year of Delivery". As the adjoining table shows chief executives ranked the Coalition's focus on taking mental health seriously — one of a range of focuses in Finance Minister Grant Robertson's first Wellbeing Budget — as the most impressive among a bunch of indicators. But it has been rated as abysmal in some areas like addressing housing.

"Overall the Government has been hopeless at meeting its own targets," said Devon Funds Management chairman Paul Glass.

"Against the hype and even with its own PR machine this Government hasn't delivered on its key election policies on housing, child poverty, Māori economic and regional development," said a Māori business leader.

A banker said policy development had a late start. "Some of the policies are good such as the intent behind KiwiBuild. But the execution capability has been overestimated and timeframes unrealistic."

For the Finance Minister the 2019 survey is a mixed bag: 54 per cent of respondents feel he is delivering credible economic management and rated highly his maintenance of fiscal focus. Given he was pipped by newbie Cabinet Minister Kris Faafoi in this year's ministerial ratings this will be some comfort. It is pertinent to note however, that more chief executives rated him "most impressive", than any of his other colleagues.

NZ Initiative chair Roger Partridge said the Government had shown a willingness to listen and to reconsider policy proposals in response to evidence.

But said Mainfreight CEO Don Braid, "too much time in opposition has dulled the ability to deliver policy. More action. Less talk."

New Zealand First is seen as strong influencer within Government with leader Winston Peters being particularly successful in moderating Labour policies that business and the farming community generally opposed, such as the capital gains tax proposals and employment changes.

National Leader Simon Bridges, also downgraded by CEOs this year, is now sitting well behind other colleagues such as Judith Collins in their estimation of their respective performances.

National's Paul Goldsmith, is just three months into the job as finance spokesman, but 43 per cent say he has the right qualities to deliver; 45 per cent are unsure. His debut in today's Mood of the Boardroom debate is the first time CEOs will have judged him head to head with Robertson in this forum.

Among the issues concerning CEOs:

Dealing to infrastructure constraints and congestion on Auckland roads rate high: 86 per cent agree with the Prime Minister's Business Advisory Council that infrastructure is at a "crisis point".

The survey also reveals 55 per cent of CEOs believe banks are scare-mongering when they say they will pull operations back from New Zealand if the Reserve Bank's capital proposals are implemented.

Seventy-three per cent say Phil Goff has the best attributes to be the next Mayor of Auckland. Just 11 per cent rate John Tamihere.

Within their own businesses, labour and skills shortages rate as the top factor keeping CEOs awake at night.

BusinessNZ sent 15 questions from the Mood of the Boardroom survey to its members. It revealed top concerns among its members were uncertainty about the Government's policy direction, the international trade environment and being able to attract talent.

● D30-31: Not a comfortable Coalition

Jacinda Ardern and Grant Robertson under pressure in their "Year of Delivery"

NZ Initiative chair Roger Partridge said the Government had shown a willingness to listen and to reconsider policy proposals in response to evidence.

Said Mainfreight's Don Braid: too much time in opposition has dulled the ability to deliver policy. More action. Less talk.

Ardern: My hope, a rising tide that will lift all boats
— D23

CEOs Optimism Index

Are they more or less optimistic than one year ago about:

Business situation in your industry	
Weighted Average	2.37/5
Much less optimistic	17%
Slightly less optimistic	45%
The same as last year	23%
Slightly more optimistic	13%
Much more optimistic	2%
New Zealand economy	
Weighted Average	1.96/5
Much less optimistic	25%
Slightly less optimistic	58%
The same as last year	13%
Slightly more optimistic	4%
Much more optimistic	0%
The global economy	
Weighted Average	1.70/5
Much less optimistic	40%
Slightly less optimistic	52%
The same as last year	6%
Slightly more optimistic	1%
Much more optimistic	1%

CEOs were asked to rate each factor on a scale of 1-5:
1 = much less optimistic and
5 = much more optimistic

Source: NZ Herald 2019 Mood of the Boardroom CEOs Survey

CEOs rate the Coalition Government's performance in its "Year of Delivery"

More impressive

Taking mental health seriously	3.24
Maintaining fiscal esponsibility	3.17
Supporting Māori and Pasifika aspirations	2.99
Improving child wellbeing	2.67
Progress on international trade agreements	2.63
Regional development	2.56
Policy, planning and consultation with business	2.08
Building a productive nation	1.85
Policy execution	1.69
Transforming the economy	1.64
Addressing transport constraints	1.57
Addressing the housing shortage/unaffordability	1.55

Less impressive

Scale 1-5 where 1 = not impressive and 5 = very impressive

Source: NZ Herald 2019 Mood of the Boardroom CEOs Survey

Legislate to remove the taint of backdoor funding

CEOs sent a clear message in the Mood of the Boardroom survey — 75 per cent of them agreeing the Government should legislate to tighten foreign donation laws in order to remove the taint of backdoor funding through the use of New Zealand companies. Just 8 per cent said this isn't necessary; 17 per cent were unsure.

A parliamentary select inquiry committee is looking into domestic influence and interference by foreign state actors.

New Zealand electoral law forbids donations above $1500 from foreign nationals but classes New Zealand-registered companies as local even if their control or ownership is foreign.

The donation issue was thrust into the spotlight again last month when former National Party MP Jami-Lee Ross revealed that then trade minister Todd McClay had helped to facilitate a $150,000 donation to his party in 2016 from Chinese millionaire, Lang Lin, through his New Zealand-registered company Inner Mongolia Rider Horse Industry NZ Ltd.

"That is an absurdly large loophole in our foreign donation laws," says a property firm boss.

> Transparency and awareness of who is donating and why are the important things to focus on.
>
> Kate McKenzie
> Chorus CEO

Chorus CEO Kate McKenzie says all donors expect to obtain some influence as a result of donating, though she is "not sure 'foreign' donors are any better or worse — transparency and awareness of who is donating and why are the important things to focus on".

Chair of NZ Local Government Funding Agency Craig Stobo agrees, suggesting that all political donations should be transparent, which would allow "the fourth estate to then do its forensic job".

Mainfreight's Don Braid suggests we should have zero tolerance: "no international political donations should be allowed."

Whereas a dairy company chief executive suggests he is "not so sure about the relevance of donations, because foreign actors are present with or without."

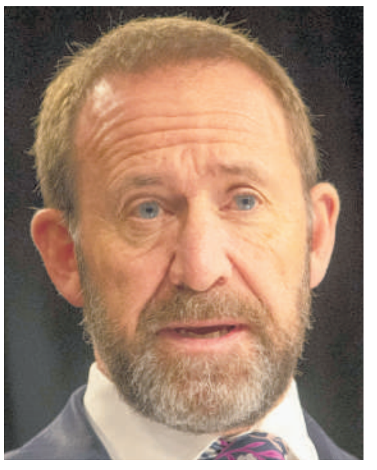
However, Westpac CEO David McLean says the laws are already very tight. Deloitte's CEO Thomas Pippos says his sense is "this is a non-issue," suggesting a greater issue exists with the use of social media to peddle fake news.

MOOD OF THE BOARDROOM

How CEOs ranked Cabinet on performance

Kris Faafoi
(Commerce/Consumer Affairs)
3.58/5

Grant Robertson
(Finance)
3.52/5



Andrew Little
(Justice)
3.14/5

David Parker
(Trade and Export Growth)
3.08/5

Jacinda Ardern
(Prime Minister) .
2.93/5

Winston Peters
(Foreign Affairs/Deputy PM)
2.92/5

Ron Mark
(Defence)
2.66/5

Damien O'Connor
(Agriculture)
2.59/5

Tracey Martin
(Children)
2.56/5

Phil Twyford
(Transport)
1.61/5
— (bottom ranked)

Tail-end Faafoi tops list

Commerce Minister seen as an engaging politician with a safe pair of hands, writes **Fran O'Sullivan**

Commerce Minister Kris Faafoi is the politician that most impresses top chief executives on their ministerial performance in this year's *Herald* CEOs survey.

It is first time in the history of the Mood of the Boardroom survey that a minister ranked towards the tail-end of Cabinet at 17th position, and who has only been in the position since January, has substantially outranked his colleagues.

But Faafoi, rated at 3.58/5 for his ministerial performance, trumps not only Finance Minister Grant Robertson (3.52/5) who was last year's top-rated performer in the survey, but also Justice Minister Andrew Little (3.14/5), Trade Minister David Parker (3.08/5), Prime Minister Jacinda Ardern (2.93/5) and Deputy Prime Minister Winston Peters (2.92/5).

CEOs were asked to rate Cabinet Ministers on a scale of 1-5 where 1 equals not impressive and 5 equals very impressive.

"The unsung performers of this cabinet are David Parker and Kris Faafoi," said a leading banker. "Both have reached out to the business community to genuinely ask for our views and listened.

"They can also put government policies in their areas into perspective, painting a broader picture."

Along with Little, who also holds the prime security portfolios, Parker is seen as a highly competent minister.

Faafoi is seen as a safe pair of hands. But more than that he is an engaging politician with a consultative style who listens to business.

The Cabinet is driving change on multiple fronts and some ministers are seen as making better progress in moving the machinery of Government along than others.

"Some ministers have got the bit between their teeth and are making real progress," said Beca Group CEO Greg Lowe.

"Ron Mark is having a very positive impact in Defence and Defence Industry, Kris Faafoi shows real understanding, energy and integrity, Megan Woods is pushing us to a better hydrogen future, David Parker is acting on better water quality and Grant Robertson shows a broad understanding of the drivers of economic wellbeing".

Faafoi's portfolios also include Broadcasting, Communications and Digital Media, Government Digital Services and the associate Housing responsibility. The Prime Minister said on announcing his elevation to Cabinet and membership of a new ministerial housing team led by Megan Woods, that "after nine years of neglect there is a lot to fix in housing. KiwiBuild has not progressed as well or as quickly as we'd hoped or expected. But our ambition to build more affordable houses for New Zealanders has not changed and neither has the public appetite for the Government to be building affordable homes with 60 per cent of voters in a Colmar Brunton poll saying they wanted KiwiBuild to continue."

> Phil Twyford's performance in both transport and housing has been appalling. He was lost in housing. And on transport, allowed the Greens to convince him to halt nearly every new roading programme.
>
> Government relations firm boss.

Unsurprisingly, former Housing Minister Phil Twyford tumbled from seventh on last year's Cabinet survey, where he was scored at 2.77/5, to bottom of the pack this year at 1.61/5 in the wake of the KiwiBuild fiasco.

"Twyford did the right thing to relinquish advocacy of Kiwibuild — a dreadful albatross," said LGFA chair Craig Stobo. "Hipkins' solution to centralise polytechnics doesn't seem to have a problem definition which is very poor policy. Otago and Southland polytechnics seem to be doing very well catering to the needs of locals."

A government relations firm head was pungent. "Twyford's performance in both transport and housing has been appalling. He was lost in housing and, on transport, allowed the Greens to convince him to halt nearly every new roading programme. David Clark is a nice person but hasn't a clue what he's doing in health and Iain Lees-Galloway can't hide the fact he doesn't like the business sector. David Parker is blinded to rational policy with the farming sector."

But others had distinct praise for some Cabinet Ministers. "I strongly suspect that New Zealand owes David Parker a debt of gratitude for getting the renamed TTP ratified, despite all three Coalition partners being strongly opposed to it pre 2017 election," said ICBC NZ chair Don Brash.

CEO respondents said it has definitely been a tougher year for Ministers. "Lots of money allocated but no evidence of real changes or impact as yet," said a tech services head. "Some of the portfolios require lengthy change programmes but in many areas we should be seeing evidence of significant change and improvements."

Building and Construction Minister Jenny Salesa had surprised, said a property CEO. "She has taken a complex portfolio, is working hard and is mastering it.

"Woods is impressively smart and is getting to grips with the Housing portfolio remarkably quickly."

Wine exporter Erica Crawford singled out Children's Minister Tracy Martin as the "breakout minister . . . she has impressed."

The nine top rated Cabinet Ministers by business are shown in the graphic above.

Other ratings were: Energy Minister Megan Woods (2.44/5), Regional Economic Development Minister Shane Jones (2.43/5) Social Development Minister Carmel Sepuloni (2.40/5), Education Minister Chris Hipkins (2.34/5), Health Minister David Clark (2.33/5), Local Government Minister Nanaia Mahuta (2.10/5), Building and Construction Minister Jenny Salesa (2.01/5), Tourism Minister Kelvin Davis (1.96/5 and Immigration Minister Iain Lees-Galloway (1.69/5).

● D10: How Grant Robertson really rates
● D11: How business scores the Green Ministers
● D18-D19: Business puts NZ First Ministers under the spotlight.

MOOD OF THE BOARDROOM

Home and away

CEOs see Ardern as a great global cheerleader but ineffectual in NZ, writes **Fran O'Sullivan**

Jacinda Ardern and world leaders at the launch of the Christchurch call, in Paris (above). Below, with Twitter boss Jack Dorsey at The Beehive.

Jacinda Ardern's New York dance card is fully booked with a formal meeting with US president Donald Trump overnight and a keynote speech at the UN Secretary-General's Climate Action Summit to follow.

It is for her performance in this theatre — the world stage — that Ardern gets the most praise from the nation's top executives.

But a common theme through this year's *Herald* CEOs survey was that the Prime Minister was at great risk of being seen as an excellent cheerleader for New Zealand on the global stage, but increasingly seen as ineffectual at getting things done at home.

The Prime Minister's empathetic response to the Christchurch massacre, where 51 Muslims were murdered at the Al Noor and Linwood mosques, propelled her to international super stardom.

The world's tallest building — Dubai's Burj Khalifa — was lit up with a giant image of Ardern embracing a woman at a Kilbirnie mosque.

The *New Yorker* headlined an article "Jacinda Ardern has rewritten the script for how a nation grieves after a terrorist attack", noting her empathy and action to ban military-style semi-automatics and insistence on not naming the killer.

There were two glowing editorials in the *New York Times* headlined "America deserves a leader as good as Jacinda Ardern", and "Jacinda Ardern leads by following no-one".

Ardern went on to leverage the event by launching the "Christchurch call" to eliminate terrorist and violent extremist content online at a special meeting in Paris hosted by French President Emmanuel Macron.

It is hardly any wonder that political leaders like Trump, Macron and even Chinese President Xi Jinping, have responded to Ardern's growing celebrity and met with the 39-year-old political leader.

Chief executives responding to the 2019 Mood of the Boardroom survey rated her response to the Christchurch massacre at 4.5/5 — the highest rating they awarded Ardern in this year's prime ministerial scorecard.

They were asked to rate her on a scale of 1-5, where 1 equals not impressive and 5 equals very impressive.

Unsurprisingly, they also rated highly her ability to portray New Zealand appropriately offshore (4.14/5).

But Ardern has a weak spot. Though she got the tick from many chief executives for courageously calling out other international leaders where necessary, there was growing concern that she has a tendency to indulge in unnecessary "virtue-signalling" at the expense of prime relationships, particularly with Australia.

Those international strengths also contain her weaknesses.

Despite launching a Business Advisory Council and holding multiple meetings with leaders, she has failed to build confidence within the New Zealand business community.

CEOs rated her at just 1.75/5 on this performance indicator. Her capacity to lead change on major issues was also marked down to 2.15/5 along with her ability to take the country with her during transformative change (2.38/5).

Given that her communication skills are her strong point, this cements the perception that she needs to focus much more at home.

"The Prime Minister is a genuine individual whose key strengths are around her ability to connect, project empathy and communicate to the masses," said Deloitte CEO Thomas Pippos. "She is reliant on others to drive the development and implementation of complicated policy and is severely limited in her ability to implement certain areas of change in its part because of New Zealand First."

An infrastructure consultancy head agreed: "The Prime Minister cares greatly about our people and displays empathy and humility. She wants a society that has more social heart and no one disagrees with that.

"Not all current policy initiatives are clear on how better outcomes will actually be created. We need to get on with the 'doing phase' and see if these polices are really going to work."

One observant chief executive pointed out it was important for the Prime Minister not to over-hype either her, or, New Zealand's international importance.

"New Zealand needs to be very careful as a non-diversified, small and remote trading economy," said an energy CEO. "Overseas countries don't actually care about New Zealand.

"Our cringy insecurity plays out constantly as us wanting to 'punch above our weight' and 'lead' on particular issues.

"In a volatile world, we need to maintain friends with a lot of different countries.

"Macron entertained the 'Christchurch Call' because he needs to hold the Muslim vote in Paris."

But others said she had been very impressive in raising New Zealand's profile globally, which is heart-warming for Kiwis.

Wine exporter Erica Crawford advised the Prime Minister she needs to find her "Bill English" and be supported by a stronger team. "The present team bumbles too much and seem to be scared of taking decisions. She is (maybe WAS as at 12/8) a good face for New Zealand but definitely needs a stronger, sharper team."

Crawford was referring to the sexual assault allegations which cost Labour Party president Nigel Haworth his job, and which are now the subject of two investigations.

Ardern admitted before she left for Japan and New York that Labour's woeful handling of the allegations by a young party volunteer against a staffer in her Leader's Office could damage New Zealand's international reputation. It may also have cost her some support with the business community with several survey respondents saying, unprompted, that the sexual claims within Labour had cast a pall over Ardern.

A finance chief praised her aspirational style but said she was challenged by execution. "What specific actionable plans are there to achieve the lofty goals espoused? The performance relative to the sexual claims within her party are very unimpressive and deeply cynical."

It was the "Ardern effect" — her election as party leader just weeks ahead of the 2017 election — which propelled Labour to the position where it could become a contender for post-election coalition talks.

But Michael Barnett from the Auckland Business Chamber said the Government was now probably at the point of needing to look like a group of leaders and not a group of one.

This view was reflected by others.

Foodstuffs CEO Chris Quin rated Ardern's "fantastic personal leadership".

"She needs to focus on the talent of team and making tough calls and focus on the enablers that really help. Doing a very good job of a complex coalition. No closer to business."

"Jacinda is widely recognised on the international stage in a way very few other PM's have been," said a director. "This gives her 'voice'. Her capacity to deliver as a PM at home is limited by the coalition and thin bench strength."

Others noted she seems to be beholden to NZ First and thus can't get anything done.

"It is clear that the Coalition Agreement has bound parties to agreed policies," said Craig Stobo, chair of the Local Government Funding Agency. "It is very difficult to get political agreement to enact new policies or react to economic and social change. The oil and gas policy decision is an example of how not to consult with the business community."

In contrast to last year's survey, there was a great deal of derogatory comment.

A telling example: "The Prime Minister is a wonderful shop window — not much in store.

But said Panuku chair Adrienne Young Cooper, "Ardern is a wonderful role model to our best hope — young women."

PM's score card

How CEOs rate Jacinda Ardern's performance

More impressive

Response to Christchurch terrorist massacre	4.50
Portrays NZ appropriately offshore	4.14
Leadership of NZ	3.13
Coalition management	3.01
Courageously calls out other international political leaders	3.01
Political performance as prime minister	2.93
Courage to tackle hard issues such as climate change	2.92
Indulges in unnecessary 'virtue signalling' at expense of prime relationships	2.62
Administration of National Security and Intelligence portfolio	2.61
Child poverty reduction responsibility	2.54
Ability to take the country with her during transformative change	2.38
Capability to lead change on major issues	2.15
Builds confidence within the business community	1.76

Less impressive

CEOs were asked to rate the Prime Minister on a scale of 1-5 where 1= not impressive & 5= very impressive

Source: NZ Herald 2019 Mood of the Boardroom CEOs Survey

MOOD OF THE BOARDROOM

US trade war with China is no laughing matter

Survey shows lowest global confidence rating since GFC, writes **Fran O'Sullivan**

Donald Trump's twitter feed gives an intriguing insight into the latest twists and turns in the trade war he is waging with China. But despite the entertainment value, the trade war is no laughing matter.

The latest estimate, by JP Morgan Chase, is that the average cost to US households will be about US$1000 (NZ$1585) a year after the next round of tariffs on Chinese goods is imposed.

The Fed chairman, Jerome Powell, is also reported to have linked the deterioration in the outlook for global growth and weak US manufacturing and capital spending to US trade policies.

Back here in New Zealand, CEOs responding to the 2019 *Herald* survey say the trade war between the two elephants of global trade is the biggest international issue which is impacting on business confidence. They rate the trade war's severity at 7.65/10.

"We are part of the global system, what occurs elsewhere impacts on us in New Zealand," says independent director Cathy Quinn. "No one believes that we are economically isolated or insulated from global events."

Other concerns such as growing protectionism where new trade wars are erupting such as that between Japan and South Korea; uncertainties about the Chinese economy and resurgent fears about the prospect of an international recession have combined to send NZ CEO's confidence in the global economy to a record low on a weighted average basis of 1.7/5 in the *Herald* survey — the lowest seen since the Global Financial Crisis.

Mainfreight's Don Braid, whose logistics business spans both the US and China, says New Zealand business should "take advantage of our neutral positioning to develop more trade".

"We are an export led economy so any risks that affect confidence hurt us as an importer of products and talent," said a leading FCMG player. "We need policy that makes us as competitive as possible against much bigger players."

Cautions leading chair Dame Alison Paterson: "The environment is uncertain and people do not perform well in uncertain times."

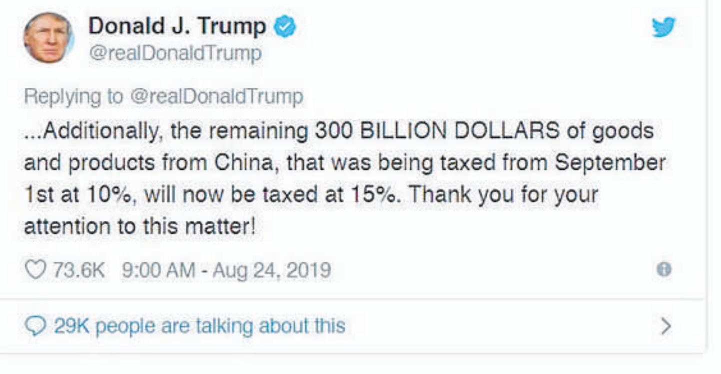
Trade-related issues have pipped cyber-security as the number one international concern for business.

China is also flexing its muscles as it emerges as a leading world power sparking concerns about the South China Sea and domestically with its stance on human rights issues.

And there are other impacts from the increasing tensions between the US and China — NZ's largest trading partner — which are spilling over to affect sentiment.

Asia New Zealand's latest *Perceptions of Asia* survey found 32 per cent of respondents believed China posed a threat to NZ (up from 16 per cent the previous year; with 49 per cent considering China was friendly to New Zealand, compared to 62 per cent the prior year).

Some 46 per of CEO respondents felt similar perceptions were also gaining currency in business.



"New Zealand is best to stay away from the two bull elephants staring each other down," said Deloitte CEO Thomas Pippos. "It is too easy to become collateral damage. One of our key strengths is our global irrelevance"

But 30 per cent disagreed.

"A lot of the perceptions come from misinformed sources," said the chief executive of an Australian bank. "My perception is that many New Zealand businesses are benefiting from investing the time and effort in understanding how to do business in China."

Chorus CEO Kate McKenzie said, "I think people are more aware that there is a need for greater understanding of China and its ambitions and its culture and how they are different from Western thinking and the risks and opportunities inherent in that."

Asked if Fonterra's losses on its Chinese investments raised the question of whether NZ — and companies — have too many eggs in the China basket and should pursue greater regional diversification, some 54 per cent of respondents said yes.

But 30 per cent said China wasn't the problem. Many cited poor investments by Fonterra.

"Fonterra is simply a case of poor management and governance," said a leading retailer. "Regional diversification for any global player is common sense but it won't necessarily insulate from global easing."

ANZ Institutional managing director Paul Goodwin said, "I think China has been a remarkable success story for New Zealand. But we need to recognise that our dependence is significant and each business doing business with China needs to test itself on what level is appropriate — normal portfolio risk management practice."

An energy sector CEO was to the point. "We need a mature and consistent approach to trade deals. But the risk of China putting a bullwhip through the NZ economy is real.

"NZ is racist towards Asian economies because we think colonially we are superior. Last time I looked the British empire was long gone."

When it came to the United States, 30 per cent felt New Zealand was coming under too much US influence on key questions like using Huawei in domestic 5G networks amid claims it represented a security threat.

"New Zealand is best to stay away from the two bull elephants staring each other down," said Deloitte CEO Thomas Pippos.

"It is too easy to become collateral damage.

"One of our key strengths is our global irrelevance that should allow us to work with all.

Cautioned a tech services head: New Zealand should be aware and operate an "eyes wide open" vigilance to all international corporate intrusion.

"This includes vigilance around what the US social media giants are doing with our data too.

"More legislation to protect NZ and our citizens is needed here."

What's affecting business confidence?

Top ten domestic factors impacting on general business confidence

(More concerned → Less concerned)	
Congestion in Auckland	7.60
Infrastructure constraints	7.39
Skills and labour	6.99
General uncertainty around the impact and direction of current or proposed Government policies	6.87
Labour productivity	6.82
International trade	6.81
Level and quality of government spending	6.63
Housing unaffordability	6.43
Employment law changes	6.27
Immigration restrictions	5.96

Top ten domestic factors impacting on confidence for their own businesses

(More concerned → Less concerned)	
Labour shortages/finding the right staff	6.83
General uncertainty around the impact and direction of current or proposed Government policies	6.50
Infrastructure constraints	6.48
International trade environment	5.55
Employment law changes	5.51
Immigration restrictions	5.47
Level and quality of Government spending	5.34
Housing unaffordability	5.16
Restrictions on resource management/Land use	5.13
Changed Reserve Bank policies	4.85

Top 10 international issues impacting on NZ business confidence

(More concerned → Less concerned)	
Trade war between the US and China	7.65
Protectionism	7.29
Uncertain Chinese economy	7.27
International recession fears	7.20
"Trump" factor - US political instability	7.06
Cyber security breaches	6.96
US tariff hikes	6.90
Climate change pressures	6.59
Brexit uncertainty	6.34
Competition for global talent	5.83

Scale: 1= no concern and 10= Extremely concerned.

Source: NZ Herald 2019 Mood of the Boardroom CEOs Survey

Go for a bilateral FTA with United States

If a bilateral free trade deal with the US does ever come up in talks between Jacinda Ardern and Donald Trump, there will be a large number of New Zealand business leaders saying, "Go for it".

A large majority — 79 per cent — of respondents to the 2019 CEOs survey say New Zealand should pursue a free trade agreement with the US.

"With the breakdown in global trade rules and frameworks and the lack of appellate judges at the World Trade Organisation other arrangements will be important," said a dairy company boss. "But New Zealand needs to be selective and understanding of the trade-offs."

"My answer is 'probably'," says ICBC NZ chair Don Brash. "But it depends a bit on what pound of flesh an extremely mercantilist regime in Washington would extract for greater access to the US market."

Director Joanna Perry says New Zealand should purse a deal if it is the only way of ensuring we can continue to trade with the US.

"Despite my personal wish to 'ground' Trump, at the moment the US market is too important to the NZ economy."

Foreign Affairs Minister Winston Peters has already met twice with US Vice-President Mike Pence to press the case for a bilateral FTA. Pence is believed to have given a commitment to support it to the president.

Two-way trade has consistently been growing between New Zealand over the last 10 years. Trade with the US is underpinning a crucial change in the New Zealand economy to high value goods and services that deliver high paying jobs. The most recent trade data shows that in many of our highest value sectors the US is NZ's number one market,"

The US is:

- 3rd largest export market ($9.24b) — behind China ($18.95b) and Australia ($14.08b)
- 2nd largest market for services ($3.6b) — behind Australia ($5.19b) and ahead of China ($3.3b)
- #1 market for intellectual property exports/charges ($243m) — ahead of Australia ($184m) and UK ($57.89m)

On becoming president Trump pulled the US out of the TPP and began making bilateral deals with other parties.

Grant Samuel's Michael Lorimer urges caution: "We will get screwed under the current administration."

It is a sentiment underlined by a funds boss who says better to hold out with the CPTPP agreement and negotiate as a bloc with the US. "By ourselves we will get screwed on dairy, IP, and Pharmac."

Westpac CEO David McLean is also concerned New Zealand might have to give up too much.

A legal firm head said it was a waste of time under the current administration. "Probably best to keep a low profile rather than drawing attention to ourselves by attempting to seek what could easily be perceived as 'unfair' advantages."

Phillip Mills of Les Mills said any deal could not be allowed to undermine health, social and environmental standards.

If a "no" Brexit occurs, we may be better to do a FTA with the UK," said Barfoot & Thompson's Peter Thompson.

MOOD OF THE BOARDROOM

Staying agile amid global uncertainty

Spark CEO Jolie Hodson fears global economic uncertainly could act as a brake on business investment and consumer spending. "That said, we've invested heavily in our infrastructure, as we always have done."

Hodson says after taking the company on international roadshows: "Investors are generally interested in the sector and what we are doing compared with what's happening offshore. We're in a strong position both in terms of how we are investing and how we are finding new sources of revenue.

"Some of the markets they see have negative yields already or negative interest rates. New Zealand is not there yet, although we have a low 1 per cent OCR. They see there's some positivity here. Like everywhere there are concerns about what will happen with international trade and the US-China."

She says there will be an impact if that relationship were to further erode. The technology global supply chain is threatened, as many things are made in China.

"This isn't only for us in New Zealand, but globally. In fact we've seen some of the bans in the US being pushed out to a later date because of the realisation that it does actually hit the technology supply chain."

Closer to home, Spark is 15 months into a major transformation to becoming an Agile workplace. Hodson says there were three drivers for the move: "Improved customer experience; speeding up our time to market and changing employee engagement and contribution."

A key challenge is labour shortages of specialist skills in data, cybersecurity . . . and attracting this talent to New Zealand.

Jolie Hodson

Agile working flattens traditional management hierarchies. Hodson says this means decision-making power is greater in Spark's squads and tribes — the names used for more fluid groups of workers combining on projects. She says Agile means there is clear linkage, so that people can see directly how their work shows up for customers.

"For us it's about continuing to shift our way of working to high performance. We achieved most of what we wanted to in the first 12 months, now it is about lifting the bar again."

Hodson says another aspect of Agile is that it arms employees with the skills they need for the future. Squads are set up to be cross-functional, which means people quickly learn new ideas. This makes them more employable.

"A key challenge is labour shortages of specialist skills in data, cybersecurity . . . and attracting this talent to New Zealand," she adds.

The move has attracted interest from other companies in New Zealand and overseas. Hodson says overseas telcos, FMCGs (fast moving consumer goods companies), large supermarket chains, Australian retailers and European companies have beaten a path to Spark's door in order to learn how this works.

Spark plans to have a 5G mobile network in place for the 2021 America's Cup but the project has been complicated by the GCSB vetoing the company's use of Huawei network equipment.

Hodson says the network will still go ahead and selecting another partner will not slow Spark down.

She says; "We're in our RFP (request for proposals) process right now. We're likely to have more than one vendor in our network. That's what we've seen internationally. Most organisations have done this".

A full 5G network needs new spectrum, which is another potential barrier, with the spectrum auction scheduled for the end of 2020.

However, Hodson says, Spark aims to have early access to spectrum on a short term rental basis to cover the America's Cup.

What keeps CEOs awake at night?

45% Sourcing and retaining skilled staff

36% Achieving top line revenue growth

34% Meeting customer expectations

32% Regulatory challenges

23% Impact of policy uncertainty on business

18% Improving operational efficiencies

17% Competitive pressures

16% Managing profit expectations

15% Digital disruption

13% Changing organisational culture

12% Achieving cost reduction

5% CEO-Board relationship

5% Motivating key reports

2% M&A (Threat)

Fuel inquiry gains little CEO support

Not many respondents to the Mood of the Boardroom survey think the Commerce Commission's inquiry into fuel prices will result in lower prices for consumers.

Just 15 per cent of respondents said yes, with the majority — 70 per cent — responding no and 15 per cent are unsure.

Retail margins are small in comparison to the overall price of fuel. An inquiry will only impact at the margins.

independent director

Look at the proportion of tax in the fuel price (excise duty, GST etc).

Mark Cairns, Port of Tauranga chief executive

The ComCom focus is on cost to the consumer so of course it will.

Dame Alison Paterson

The biggest increase in prices in the last 12 months outside currency fluctuations has been the action of Government.

independent director

MOOD OF THE BOARDROOM

Staffing a big issue for executives

New temporary work visa settings should be welcome relief

Mood of the Boardroom
Duncan Bridgeman

Though international trade and domestic infrastructure are clearly big issues facing businesses at the moment, there's no doubt getting access to skilled labour continues to be challenging.

The good news is the Government is at least listening, as evidenced last week in the changes announced to the temporary migrant work visa scheme.

Some close attention is needed in terms of the detail of the new settings but most business groups from the outset have welcomed the move.

There's also a sense of relief the Coalition appears to have shied away from pre-election promises to cut down on net migration: remember NZ First wanted it slashed by more than 80 per cent.

In fact, by May this year — some 18 months after the election — the annual net migration number had bounced back to near record levels.

"To be fair, I think the Government has recognised the issue," Alan McDonald, Employers and Manufacturers Association (EMA) general manager of advocacy, told the *Herald* at the time. "They recognised the scale of the problem . . . they've listened to employers."

That said, as the Mood of the Boardroom survey shows, the problems caused by skill shortages aren't getting any better.

A healthy number of firms (38 per cent) still expect to increase staff levels in the next 12 months, but they do cite labour issues as among their biggest concerns.

Labour shortages featured as the biggest single domestic concern for survey respondents' own businesses — showing up as 6.83 on a scale of one to ten. Immigration restrictions and employment law changes are on the same side of the ledger, as is labour productivity, skills and wage increases.

In short, sourcing and retaining staff is for many chief executives the key issue keeping them awake at night.

So last week's announcement by Immigration Minister Iain Lees-Galloway around employer-assisted temporary work visa settings should be welcome relief, particularly for those in the agricultural and horticulture space.

The changes, which start coming into effect in 2020, include the introduction of a new employer-led visa framework, negotiating and introducing sector agreements to plan for future workforce needs and reinstating the ability for lower-paid workers to bring their families to New Zealand.

At the same time the new visa system replacing six categories will require employers to be accredited, increasing the expectation on employers to employ and train more New Zealanders.

The plans also include replacing the existing skills band with monetary thresholds aligned to the median wage, and the higher-paid jobs skill shortgages list will be replaced with open access to the regions.

Ian Lees-Galloway said the visa changes would assist between 25,000-30,000 businesses.

Lees-Galloway said the changes would assist between 25,000-30,000 businesses to fill shortages.

Canterbury Employers' Chamber of Commerce chief executive Leeann Watson said three-year visas and renewals provide continuity and confidence to both employers and workers. "This is a much more effective solution to ensure employers in genuine need are able to access the skills and attributes they need."

It is indeed a good sign that the government is addressing these issues, although many firms would argue that it's not nearly enough to offset employment law policies, which has driven up costs and compliance.

Meanwhile, despite general uncertainty about economic risks, businesses are remarkably upbeat about their own prospects, albeit tainted by uncertainty.

Two-thirds of respondents to the Mood of the Boardroom survey reported they expect revenue growth over the next 12 months with around 52 per cent expecting profit growth.

This follows the recent listed company reporting season, which resulted in actual profit growth slightly better than expectations and post-result revisions showing a slight upward bias at the revenue line, according to Forsyth Barr research.

However, there were a number of downgrades at the bottom line, Forsyth Barr notes, with earnings per share revisions for the 2020 financial year finishing with just six upgrades versus 16 downgrades from those that gave earnings guidance. Financial year 2021 revisions were also net negative with 11 upgrades and 17 downgrades.

Most listed company results reflected solid earnings, some dividend growth and strong balance sheets. However, fund managers said when it came to companies' outlook statements, the future was clouded with uncertainty, particularly on the international front.

It all pointed to a gradual economic slowdown, something that showed up in last week's GDP figure as well.

Fonterra's woes and its losses on Chinese investments in particular are being closely watched by the wider business community, the Mood of the Boardroom survey showed.

Asked whether this demonstrates New Zealand and companies have too many eggs in the China basket, around 54 per cent said yes, 30 per cent said no and 16 per cent were unsure.

Generally there does seem to be a strong sense of caution among businesses with companies looking at global trends, including trade relations, and what they might mean for the economy.

Firms are experiencing tighter margins and are finding it increasingly difficult to pass on higher costs.

A seemingly entrenched lack of confidence in the Government is adding to that uncertain outlook.

Does NZ have too many eggs in the China basket?

54% yes
30% no
16% unsure

MOOD OF THE BOARDROOM

Our confidence is waning

Pessimism about the economy has persisted since the change in government

Confidence in the general business situation in their own sector compared to last year:

Agriculture
57% Less optimistic
14% The same
29% More optimistic

Banking
89% Less optimistic
11% The same
0% More optimistic

Construction
60% Less optimistic
20% The same
20% More optimistic

Dairy
71% Less optimistic
15% The same
14% More optimistic

Property
80% Less optimistic
20% The same
0% More optimistic

Tech
54% Less optimistic
31% The same
15% More optimistic

Business leaders are less optimistic than they were a year ago. A total of 62 per cent of business leaders responding to the Mood of the Boardroom survey say they are less optimistic about the general business situation in their industry.

Just 15 per cent feel more optimistic, 23 per cent say they feel the same level of optimism as last year.

The figures were worse when respondents were asked their perspective on the New Zealand economy.

A full 83 per cent say they are less optimistic than they were one year ago. Only 4 per cent say they are more optimistic, 13 per cent say they feel the same as last year.

This poor outlook aligns with other surveys of business confidence, which have shown consistent pessimism about the economy since the change in government to the Labour-led Coalition in 2017. The most recent ANZ Business Outlook found 52 per cent of businesses surveyed expected economic conditions to deteriorate.

Respondents were also asked how concerned they are about the impact of various domestic factors for business confidence, rated on a scale where 1 = no concern and 10 = extremely concerned.

The top domestic factors influencing business confidence in the NZ economy are congestion in Auckland (7.60/10) and infrastructure constraints (7.39/10).

The announcement last week that the Auckland light rail project will be delayed until at least 2021 exemplifies the lack of action that CEOs expressed frustration on. The infrastructure issue is considered in more detail on D21.

Other major domestic factors impacting business confidence according to CEOs include the availability of skills and labour (6.99/10) and general uncertainty around the impact and direction of current or proposed Government policies (6.87/10).

Foodstuffs North Island chief Chris Quin says: "Talent and Skills shortage and lack of clarity and progress on vocational training, along with an unclear future of vocational training and immigration settings are really harming the possibility of a successful transition to the future of work for NZ. Aligned Government spending that is much more effective in growing productivity is critical."

Despite the pessimism from business, the International Monetary Fund released its annual review of NZ's economy in the last week.

It suggests New Zealand's economic growth is "still solid". It says despite the loss of momentum in economic activity and a cooling in housing markets, output has remained close to potential. It also praised the falling unemployment rate and the government's Wellbeing Budget — saying it struck the right balance between fiscal prudence and tackling priorities like mental health, child poverty and Māori and Pasifika aspirations.

Some economists say that business confidence surveys tend to be biased against Labour-led Governments, and have little correlation to actual economic growth. In line with this, Skycity chair Rob Campbell suggested one factor impacting business confidence is "business organisations talking down confidence".

— Tim McCready

Business intentions
What CEOs are planning in the next 12 months

Capital expenditure	
More	43%
Same	32%
Less	22%
Unsure	3%

IT expenditure	
More	57%
Same	25%
Less	16%
Unsure	2%

Staff numbers	
More	38%
Same	33%
Less	26%
Unsure	3%

In the next 12 months CEOs expect their businesses to show:

Revenue growth	
Yes	66%
Same	16%
No	15%
Unsure	3%

Profit growth	
Yes	52%
Same	25%
No	20%
Unsure	3%

Source: NZ Herald 2019 Mood of the Boardroom CEOs Survey

Cathy Quinn, Independent director

I am optimistic about the general business situation for most of the businesses I am involved with as we have high quality CEOs with good business plans even if there are a variety of challenges.
The New Zealand economy seems tougher than 12 months ago and there is less confidence generally which makes consumers more cautious.
Trump, Boris, Brexit, the US-China trade war all make the global economy seem more uncertain and certainly unpredictable.
As NZ is tied to the global economy, we have to take account of that uncertainty.
All businesses are dealing with rising costs: wages, electricity and compliance costs including through preparing for changes in regulation.
At the same time there is business uncertainty caused by global issues

and local issues including where the RBNZ will land on the capital requirements for our banks (and what it will mean for accessing debt — the consensus by business people is that it will be harder which will be negative to the economy).
While most business people are supportive of NZ facing the challenge of climate change there is concern about requiring some businesses to reduce emissions before there are technological mechanism to achieve a reduction in emissions.
Similarly, it makes no economic sense to impose increased costs on NZ businesses in this context and to give imports a free pass.

Cameron Bagrie, managing director Bagrie Economics

We reside in a world (including NZ) where politics is becoming more and more of a shambles. Central banks can "fix" normal economic problems. The political overlay on economic challenges mean the next few years are likely to be tough. For the past thirty years central banks have been the big stabilisers.
Any problem has been attacked through lower interest rates. They are almost out of ammunition.
Government policy is going to become more critical and important going forward. Both as a stabiliser, but also influencing medium-term prospects and setting an environment where society and business can prosper together.

Dairy industry

Seven dairy companies took part in the survey, ranging from the top end of town to nimbler but still significant players.
Of these, 57 per cent expect more capital expenditure in the following year compared to last year, 29 per cent expect less. In terms of IT, 71 per cent expect to spend more, 29 per cent say the same as last year.
Over half (57 per cent) of respondents expect staff numbers to increase, 29 per cent expect them to stay the same, and 14 per cent expect a fall in staff numbers over the coming year.
When asked whether they expect revenue growth over the next 12 months, 86 per cent say they expect more, 14 per cent say they expect the same. None of the dairy participants say they expect revenue to decrease. On profit growth, 57 per cent say they expect a growth in profit over the next 12 months, 14 per cent expect profit to remain the same, and 29 per cent expect a fall in profit.
On the NZ economy compared to one year ago, 71 per cent say they are less optimistic, 29 per cent say they are the same as last year.
No respondent said they were more optimistic.
For the dairy industry, 71 per cent are also less optimistic compared to this time last year, 15 per cent have the same level of optimism as last year.
Almost 14 per cent say they are more optimistic for the year ahead for the dairy industry.

Banking industry

Nine players in the banking industry took part in the survey — including the top five banks: (ANZ, Westpac, ASB, BNZ and Kiwibank).
Of those in the banking industry, 56 per cent say they expect to authorise more capital expenditure in the next year compared to last year, 33 per cent expect it to remain the same, and only one respondent expects it to decline. On IT spend, 67 per cent expect it to increase in the next year, 22 per cent expect it to remain the same.
One third of banking leaders who responded expect staff number to decline over the next year, 44 per cent expect them to remain the same, and 22 per cent expect to see an increase.
In terms of revenue, one third expect to see growth over the next year, 44 per cent expect revenue to remain the same, and 22 per cent expect a fall in revenue. When considering profit, 11 per cent expect to see it increase, 44 percent say it will stay the same, and 33 per cent expect it to decline.
Two-thirds are less confident about the economy over the next year.
The remaining third say it will stay about the same. In terms of the banking industry, 89 per cent are less optimistic, the rest expect it to be the same as last year.

Dame Paula Rebstock, chair ACC

As a large insurer with a substantial diversified investment fund, we are concerned about the low-interest rate environment and investment returns, particularly given the revaluation changes impacting our liabilities. Uncertainty about the economic outlook is a major factor influencing business sector decision-making. While the Reserve Bank's recent policy easing was meant to provide pre-emptive support, it signalled serious concern and has added to economic uncertainty. The adverse effect will likely outweigh any stimulus from marginally lower interest rates. The capital requirements review has amplified uncertainty, with it yet unclear how this might impact particular sectors of the real economy. It is unclear what the end game is regarding the monetary easing cycle. Cyclical responses are being used to respond to structural problems that have been with us for a decade. There is limited further room for monetary policy response.

Agricultural industry

There were seven responses from the agricultural industry, ranging from meat producers to suppliers.
The majority (43 per cent) say they expect to authorise less capital expenditure over the next year compared to last. The remainder (29 per cent) are split between spending the same and spending more.
The industry is split on IT spend, with 43 per cent saying they expect to spend more in the coming year, and 43 per cent saying they expect to spend less. Just 14 per cent expect to hire more staff over the next year compared to last, 43 per cent say they expect to hire less.
No respondent in the sector expects less revenue growth over the next year compared to last — 57 per cent say they expect it to remain the same, and 43 per cent say they expect more. As for profit growth, almost half (43 per cent) say they expect to see more profit growth over the next year compared to last, 29 per cent expect it to remain the same, 29 per cent say they think it will decrease.
Every respondent in the agricultural industry says they are less optimistic about the economy compared to this time last year. They are slightly more positive about their own industry — 29 per cent are optimistic, 14 per cent are neutral. The remainder (57 per cent) are less optimistic.

Roger Partridge, chairman and co-founder of The New Zealand Initiative

The biggest immediate threat to the global economy is the trade war between the US and China. I expect it will be resolved within the next 12 months as it is in the interests of both countries to do so. For this reason, I am slightly less pessimistic about the global economy than I am about the domestic economy. The New Zealand economy is facing a series of series threats.
Taking a helicopter view, our two largest industries — dairy and tourism — are vulnerable to climate change policy and perceptions.
At the same time, successive governments have failed to implement policies to resolve our ailing productivity growth challenge. Many factors have been blamed for our poor productivity performance, including our small size and geographical isolation.
There is little we can do about either

of these. But that makes it all the more important that we focus on things we can solve — like the skills and educational attainment of our workforce (current and future), the quality of our infrastructure, housing affordability (especially in our fastest growing cities) and resource management restrictions. On all four we are performing poorly. And there is little cause for optimism that the necessary systemic reforms will be made. And in the last few years a new threat has emerged in the form of more activist, and less competent, government agencies developing or contributing to policy that is poorly thought through yet capable of compromising the entire economy.
The Reserve Bank's ill-conceived proposals to double banks' capital is but one example.
The dumbing down of New Zealand's education system is the biggest threat to the future prosperity and wellbeing of New Zealanders.
A highly-educated workforce is critical to a highly productive workforce. Yet our school students continue to slide down the international league tables (and, importantly, underperform compared with earlier generations of New Zealand school students).
There are encouraging signs (such as the proposed NCEA reforms) however, other initiatives (like the Tomorrow's Schools recommendations) will do nothing to address the more fundamental problems besetting an education system that is failing to equip many school-leavers with the levels of literacy, numeracy and knowledge and skills needed for today's jobs, let alone those of the future workplace.

Time to make bold moves

Few respondents criticise Finance Minister Grant Robertson's goals — but they question the execution

Is Grant Robertson delivering credible economic and fiscal management for New Zealand?

54% Yes
29% Unsure
17% No

The Government's approach to doing everything through reviews has been cited as getting in the way of Grant Robertson's stewardship of the economy.

"Opening up multiple challenging conversations and establishing working groups without clear outcomes — or at a minimum directional outcomes — is creating uncertainty for both local and international investment," said a leading banker.

"We need certainty through policy completion."

In the 2019 Mood of the Boardroom survey, a little over half (54 per cent) felt Robertson was delivering credible economic fiscal management. But a significant number (26 per cent) were unsure and 17 per cent disagreed.

Those commenting on record (in the main) portrayed a positive view about Robertson's stewardship.

But Mainfreight's Don Braid warns, "A slowing economy may well test the current fiscal management. He must find the courage to use the tools at his disposal to maintain our momentum."

This year's *Herald* survey did not directly canvass Robertson's Wellbeing Budget — which is seen as a world first. Instead, CEOs were asked to rate particular focuses in the Coalition's Year of Delivery alongside new Budget initiatives and the traditional focus on fiscal management.

The 2019 Budget departed from the normal practice of focusing on economic indicators such as GDP growth. Instead it emphasised spending on matters such as mental health, poverty and productivity.

Mainfreight's Don Braid warns, "A slowing economy may well test the current fiscal management. He must find the courage to use the tools at his disposal to maintain our momentum."

'He hasn't necessarily done anything wrong but hasn't been bold. He is a good performer but caught in a framework of uncertainty' — Mark Franklin, Stevenson Group

In his Budget speech Robertson told Parliament: "Success is making New Zealand both a great place to make a living, and a great place to make a life".

Though few respondents criticised these goals, many were not impressed by the execution.

The LGFA's Craig Stobo said, "The Wellbeing budget was an important milestone, built on work by the previous government, but like much current policymaking it was large on sizzle and small on sausage. The absence of knowledge of the base starting point for the four capitals and clear targets for improvement reinforces the notion that this government doesn't want to be measured on its progress."

A director noted, "it was a budget like any other. It is remarkable how quickly Grant Robertson has turned into Steven Joyce: overconfident to the point of dismissing any kind of criticism."

Simplicity's Sam Stubbs added, "it has fallen into a vacuum, and here is nothing else I can readily associate with his management, good or bad."

In contrast, the head of a professional services firm had a more sympathetic view. He says: "Credible in Wellbeing perspective but impacted by Reserve Bank actions".

This year's survey reveals considerable business angst about the Reserve Bank's approach to increasing bank capital and jawboning business to increase investment.

An auto firm boss said Robertson understands the role and importance of fiscal restraint. "But he is letting the RBNZ get out of control, which will be problematic in future.

"If we hit a recession, I am not sure Grant will know what to do".

This reflects another theme that emerged from the survey: Robertson's performance is hampered by others around him. Although respondents didn't always agree about who was doing the hampering.

"Holding the line on fiscal position, though the coalition dynamics lead to gross misallocation of resources. The central government structure leads to poor execution of the gross misallocation", says a power industry leader.

"Grant needs to be more visible — he seems to have let ministers splash the cash without a coherent story or big-picture narrative," said an energy boss.

But there was some ambiguity. "He hasn't necessarily done anything wrong but hasn't been bold. He is a good performer but caught in a framework of uncertainty", says Stevenson Group director Mark Franklin, neatly summing up a common perception.

"So far so good," said Carol Campbell of T&G Global.

But Auckland Business Chamber's Michael Barnett was unimpressed. "What he is doing is standard, ordinary. What is needed is the extra effectiveness of government spending."

Boardroom backers for policy costings unit

National is against the idea of a Policy Costings Unit to monitor the government's fiscal strategy, but it is backed by the OECD and 62 per cent of our Mood of the Boardroom panel. Just 12 per cent of respondents are against the idea.

The unit will be set up as an independent office of Parliament and will provide costings of political party policies ahead of an election.

Clear support for the idea comes from Oliver Hartwich, executive director of the NZ Initiative. He says the concept was a New Zealand Initiative policy recommendation in the organisation's 2014 report: *Guarding the Public Purse: Faster growth, greater fiscal discipline*.

Foodstuffs North Island CEO Chris Quin says: "If it really works, it could make a difference".

An agribusiness boss says the plan: "makes sense".

Respondents worry about the independence of a new watchdog, this echoes some of Bridges' objection to the plan.

An energy company CEO says he supports the idea: "So long as it is independent of the Government whoever is in power".

Chorus CEO Kate McKenzie agrees that it should help, but wonders how the unit can stay independent.

Peter Thompson from Barfoot and Thompson makes a similar point: "As long as it is fair to all parties — big and small and everyone is aware of the rules."

The boss of a government relations firm sees potential for bias: "Only if it is independent and that's not a given. Putting a left-leaning economist in charge won't do the job".

Paul Glass from Devon Funds Management frames this as "It depends on how political it is".

An investment banker calls it a cynical political device. "The politics of this body will be driven by the party in office at the time of appointments."

Away from questions of bias, an agribusiness CEO complains: "We pay for it" and an IT company head is concerned about "another silo". Craig Stobo, chair of the Local Government Funding Agency worries about duplication.

He says: "Why can't Treasury provide this in a transparent manner already?

"More monitoring agencies monitoring other departments is nuts."

Government cyber breaches

Almost half, 49 per cent, of the bosses surveyed say the Treasury Budget leak and the exposure of passport details at the Ministry of Culture and Heritage have reduced their confidence in government sector cyber security.

But these breaches were also a wake-up call for the private sector suggests a property company boss — "There but for the grace of not being in the public eye go many of us."

"Cyber security is an increasing risk. What is the ability to manage it?" asks Vector chair Dame Alison Paterson.

The head of a professional services firm is philosophical — "S*#t happens". But an IT company boss was scathing: "These are fundamental errors that should not have happened under any circumstances. New Zealand government is paying ridiculous money to independent IT contractors and these fundamental risks or errors should have been identified in testing."

Several felt the Budget leak was less a technology issue than poor management practice, even though its mischaracterisation by former Treasury Secretary Gabriel Makhlouf shrouded him in controversy on the eve of his departure to be Ireland's central banker.

Chorus CEO Kate McKenzie says the issues were about "general appropriate management of IT environments".

Four in 10 respondents say the high-profile data breaches haven't reduced their confidence in government cyber security: 11 per cent are unsure.

What should be top of Robertson's priority list?

Chief executives say it is time that Finance Minister Grant Robertson loosens the purse strings when it comes to spending on infrastructure.

Some 39 of the 111 respondents to this open-ended question put infrastructure as the key priority they wanted Robertson to focus on.

In July, the Prime Minister's Business Advisory Council recommended the Government resume work on 12 major roading projects that were put on hold after the Coalition took power in 2017.

Robert Scoines from Sanitarium Health Food Company wants to see investments in ports, roads and rail.

At Port of Tauranga, Mark Cairns says: "We desperately need more infrastructure capital. New Zealand has the balance sheet to do so."

> Now that the government's books are strong, he shouldn't be afraid to reach out to the business community and enrol us for some bold and transformational social, environmental and economic initiatives.
> banking leader

Others noted with interest rates low — the OCR is at 1 per cent — the opportunity is there now to borrow and invest.

It is an issue that Robertson has under active discussion with officials as they look to expand investment in conjunction with the private sector through special purpose vehicles.

Some industry leaders are keen to get involved in Robertson's projects. A banking leader says: "Now that the government's books are strong, he shouldn't be afraid to reach out to the business community and enrol us for some bold and transformational social, environmental and economic initiatives."

"Invest in Auckland specifically," said a company director.

"The country and the Wellington machine need to fully understand the impact of Auckland on the country."

Some, like Terry Copeland from Federated Farmers, believe increased infrastructure spending will boost the economy. Others want to see more discipline and a greater focus on getting things done.

"Drive his colleagues to understand the big gap between wishing for projects to happen and actually getting them in the ground," suggested a transport boss.

Among other suggested priorities were a focus on lifting New Zealand's lamentable productivity, more policies that encourage and reward growth and investment, and greater engagement with business.

Said MinterEllisonRuddWatts's financial partner Lloyd Kavanagh: "Grow productivity. Currently we are on a road which does not provide the wealth the country need to look after our people in a first world level."

● D20: Issue 4 — Infrastructure

MOOD OF THE BOARDROOM

CEOs Score Greens' Ministers

Climate Change Minister James Shaw was rated at 3.05/5 by chief executives in the *Herald* survey — the highest score among Green ministers outside of Cabinet and marginally ahead of Prime Minister Jacinda Ardern on her own ministerial performance.

Asked if Shaw had been an effective leader of carbon emissions reduction policies, 50 per cent of survey respondents said Yes; 30 per cent said No, and 20 per cent were unsure.

"James Shaw has certainly got the subject of carbon emission reduction firmly on the table and has gained business and community backing," says Beca's Greg Lowe.

"This will encourage faster action but we need to be mindful of tackling the immediate issues first. Rural emission reductions will need more science but the science to reduce transport and energy emissions is on our doorstep now and we should be acting faster to remove obvious pollution."

"He has the intellectual ability to understand how to tackle some big problems and the pragmatism to get things done. Not everybody around him has that pragmatism which risks ideology only and no momentum or improvement."

Many believe Shaw has been particularly effective in getting business on board with Green policies. "The Green Ministers — particularly James Shaw — have surprised many in the business community for their ability to listen," says a leading banking boss.

Z Energy chief executive Mike Bennetts says "James has been very effective in managing conflicting views to an overall consensus that is acceptable to all stakeholders". Adds an automotive firm chief executive, "Thank goodness James Shaw is there, otherwise nothing would be happening".

James Shaw
Climate Change
3.05/5

Eugenie Sage
Conservation
2.29/5

Julie Anne Genter
Associate Transport
2.09/5

Scale: 1-5 where 1 = not impressive and 5 = very impressive. Source: NZ Herald 2019 Mood of the Boardroom CEOs Survey.

But others say it isn't clear what Shaw has achieved, suggesting more evidence of tangible action and change is needed. "The visibility of change is poor but he has the capability!" says one respondent.

The head of an investment firm reckons "Shaw has been a highly effective co-leader for a small party outside of government, and on key issues."

Adrienne Young-Cooper, chair of Panuku Development Auckland, offers him some advice: "he needs to lose the suit and be really innovative in addressing a lighter more loving footprint on our beautiful so damaged planet".

Shaw's colleague Julie Anne Genter who holds the women's portfolio and is Associate Health and Transport Minister was scored at 2.09/5.

"Having starting to deal with Julie Anne Genter on some issues she seems to have some similar attributes to James Shaw of being intelligent and open to sensible engagement," says Deloitte's Thomas Pippos.

Others are more critical — Simplicity's Sam Stubbs says she seems "hard wired to hate cars and love trains":

"Her passion, and the Governments need for the Greens, could commit the nation to extremely expensive spending on a transport technology better suited to more population dense countries, and last century, not this one."

Adds another: "Genter represents the greatest risk to this Government. She has let power go to her head, and her anti-car campaigns and opposition to roads being built will upset most New Zealanders. Twyford lets her do what she likes but she drives officials crazy with her loony policies."

Eugenie Sage received a fairly middling grade of 2.29/5 for her work as Conservation Minister and Land Information.

She received just a single comment — the partner of a major legal firm says her role in the OIO approval process has been underwhelming. "There is a lot of uncertainty in the business community as now ministerial decisions seem to be going against the Overseas Investment Office's technical recommendations for political or party reasons rather than following a considerate investment assessment".

— *Tim McCready*

Influencing power

When it comes to their ability to influence policy outcomes, Greens co-leaders James Shaw and Marama Davidson rate well behind that political pro, NZ First leader Winston Peters.

Asked to rate the party's co-leaders on this issue — on a scale where 1 = not impressive and 5 = very impressive, chief executives scored Shaw at 2.87/5, Davidson received just 1.63/5. It's perhaps not surprising that Peters, whose party is in a formal coalition with Labour, received 3.59/5 from NZ's business elite for the same question.

Cooper and Company chief executive Matthew Cockram reckons: "I don't necessarily like it, but there is no doubt that Winston and James have had a significant impact in getting their positions implemented."

A telecommunications CEO feels that "James Shaw has worked tirelessly and often thanklessly to try to achieve cross-party consensus on difficult and complex issues," whereas a Māori business leader says: "James Shaw is doing as well as he can with a disparate party. Marama Davidson — no comment."

There is a perception among some business leaders that the Greens have not been as effective as expected.

"The offshore gas exploration ban is the only policy I think James Shaw and his party has driven, yet that risks making it harder to remove coal and so will result in more emissions," says an energy sector CEO. "The Zero Carbon bill hasn't gone anywhere yet and policies to make it real seem a long way off."

In contrast, a real estate boss says the Greens have made an impact: "if you look carefully, the Greens have had wins on almost every one of their major policy platforms".

At the recent Green party AGM, Shaw highlighted a string of achievements — including the ban on new fossil fuel exploration, public transport initiatives and the $100m Green Investment Fund.

"This year's budget alone contained $6 billion in new funding for Green Party initiatives," he said.

MOOD OF THE BOARDROOM

CEOs rate National's 'top 10' frontbench

Judith Collins

Spokesperson for housing & urban development, planning (RMA reform)

3.51/5

Nikki Kaye

Spokesperson for education, sport & recreation

3.31/5

Paul Goldsmith

Spokesperson for finance, infrastructure

3.14/5

Paula Bennett

Deputy leader of National Party Spokesperson for social investment social services, drug reform, women

2.86/5

Todd McClay

Spokesperson for trade, economic development, workplace relations and safety, tourism

2.83/5

Mark Mitchell

Spokesperson for Pike River re-entry, defence, disarmament

2.73/5

Gerry Brownlee

Spokesperson for foreign affairs, GCSB & NZSIS

2.68/5

Michael Woodhouse

Spokesperson for health

2.67/5

Simon Bridges

Leader of the National Party Spokesperson for National Security

2.50/5

Louise Upston

Spokesperson for social development

2.40/5

Get smart and focus on the

Mood of the Boardroom
Tim McCready

Focus on substance — that is the clear message to National from respondents to this year's Mood of the Boardroom survey.

National leader Simon Bridges announced a June shadow Cabinet reshuffle following the news that MPs Amy Adams and Alastair Scott would retire from politics at the 2020 election.

The biggest winner in the reshuffle was Paul Goldsmith. He picked up the heavyweight finance spokesperson and infrastructure spokesperson roles and jumped from seventh to third in the party's parliamentary rankings.

Chris Bishop was also a winner, picking up Goldsmith's former roles in transport and regional development.

He moved from being ranked 35th to 16th, overtaking several of his colleagues and clinching a spot in National's shadow cabinet.

New Zealand's top CEOs and directors seem to agree with the reshuffle, with a banking boss commenting: "Paul Goldsmith and Chris Bishop have great potential".

But when asked what more Bridges needs to do to present a vigorous alternative to the Government at the 2020 election, it was substance – rather than individuals – that received attention from respondents.

Many suggested National needs to identify and focus on key policy areas, rather than trying to do everything.

"Be smarter and more strategic in what it criticises the Government on," says a public sector boss. "Focus on things that matter to Kiwis — not on personal politics that only capture the attention of the press gallery."

Respondents also suggested that National spend more time focusing on how they would perform better than the Government, rather than negativity and time spent explaining what the Government is doing wrong.

"Cut out the negative comments, lead from the front," said Ovato managing director Simon Ellis.

Mainfreight boss Don Braid was direct: "The negative nit-picking in opposition has been pathetic; shut up and develop credible policy."

But other respondents say National

Shows improvement — but still a way to go

When asked whether National Leader Simon Bridges is hitting his stride as leader, just 26 per cent of respondents said Yes, 47 per cent said No, 27 per cent were unsure.

NZ's business elite say though Bridges' leadership is improving, he has a way to go — Cooper and Company chief executive Matthew Cockram suggests: "he is improving, but has taken his time, though!"

Those surveyed were asked to rate Bridges' leadership of the National Party on a scale where 1 = not impressive and 5 = very impressive.

They gave him a rating of 2.50/5. This is comparable to his score in last year's survey of 2.44/5 — but well down from the rating of 3.16/5 he received as a cabinet minister in 2017's survey.

The low score for Bridges aligns with the dismal ratings he has received in public opinion polls for preferred Prime Minister: scoring 6 per cent in the most recent 1 News Colmar Brunton poll.

While executives agree that Bridges has a tough job, they say the jury remains out on whether he can capture the hearts and minds of his own team — let alone the country. Comments from respondents revealed an unprompted undercurrent among executives that Bridges' leadership is not going far enough.

"Does National have the right leader in Simon Bridges? Not sure. The only alternative is Judith Collins, for whom I have a very high regard," says Don Brash.

Whereas an independent director says: "He isn't resonating, but apart from Judith (who would be a disaster as PM) there isn't much choice."

"While no doubt very intelligent, Simon has not been able to develop a political following among voters," says Deloitte's Thomas Pippos.

He adds: "What the polls tell us is that National's support is probably attributable to the party and anti-Government sentiment rather than Simon. Put another way, Simon is unlikely to be the reason those that support National support National."

The political polls show National is consistently rating with 40-45 per cent support (except for a Newshub Reid Research poll in June which had them at 37.4 per cent).

Concerns were also raised that Bridges is seeking populist policies that may not be in NZ's interests.

Says a professional director: "Walking away from supporting the Climate Change legislation is wrong. We need to have bipartisan support for this. We know it's an issue. What he should promote instead is allowing business and agriculture to adapt as new technologies come to the fore and not give imports a free pass."

Some respondents comments were unvarnished: "Get in some fresh leadership with charisma. Whether we like it or not, election decisions are based on personality not substance," suggests an infrastructure boss.

Bridges has had a challenging year as leader, most publicly with the Jami-Lee Ross saga that began in August last year with an investigation into the leak of Bridges' travel expenses.

Ross stepped down from National but it was the fallout from the sustained public attacks by him on Bridges that impacted on the latter's standing.

Ross' allegations have continued, the latest revealing then-trade minister Todd McClay helped facilitate a $150,000 donation from a company owned by Chinese racing industry billionaire Lang Lin.

Despite this, some respondents say there are signs Bridges is improving.

Says a think tank head: "Bridges had a tough first year as leader, but he is sounding increasingly confident and looks like a potential PM."

"He may not appear comfortable on TV, but one-on-one or in small groups he is very encouraging and has a team behind him that are all capable," says Barfoot & Thompson's Peter Thompson.

— Tim McCready

MOOD OF THE BOARDROOM

Goldsmith 'a fast learner'

Finance spokesman advised to get a coherent set of policies writes **Tim McCready**

Business leaders gave National rising star Paul Goldsmith their third highest ranking among the party's top 10, but when it comes to the right qualities to deliver as finance spokesman many think it is too early to tell.

In the 2019 Mood of the Boardroom survey, respondents were asked to rate Goldsmith.

He scored 3.14/5, the third-highest score for National's top 10 ranked MPs — behind housing spokesperson Judith Collins (3.51/5) and education spokesperson Nikki Kaye (3.31/5).

When asked whether he had the right qualities to deliver as finance spokesperson, 43 per cent responded yes, 12 per cent said no.

"Paul has a detailed knowledge of tax issues — he has literally written the book on the history of tax in New Zealand. He has a reasonable knowledge of economics, is extremely bright and is a fast learner," responded former National Leader and Reserve Bank Governor Don Brash. "He also understands the seriousness of the economic problem facing the country: the extremely poor rate of productivity growth."

"He's bright enough, but quirky," said a government relations director.

SkyCity Entertainment Group chair Rob Campbell suggested Goldsmith needs to "get away from just saying what he thinks business wants to hear".

Another suggested Goldsmith needed to "get some charisma".

With just three months as finance spokesman it is not surprising 45 per cent of survey respondents are still unsure if Goldsmith has what it takes to deliver as finance spokesperson.

Goldsmith was appointed in a June reshuffle after former National Cabinet Minister Amy Adams announced she would retire from Parliament in 2020.

"We haven't seen enough either way," says an investment firm's chief executive.

"It is still early days, but I believe he has the right qualities from his early changes and comments," says Barfoot & Thompson director Peter Thompson. "Today's Mood of the Boardroom debate will be his first real test."

While he has still to raise his profile as a shadow finance minister, Goldsmith is a prolific author. He wrote a book on the definitive history of taxation in New Zealand (*We Won, You lost, Eat That*) and the history of Fletcher Building. He is also a biographer, covering the pantheon of New Zealand business leaders including John Banks, Don Brash, Sir William Gallagher, Alan Gibbs and the Myers family.

In Gibbs' biography, Goldsmith wrote that at one point Gibbs asked him: "Paul, when are you going to stop living vicariously, writing about other people's lives and get up and do something yourself?" After his maiden speech in Parliament, Goldsmith said Gibbs laughed down the phone at him: "I meant get up and do something genuinely useful; not go into politics!"

Goldsmith, got his first taste for politics when he moved from a role with the Waitangi Tribunal to join John Banks' office as a press secretary. When Banks was thrown out of Cabinet he was taken on by National Environment Minister Simon Upton. After National's 1999 defeat he worked in Helen Clark's Labour Government as a staffer for former Cabinet Minister Phil Goff.

He entered Parliament as a National list MP in 2011 and went on to hold the Commerce, Science and Innovation and Tertiary Education portfolios in the last National Government.

After the 2017 election, Goldsmith aligned himself closely with National leader Simon Bridges.

As economic and regional development spokesperson, he raised his profile through blistering attacks on Shane Jones' administration of the Provincial Growth Fund.

In an open-ended question on what Goldsmith's key priority should be, many CEOs highlighted productivity and infrastructure.

"He needs to devise a coherent set of policies which would plausibly deliver a meaningful improvement in New Zealand's rate of productivity growth," says one respondent.

Said an energy boss: "Joining the narrative together on economic, environment, trade, social, infrastructure into a compelling, long-term and understandable (street-level) vision."

"Creating a framework for stability and investment that does not constrain growth," responded an automotive boss.

Other advice for Goldsmith included the need for him to "get really clear on how all parts of society can win under a National government", and to "have clarity regarding National party policies and being able to articulate them clearly."

CEOs rate National's policy agenda

Allow Kiwisaver contributions to continue beyond the age of 65 for those in the workforce 8.12/10

Reinstate the 90-day trial period for employers 7.64/10

Raise the age of superannuation from 65 to 67 7.44/10

Remove the ability to give preferential pay agreements to union members during public sector wage negotiations 7.25/10

Increase residency requirement for superannuation to 20 years 6.98/10

Repeal the governments foreign investment changes 6.34/10

A "regulations bonfire" removing two regulations for every new regulation introduced 6.25/10

Repeal the ban on new offshore oil and gas exploration 6.13/10

Return the brightline test to two years and remove ring fencing of losses 5.29/10

Repeal the regional fuel tax in Auckland 5.12/10

(Rated on a 1-10 scale where 1 = very poor and 10 = very good)

Source: NZ Herald 2019 Mood of the Boardroom CEOs Survey

substance

should continue to highlight the strength and credibility of its team, compared to those on the Government benches.

"All that National has to do is point out Labour's incompetence at running the Government and the country," said a policy boss.

"It makes the contrast to National's experienced and qualified front bench even stronger."

Cooper and Company chief executive Matthew Cockram said: "National should reach out to those who have been so cruelly misled by Labour's rhetoric and execution ineptitude. Show that just throwing money at issues does not solve them."

But CEOs also want National to adopt new policies that can demonstrate how the party has moved on from the Key government.

"The world has moved on and going back to that is insufficient to become Government and the wrong thing for New Zealand."

Adds an independent director: "It still feels like a return to more traditional National policies. I think they need to better read the mood of society and set out some new ideas that demonstrate a real change from the past on issues like climate, infrastructure and taxation policies."

Mark Franklin, managing director of Stevenson Group said: "They must stop acting like they are entitled to be there and start rolling their sleeves up."

The need for National to consider the long-term — including creating a prosperous New Zealand for all New Zealanders, being realistic about sustainability and equality challenges and addressing New Zealand's underperformance in productivity — was also a message from respondents:

"National needs to provide a long-term vision for New Zealand as a country, in order to work its way up the OECD rankings rather than declining," says MinterEllisonRuddWatts partner Lloyd Kavanagh.

Said the chief executive of an investment firm: "In order to win, National has to own middle New Zealand — and right now they don't. They are not progressive enough to capture hearts and minds of the real big-picture long-run issues for the future."

"Stay centrist and loud on how to address system changes for long term change," advised a tourism boss.

National also needed to find a coalition partner. "They will be hard-pressed to get an outright win," advises an executive in the education sector.

Reiterated Barfoot & Thompson's Peter Thompson:

"They aren't going to win it alone so need to work closely with an alternative party to go into partnership with them before the election — so the public know before they vote."

Though most respondents say National's strength is that it has a credible cohort of talented performers, a few recommended National look to bring in new talent from the outside.

"...but definitely not Luxon!" pleaded an investment bank head.

A 'credible alternative'

Two-thirds of business leaders — 66 per cent — say that National's proposed policies are providing a credible alternative to the policies from the coalition government. Just 8 per cent say they do not; 26 per cent are unsure.

"National is insignificantly different to make a great difference to New Zealand," says Mercury CEO Fraser Whineray. "Can we have a long-term vision and discussion about our place in the world?"

"Better than the Coalition? Certainly. But not good enough to lift our lousy productivity growth rate," cautions ICBC chair Don Brash.

Last month, National launched its economic policy discussion document. Among commitments, Leader Simon Bridges said National would not introduce any new taxes in its first term, would reinstate the social investment approach, and would reintroduce targets in health, education and law and order.

The top three rated policies were:

- Allowing Kiwisaver contributions to continue beyond the age of 65 for seniors who remain in the workforce (8.12/10)
- Requiring all government agencies to pay their contractors on time and within 30 days (7.99/10)
- Requiring Treasury to have greater focus on identifying wasteful spending (7.96/10)

The two lowest-rated proposed policies were:

- Returning the brightline test to two years and remove ring fencing of losses (5.29/10)
- Repealing the regional fuel tax in Auckland (5.12/10)

Deloitte CEO Thomas Pippos says Government policy is about deliberate choices that balance financial and non-financial outcomes.

Pippos says a challenge with the proposed economic policies that National released is that they look to appeal to the conservative wing of those that support National — which they "already have in the bag".

"Key social issues around housing, poverty and inequality are not being overtly addressed," he says.

> Some of their ideas are incredibly sensible but I don't see a strategic plan in place yet.

"Similarly, there is no positive response to environmental issues. Putting to the side the challenges of MMP and the lack of coalition partners, National would be more successful if it transformed to being more progressive and appealing to the majority of voters who occupy the centre of NZ politics."

Several of the respondents say the release of the economic policy discussion paper was a step in the right direction, but suggested National is not doing enough to move the needle.

"Some of their ideas are incredibly sensible but I don't see a strategic plan in place yet," adds a government relations firm head.

"There are some good ideas, but it's all tinkering," says Whineray. "The centralised dynamics are different to the rest of the world and effective oversight of expenditure absolutely beats the perception of scale economies."

Don Brash added: "Some of what National proposes is a pale shadow of what it should be. For example, starting to raise the age of eligibility to 67 from 2037. Australia will get to 67 by 2023!"

Others suggest that National is struggling to resonate with the electorate, and put this down to a lack of ability to clearly communicate their policies. "They are still pretty unimpressive when it comes to developing and communicating their policies... maybe it's still a secret?" questions Mark Franklin, managing director of Stevenson Group.

The proposed "regulations bonfire" - which has been compared to the Donald Trump playbook - promises to "repeal 100 regulations in our first six months in government and eliminate two old regulations for every new one we introduce." It scored 6.25/10 and received the most commentary from respondents.

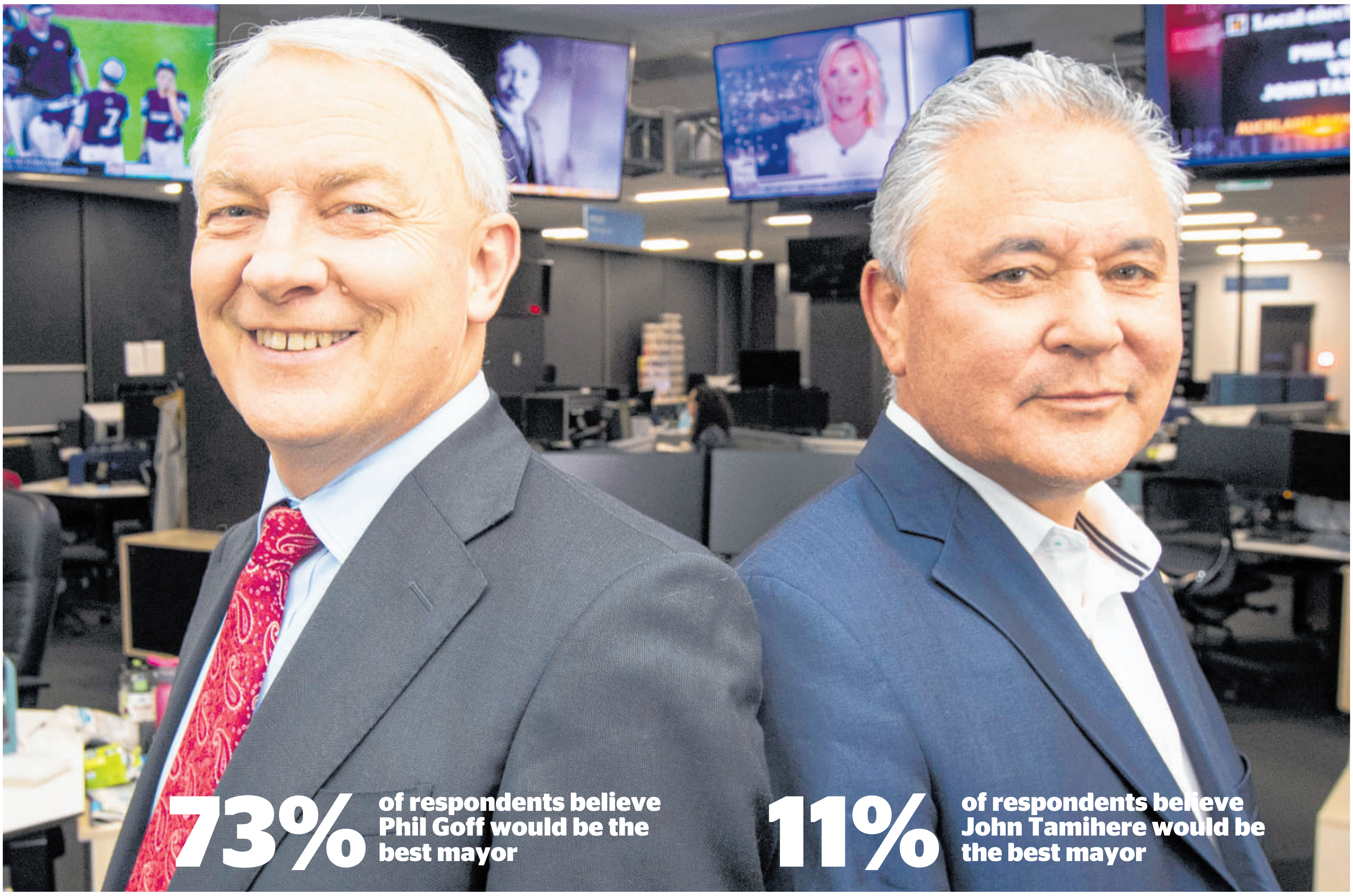
"A 'regulations bonfire' sounds good, but National's own record in this area over nine years was very poor," says a banker.

Michael Lorimer, Auckland managing director for Grant Samuel said: "This policy illustrates Bridges' naivety."

— *Tim McCready*

MOOD OF THE BOARDROOM

The Auckland mayoralty



The incumbent — Phil Goff

Incumbent Auckland mayor Phil Goff has failed to fire with New Zealand business leaders who want him to focus and step up the pace if he gets another term in next month's local government elections.

CEOs and directors responding to the Mood of the Boardroom survey were asked to rate incumbent Goff on a scale where 1 = not very well at all and 10 = exceptionally well. He received a fairly average grade of 4.88/10.

But despite this low score, when asked who has the best attributes to be Auckland's mayor between Goff and mayoral hopeful John Tamihere, 73 per cent picked Goff.

Throughout the campaign, Tamihere has made a name for himself — suggesting a two-level harbour bridge crossing, an 0800 JACINDA phone number to report homelessness, and selling off the council-owned Watercare in order to fund infrastructure projects.

Goff, meanwhile, has argued he is a steady pair of hands with the experience needed in order to bring better public transport and cleaner water to Auckland.

Survey respondents tend to agree with this, commenting that Goff is more "practical and experienced", and has the best knowledge of the issues that are important to Auckland.

Beca CEO Greg Lowe says Goff is more capable than John Tamihere, and understands the challenges of running Auckland better.

But he advises that: "Phil could be more aspirational though on where Auckland is heading, to develop a compelling vision we can all buy into."

Lowe says a vision would help clarify city priorities and provide a clearer platform for discussion with central government.

One of the country's leading bankers says: "Phil Goff may be a bit of a geek, but you know he'll be diligent and across the detail".

Barfoot & Thompson's chief executive Peter Thompson says though Goff has the best attributes for mayor, it's a close call.

"He knows the issues the city is facing and if elected he needs to act and fix," he says.

"We need to see where our petrol tax is going to and we need to see timelines for the infrastructure — not just saying these are issues and then form committees to look into."

A government relations boss reckons "Goff is dangerously autocratic, but he's bright — whereas JT is fun but mad".

But there were also a sizeable number who commented "neither" when asked to choose between the two leading mayoral candidates.

"Not sure I feel great about either — where is the focus on running a great city as a business and its effectiveness?", questioned Foodstuff's Chris Quin.

"Disappointed neither candidate is a woman," said an internet retail boss.

"The test is of commercial acumen and governance ability," said independent director Dame Alison Paterson.

Top priorities for the next mayor of Auckland

58% Improving public transport

55% Public-private partnerships and city bonds to fund large infrastructure projects

34% Bringing Auckland Council spending under control

31% Selling council assets to fund new infrastructure

24% Improving how council works alongside the Government

20% Shifting the port away from the city

19% Building more roads to reduce congestion

15% Implementation of the Unitary Plan

13% Homelessness

9% Reducing council staff numbers

5% Reducing rates

2% Planting trees to improve the environment

2% New double decker harbour bridge

The challenger — John Tamihere

Just 11 per cent of respondents chose former Labour Cabinet Minister John Tamihere as the mayoral candidate with the best attributes to become mayor of New Zealand's biggest city.

"It has come down for me to anyone but Goff," says one prominent chairperson who preferred the challenger over the incumbent.

But despite not necessarily choosing Tamihere as their preferred candidate, some CEOs say he is raising important issues and offering visionary thought.

A leading banker says he will vote Tamihere because he is "looking for a mayor who will shake the hell out of the huge bureaucracy which Auckland Council and its CCOs (council controlled organisations) have become".

Another respondent says Tamihere has made some "valuable contributions on CCO transparency, the port move, stopping light rail to the airport and utilising existing heavy rail connections".

Says Barfoot and Thompson's Peter Thompson: "If Tamihere gets the facts and shows strong reasoning, he will go close in the election. At least he is addressing the issues."

Mark Franklin, managing director of Stevenson Group says he likes some of the things Tamihere talks about, but "he loses me when he makes stuff up and makes promises that he can't afford". Franklin suggests though Tamihere is getting some cut-through, he would be more credible with costed policy.

"I think that JT thinks the Trumpian method might carry him through," he says.

Auckland Business Chamber's chief executive Michael Barnett says Tamihere began with a focus on the basics, but has since chosen to try to be a visionary. "The problems Auckland faces are here and now, and his change will cost him any chance of winning," he says.

This was the sentiment from many when asked whether Tamihere's campaign promises — such as a rates freeze and replacing the harbour bridge with a double decker megastructure — offer a credible alternative to Goff.

Only 9 per cent of respondents say they do, 77 per cent say no, and 14 per cent are unsure. Many worry that some of his ideas are "all talk, incompatible objectives" and lack the detail needed to be realistic.

"I don't think anyone anybody takes Tamihere's Auckland bridge proposal seriously," says one professional director.

A leader in NZ wine exports opines: "A rates freeze will mean Auckland will spend another decade not improving infrastructure. Choosing Christine Fletcher to 'shake things up' with him is a joke."

A professional director pleads to the electorate: "John Tamihere would be like voting for Donald Trump — please don't!"

Says another: It's dreamland and God help Auckland if he becomes mayor."

— Tim McCready

MOOD OF THE BOARDROOM

Support for Orr in banking battle

Mood of the Boardroom
Liam Dann

Reserve Bank Governor Adrian Orr seems to have solid support for his battle with the Aussie banks among business leaders.

The Mood of the Boardroom survey found more than 43 per cent of respondents saw the Reserve Bank's proposed capital ratio increase as a sound move to protect the New Zealand financial system.

More than half of respondents say the bank bosses have been scaremongering on the issue.

The Reserve Bank is proposing a lift in the amount of risk-weighted capital retail banks hold, from 8.5 per cent to 16 per cent.

The increase is designed to make banks safer and better designed to handle periods of financial stress by holding enough capital to reduce the probability of a financial crisis in New Zealand to a one in 200-year event.

But Australian bank bosses have pushed back, calling it overly conservative and warning that it could limit the availability of credit in some sectors of the economy and increase interest costs for borrowers.

Westpac, for example, has argued the proposals "go significantly further than is required" and go "well beyond international norms".

It has warned that the changes could add 1 per cent to mortgage rates.

Adrian Orr has also been outspoken in defence of the Reserve Bank's monetary policy moves.

Just 17 per cent of business leaders believe the increase will really be a major impost on bank shareholders with nearly 35 per cent saying they will be affordable give the level of banking profits.

ANZ group chief executive Shayne Elliott has threatened to review the "size, nature and operations" of the New Zealand business if the Reserve Bank implements its proposed changes to capital ratios, according to his submission released publicly yesterday.

The capital changes would see ANZ Group reduce investment and reallocate resources away from New Zealand to more profitable businesses, Elliott says in the ANZ's formal submission. "This may also lead the New Zealand business to reduce operational costs (including employee costs)."

But most local business leaders don't really believe him it seems.

Just 25 per cent per cent of respondents believe the increases will result in Australian banks reducing operations in New Zealand

And more than 55 per cent said they thought bank chief executive were scaremongering when they threatened to pull back on New Zealand operations.

However a larger percentage (58 per cent) accepted that the increased capital requirements could result in the banks reducing their exposure in certain sectors such as dairying and small business lending.

Orr has also been quite vocal in his defence of the moves making headlines in financial media across the across the Tasman when he suggested the big banks operate here as a matter of privilege rather than a matter of right.

He has pointed out that our banking sector is the most profitable in the world.

Where the previous Governor Graeme Wheeler was often criticised for a lack of communication, Orr's tendency to say exactly what he thinks seems to worry some commentators.

Orr has also been outspoken in defence of the Reserve Bank's monetary policy moves.

In the wake of a bold 50 basis point rate cut in August, he went on the offensive arguing that now was the time for businesses to invest more, consumers to spend more and that savers should look at alternatives to low-yielding bank deposits.

Unfortunately business leaders don't seem to have taken those words to heart.

Nearly 77 per cent said the OCR cuts had not increased their company's appetite to invest in new projects. Just 13 per cent said they would now be more likely to invest.

Orr has also warned that New Zealand interest rates could head into negative territory — following nations like Denmark and Switzerland — although that is not yet in the Reserve Bank's forecasts.

Orr has said he is "completely open" to the possibility of negative rates or unconventional tools like quantitative easing.

He says he sees no reason why monetary policy can't remain effective as it rates fall.

"Zero is no magic number," he told the *Herald* in August.

Technically that may be the case, but business leaders are considerably less relaxed about the prospects of negative interest rates or QE.

Nearly 75 per cent said the prospect of these things was a cause for concern.

Regardless of whether monetary policy can remain effective at these levels, business leaders are no doubt well aware that the business conditions required to get there would inevitably be very ugly.

Orr has also made the case for increased Government spending on infrastructure to assist in boosting economic growth.

That's not something we've heard from a New Zealand Reserve Bank Governor before — although Australia's Governor Philip Lowe has also made calls for more Federal spending.

A majority of business leaders were comfortable with Orr's call, perhaps reflecting broadly strong support from the business community for more government focus on infrastructure including, roads of national significance.

Nearly 54 per cent said they felt Orr had not overstepped the mark with his call, although nearly 30 per cent felt he had.

Orr is clearly the most outspoken and therefore the most controversial Reserve Bank Governor New Zealand has seen.

With monetary policy facing such unusual times and the Reserve Bank's regulatory role becoming increasingly central to our financial system, he looks set to go on dividing opinion for a while yet.

● *Liam Dann is the Herald's* Business editor at large

MOOD OF THE BOARDROOM

Scare tactics get short shrift

Banks' "shrill response" decried, writes Fran O'Sullivan

Just over half of CEO respondents to the Herald survey agree the "more vociferous" banking CEOs are scare-mongering when they say they will pull back operations in New Zealand if the Reserve Bank's new capital proposals are imposed.

Across the Tasman, Reserve Bank Governor Adrian Orr has been demonised as "Shock and Orr" over his proposal to hike bank capital in New Zealand.

This provoked a strong response from the leaders of some Australian-owned banks, particularly ANZ Group chief executive Shayne Elliott, who threatened to review the "size, nature and operations" of New Zealand if the rules are imposed.

But while 55 per cent of respondents to the *Herald* survey agree bank chiefs are indulging in scare-mongering, a further 31 per cent — which includes the chief executives of some major dairy companies — believe the banks will reduce capital to some particular sectors including their own if the central bank's proposals are fully implemented.

Central to the belief that some bank chiefs are over-egging their opposition is the fact that they are booking good returns on their NZ operations.

"The shrill response by CEOs of some of the Australian-owned banks is appalling," said Craig Stobo, chair of the NZ Local Government funding agency.

"Just look at the profit ratios as compared to Australia (eg profit to market size ratio) and you can see plenty of headroom to increase capital," said an energy sector boss.

> It is unfortunate that David Hisco made the discussion emotional because it has allowed the quality of the debate to become clouded. ANZ aside, all other banks have been doing their best to work constructively on this issue. The subject is complicated and few understand it well. The media could help by translating the complexity into ways that New Zealand mums and dads can understand.
>
> Director.

Adrian Orr has been demonised as "Shock and Orr" across the Tasman.

Other comments included: "they're full of it — NZ is their most profitable business" (funds boss), "banks still need to make a profit" (Chorus' Kate McKenzie) and "There will be impacts from these changes, but they are being overstated. There will be price adjustments, but less face it, interest rates are at lifetime lows so they are hardly likely to be earth-shattering," (a major funds boss).

Simplicity CEO Sam Stubbs said, "As an ex-banking senior executive, the banks have rolled out the standard playbook on scare-mongering. There are very few arguments they use involving verifiable numbers. The BIS assessments of NZ banks are very clear and completely verify the Reserve Bank approach."

"They probably believe this is one of the outcomes but, even though they have been important for our economy over the past few years, they are having quite a negative impact right now on the growth aspirations on NZ due to their risk framework and "fiduciary" responsibilities," said a construction boss.

The four major Australian banks dominate the New Zealand economy with total assets of $461.69 billion under management. ANZ is the largest bank with assets of $164.96b under management. BNZ is next with $105.31b; then ASB with $98.46b followed by Westpac with $92.92b. In contrast the most significant NZ bank — Kiwibank — has $22.73b assets under management.

Assets are the economic resources a bank controls. This includes tangible assets like cash and loans but can also

> I can't see any of the major banks withdrawing entirely from New Zealand. But there has to be a real risk that they will seek to grow their assets much more slowly (thus restricting the availability of credit to the economy), and/or sell down minority stakes.
>
> Don Brash ICBC NZ chairman and former Reserve Bank Governor.

include intangible assets like goodwill and trademarks. For most banks, loans to customers are the most common type of asset on their balance sheet.

A management consultant suggested there were some smart solutions available. "Sensible people should be put in a room to resolve this. However, banking CEOs need to realise that a managed oligopoly comes with social and strategic implications."

Other factors were also seen as clouding debate — particularly the forced departure of ANZ CEO David Hisco over an expenses wrangle.

Said a senior director: "It is unfortunate that David Hisco made the discussion emotional — because it has allowed the quality of the debate to be clouded. ANZ aside, all other banks have been doing their best to work constructively on this issue. The subject is complicated and few understand it well. The media could help by translating the complexity into ways that NZ mums and dads can understand".

A tech services head observed the

Reserve Bank

CEOs believe the Reserve Bank's proposals to require banks to increase capital will:

Result in banks reducing their exposures to SMEs and dairy	58%
Be a sound move to protect the NZ financial system, customers and society	43%
Should be adjusted to allow for more risk appetite within the NZ financial community	38%
Be affordable given level of banking profits in NZ	35%
Will result in Australian banks reducing operations in NZ	25%
Be a major impost on bank shareholders	17%

Are banking CEOs scare-mongering when they say they will pull operations back in NZ if the Reserve Bank's proposals are implemented?

Yes	No	Unsure
55%	31%	14%

Have Reserve Bank Governor Adrian Orr's banking capital policies:

Increased your confidence in the determination of the central bank to protect the system	60%
Undermined your confidence in the resilience of the NZ banking system	29%
Neither/No Comment	11%

Has the Reserve Bank's decision to drop the OCR to 1% increased your company's appetite to invest?

Yes	No	Unsure
13%	77%	10%

Has Governor Adrian Orr overstepped his mandate by calling on the Government to increase spending on infrastructure?

Yes	No	Unsure
29%	54%	17%

Does the prospect of negative interest rates and quantitative easing in NZ give cause for concern?

Yes	No	Unsure
75%	15%	10%

Source: NZ Herald 2019 Mood of the Boardroom CEOs Survey

> None of the banks are saying they'll pull operations back in New Zealand. What they are saying is if the proposals go through then they'll have to be careful about where they deploy their capital. That's because certain sectors off the economy — like farming and SMEs — are required by the Reserve Bank to hold more capital against lending there, say, than the home market.
>
> Leading banker

scare-mongering was unfortunate: "Especially when cast against the shadow of the corporate excesses witnessed this year in the ANZ CEO debacle. The bank should have had protocols in place to stop these fiscal abuses."

ANZ's most recent results show its share of New Zealand's $62.5b agricultural lending market stood at 28.5 per cent in February.

"If the banks pull back, it is largely because they already intend to reduce their exposure to a sector and /or the country eg ANZ bank position," said an agribusiness leader.

New regulations from the Australian Prudential Regulatory Authority (APRA) were also seen as an influence. "APRA regulations will cap the level of capital Australian banks can allocate to the NZ market," said a media boss.

The Reserve Bank's website contains a summary of the submissions it received for its April 2019 consultation paper.

Earlier this year, Orr swiped back at the banks which have been putting the boot into the central bank over its proposed changes to capital requirements.

Speaking to the Finance and Expenditure select committee, Orr accused banks of "scaring the public with their aggressive lobbying against the proposed rules".

He said banks have been "suitably aggressive" in the way they have been discussing any capital requirement changes, particularly around the agriculture sector.

Orr said he anticipated any hit to bank margins as a result of the proposed rules would be equivalent to 0.2 per cent of their total margins.

"One of our major banks has been the one that has been the most aggressive in lending, and the most undercapitalised in the agricultural sector."

Orr the evangelist has 'not yet converted the unwashed'

Chief executives are concerned that the policy battle between Reserve Bank Governor Adrian Orr and the banks is cultivating widespread uncertainty.

While 60 per cent say Orr's proposed bank capital increases have increased their confidence in the determination of the central bank to protect the system, a further 29 per cent say their own confidence in the resilience of our banking system has been undermined.

"This seems to have turned into a 'stare-down' scenario which is likely to negatively impact business in the near term," said a property chief.

Cooper and Company's Matthew Cockram said, "Orr seems to be a man on an evangelical mission — but has not yet persuaded the "unwashed" on the merits of what he proposes."

This sentiment percolates many of the comments in this year's Mood of the Boardroom CEOs survey. But there is also support for Orr. "Banks in NZ have had a very easy time of it for decades, and seem to have lobbied and scared their way into profits that are extremely high by international standards," says Simplicity's Sam Stubbs.

"In standing up to their lobbying the Reserve Bank is inspiring more confidence in the resilience of our banks. It is both necessary and refreshing."

Views among director respondents were mixed. "I believe capital should be increased, but the proposal is too much, too fast and without sufficient thought to extremely serious NZ Inc consequences. We are a little country," says one. "There needs to be a balance to what Adrian proposes and what the banks are saying. It's become too personal. Grant Robertson needs to show leadership on this topic," says another.

Dame Alison Paterson, a former Reserve Bank director, noted, "there has been significant negative comment on the proposition but no commentary at all on how the banks will deploy the additional capital and how that circulates around the financial system".

While 43 per cent believe the Reserve Bank's proposal to materially increase bank capital is a sound move to protect the financial system, some 58 per cent also say it will result in banks reducing their exposures to certain sectors like dairy and SMEs.

"Adrian Orr's objective is a good one," said a leading banker. "A strong, stable banking system is critical to the functioning of the economy. We just

> The concept is sound but it has significant risk that in building in that level of protection it actually drives the downturn that stresses the system.
>
> Property chief

disagree with the extent of his proposal and the cost of that to the economy."

"The concept is sound but it has significant risk that in building in that level of protection it actually drives the downturn that stresses the system," said a property chief. "I have a lot of respect for Adrian Orr but this worries me. Proceed with caution."

Said a senior executive of a leading dairy company: "Its impact on lending in areas such as agriculture would be significant and coincide with a period of required spend to meet growing regulatory and environmental compliance requirements."

A similar concern was reflected by a transport chief: "At a time when significant investment is required in civic and national assets and we need capital to flow to growing a more productive economy we are going to drive up the cost of capital and reduce banks' risk appetite."

Executives and directors from banking and funds sectors are to the point.

● "The major Australian banks have capital allocation decisions they are required to make and they will deploy capital to the best returning areas. If NZ makes us a less profitable place for the banks to invest then they will reduce their investment here. That means that banks will restrict lending to the economy and focus that on lower return areas. There won't be anyone able to provide the additional funding at the scale required and so there will be a credit crunch which will restrict the NZ economy." — Bank director

● "It is a poorly designed proposal without a credible cost benefit analysis. It will impose a significant cost on the economy ($700m per year, forever), without a clearly articulated benefit based on a proper risk assessment. To be beneficial, It would likely to have to avoid a huge recession that impacts a substantial part of the economy, which was caused by a financial market failure. As such, it is a cost the economy cannot bear. If a case can be made to strengthen banking capital requirements, there are superior ways to do it without severely damaging not only the large Australian banks but also the New Zealand banks, not to mention their customers." — Funds chair

● "This is well outside international norms and way above the Basel capital capital ratios agreed by the Bank of International Settlements post the GFC. On top of this is the decision to introduce a deposit insurance scheme. All of this comes at a cost which in the end will be sheeted home to bank customers." — Former banker.

But a broker said the reforms were justifiable when you consider the consequences for NZ depositors of ranking behind Australian depositors in the even of major bank failure, as prescribed by Australian legislation.

"The big issue is who wears the cost," said Cameron Bagrie, former bank economist, now chief executive of his own firm. "Banks are saying 100 per cent falls on customers. Looking at bank ROE's I'd say there is scope for shareholders to wear some of it and still leave the ROE in the sector pretty healthy."

MOOD OF THE BOARDROOM

Some call for Hisco inquiry

An independent inquiry is justified to address the culture and conduct issues exposed by the Hisco affair say one-third of respondents to the *Herald*'s 2019 CEOs survey.

The "Hisco affair" rocked the market when ANZ NZ chair Sir John Key announced the chief executive of New Zealand's largest, most profitable bank had departed after a probe found he had charged the personal use of "chauffeured cars" to the bank.

The bank had earlier been censured for incorrectly attesting to risk compliance over five years.

The Reserve Bank requires banks to maintain a minimum amount of operational risk capital relative to the risk of each bank's business. ANZ's right to use its own risk model was removed.

The upshot was severe embarrassment for Key and other directors who had attested the bank had complied with regulations. Key later admitted to the *Herald* that the board had failed in its due diligence obligations to the Reserve Bank.

A major funds chief said it has probably reached the stage where some kind of inquiry may be required just to restore confidence back in the system. "We need a healthy system. It is though very unlikely that significant systemic issues will be uncovered."

"We have to know that New Zealanders are getting the full benefit of a competitive banking market and that the profits extracted are fair and appropriate to the risk," said Foodstuffs' Chris Quin.

"I suspect the CEO was an extreme example," said an agribusiness boss. "However the Australian banking sector review highlighted systemic issues that are probably also present in New Zealand."

A subsequent leak threw more shade on Hisco's reputation when it was revealed ANZ had failed to disclose that Hisco's wife had bought a plush St Heliers house for less than the bank paid for it.

David Hisco departed ANZ after a probe.

The actions of the CEO and subsequent silence and obfuscation by the board are extremely disconcerting says Simplicity's Sam Stubbs

But it also resulted in a Financial Markets Authority inquiry which said the sale should have been disclosed as a related party transaction in its 2017 financial statements — a view the bank's board contested, saying the sum involved was not material.

"ANZ is still defending an untenable position with respect to no disclosing the related party transaction," said an energy sector boss.

"The actions of the CEO and subsequent silence and obfuscation by the board of our biggest bank and most profitable company are extremely disconcerting," claimed Simplicity CEO Sam Stubbs, who has been outspoken over the need for an inquiry. "It sets a very poor precedent for corporate governance in New Zealand. If KiwiSavers are going to be happy investing around another $75b in New Zealand capital markets over the next 10 years, they must know that recent bank actions will be dealt with effectively by regulators and politicians."

A tech services head wanted the CEO further held to account, the wife's house sold and any gain on monies paid back. "This was an unforgivable misuse of funds and leaders of NZ companies should be demonstrating the highest levels of personal and public integrity."

But most respondents — 55 per cent — do not support an inquiry.

"We don't need a multimillion-dollar inquiry to confirm what we already know — a high-profile CEO, poorly motivated, has been found out taking advantage of weak governance processes resulting in him losing his job and damaging the reputation of his employer," said a media boss.

"We don't need another inquiry," said independent director Cathy Quinn. "I believe all businesses have sought to learn from the Australian Royal Commission Inquiry, the APRA Report and other issues. It would be great for the professional service firms but no one else. All boards are very focused on culture and conduct in light of this report. An inquiry will take a backward view when organisations are already looking forward and proactively looking to make appropriate changes where necessary."

An insurer agreed, saying allow the Royal Commission insights and actions from Australia to be reviewed and applied in New Zealand. "This is a sound and reasonable approach the Reserve Bank and FMA are undertaking." A leading banker pointed out the earlier Reserve Bank and FMA review of culture and conduct showed no systemic conduct issues in the banking and life insurance sectors.

Said Dame Alison Paterson. "The FMA is already very focused on conduct and culture and enhanced 'whistle-blowing' processes should flush out anything untoward. There should be care to emphasise the materiality definition."

Other had a more pungent view. "David Hisco's behaviour was appalling. But there are already FMA, RBNZ and APRA reviews under way. What benefit would a fourth review bring?," questioned a director.

ICBC NZ chair and former Reserve Bank Governor Don Brash underlined that nothing the ANZ Bank did had the "slightest impact on the financial soundness of the bank, let alone the soundness of the banking system. Nor did it have any impact on ANZ Bank customers."

Mainfreight's Don Brash said leave the banks to sort their integrity out "with customers deciding if they have or not".

But, cautions the LGFA's Craig Stobo, the NZ banking sector is "one more misdemeanour away from a Royal Commission of Inquiry".

We have to know New Zealanders are getting the full benefit of a competitive banking market and the profits extracted are fair and appropriate to the risk says Foodstuffs' Chris Quin

Bank inquiry

Is an independent inquiry justified to address the culture and conduct issues that have been exposed by the 'Hisco affair'?

Yes	No	Unsure
33%	55%	12%

Source: NZ Herald 2019 Mood of the Boardroom CEOs Survey

Dame Alison Paterson says the FMA is already very focused on conduct and culture and enhanced 'whistle-blowing' processes should flush out anything untoward

New requirements 'could do harm'

Westpac CEO David McLean warned that the Reserve Bank's increased capital requirements for the big banks were in danger of harming the New Zealand economy, in an interview for the 2019 Mood of the Boardroom survey.

He has expressed extreme concern about changed Reserve Bank policies and strong concern about access to capital for the general business community. In the long run, the Australian banks would emerge relatively unscathed from the new capital requirements, he said.

They will survive, says McLean. "They'll either give NZ the capital because we can get a return or they won't. But, guess what, we're about 10 per cent of the Australian banks. If they don't invest here, they'll invest somewhere else, Australia or wherever."

Meanwhile, what happens to the New Zealand economy? he asks.

McLean says regulations like capital requirements should be decided by a separate banking regulator rather than the Reserve Bank, a body like APRA (Australian Prudential Regulation Authority) in Australia, for instance, which works like the FMA (Financial Markets Authority).

The Reserve Bank's moves on bank capital requirements had been "suboptimal policy making", he says. "They should have done a cost-benefit analysis up front, they should have flagged some of these issues for debate like the 100 or 200 years risk factors before coming out with a draft policy."

It would have been very interesting to see why New Zealand's risk appetite was seen as so low that it requires the extraordinary level of protection of these capital requirements, he says.

> Some people I talk to are spooked more. People have said to me: "What do they know that I don't?
>
> David McLean

The bank chief says interest rate cutting by the Reserve Bank is potentially counterproductive as it is having an unnerving effect on New Zealand confidence, rather than the bold, proactive stance they were perhaps aiming for. "Some people I talk to are spooked more. People have said to me: 'What do they know that I don't?'"

Businesses were telling him, they were not investing at these rates though they were at all-time lows.

They were saying: "Lower rates are not going to make much difference because the thing holding me back is worry and uncertainty."

The Westpac CEO argues Government fiscal policy should perhaps be doing more of the work the Reserve Bank is trying to achieve with cutting interest rates. The Government should spend more but it is important it holds "to some fiscal discipline" to the opposition's chagrin — a strange role-reversal.

"The Government does need to keep its powder dry in case something really goes wrong, which is admirable," he acknowledges.

McLean says he was not suggesting "sugar rush" type handouts, but rather getting things done in infrastructure, education, health and housing. That would have a real sustainable, long-term impact for the country. "Building more sustainable things with their investment is a much better way to do it but that takes longer to get going and they've just taken far too long to get going."

For now, the economy's fundamentals are still there for doing good business, McLean says. He believes it is the intangible things that are causing the slowing economy — things like confidence. "Confidence took a shock with the election and then a couple of government actions early on, but most Government policy hasn't been anti-business" he says.

He thinks domestic concerns have been overtaken by the global worries. And the global situation is quite alarming, although the hope was the big players would find some middle ground. Scenarios that could play out between China and the US could be "quite scary" McLean says. He believes a concern is that NZ could become caught between two powers and have to make difficult choices.

The 1 per cent conundrum

Businesses say it will take more than a drop in the OCR to 1 per cent to increase their companies' appetite to invest in a lower interest rate environment.

Reserve Bank Governor Adrian Orr has urged Government and business to reassess their hurdle rates on investment projects since the bank reduced the OCR to 1 per cent. But 77 per cent say it will not be the spur for increased investment.

"Fifty basis points is irrelevant to the decision-making," said an energy sector chief.

"What is relevant is the confidence in policies and regulatory settings. And that isn't solid."

"Bank margins have gradually been increasing and the prospect of increased bank capital provisioning means further margin hikes are likely," said a property boss.

"Whilst the lower risk free rate means a reduced weighted average cost of capital, corporates investing in long-dated assets will still need to have a view on the risk free rate through the lifespan of that asset," said a leading chair.

A number of CEOs said they had already made significant investment decisions.

And there was a hint Orr's move had spooked some.

"If anything, by dropping the OCR by more than the market was expecting, despite unemployment reaching its lowest level in years, the Governor undermined business confidence and raised the suspicion he was working to enhance the Government's chance of being re-elected in 2020," said a banker.

Minter Ellison's Lloyd Kavanagh said it suggested the Reserve Bank's concerns about the economy were greater than they have said, a view supported by several funds chiefs.

But others like Stevenson group's Mark Franklin applauded the positive decision, saying it gives the market some steer.

Barfoot & Thompson's Peter Thompson said it should provide a springboard to get on and build infrastructure — like a second harbour bridge.

A leading policy advocate said Orr was the governor of the RBNZ, not Minister of Finance. "If he wants to run fiscal policy, he should run for Parliament." But Simplicity's Sam Stubbs felt as an ex-commercial banker and fund manager, Orr was extremely well-placed to make these comments.

"Rarely in NZ's history have the requirement to invest, and the ability to fund the investment via debt and local savings (KiwiSaver, IWI, NZ Super, et al), been there at the same time. We must seize this opportunity."

Asked if Orr was overstepping his mandate by calling on the Government to increase spending on infrastructure, 54 per cent said no.

MOOD OF THE BOARDROOM

Winston Peters: 'the voice of reason'

Business chiefs say Peters and his party have had a moderating effect on Labour, writes **Tim McCready**

Business leaders say Winston is in tune with the view of a wide cross section of New Zealand and understands what the electorate can accept and what it will not.

When business leaders were asked to rate Winston Peters on his ability to influence the major coalition partner (Labour) in government to achieve policy outcomes on a scale where 1 = not impressive and 5 = very impressive, they gave him an impressive score of 3.59/5.

A major wine exporter jokes that "in reality, Winston runs the country!"

Furthermore, most respondents — some 64 per cent — say that Winston Peters and his party have had a moderating effect on Labour within the Coalition that is producing better outcomes for business and farming communities. Only 13 per cent say he hasn't, and 22 per cent are unsure.

"It seems that sometimes Winston is the voice of reason and experience at the Cabinet table," says one chairperson.

> NZ First are engaged, seem to be pragmatic and focused on producing better outcomes.
>
> Chris Quin, Foodstuffs

Foodstuffs North Island's Chris Quin adds: "NZ First are engaged, seem to be pragmatic and focused on producing better outcomes."

In some ways this is now seen as a strength. At the Red Meat Sector Conference this year, one speaker urged attendees to vote for NZ First for the moderating effect the party brings — joking that we have moved from first-past-the-post to a third-past-the-post electoral system.

When Prime Minister Jacinda Ardern was unable to get the support of NZ First and was forced to reject the Tax Working Group's recommendation to adopt a capital gains tax (CGT), Peters brushed off questions about whether NZ First held too much power:

"Politics and coalitions are difficult to operate. This has been a most successful coalition in an unexpected way.

"It's not a matter of being happy or who won or who lost. What really matters is: have we got the right policy — all of us — that has the support of what I believe is the mass majority of New Zealanders?"

A lobbyist agrees, saying Peters' cunning and ability to understand negotiating gives him a huge advantage — "he also understands middle NZ better than the Greens or Labour".

Peters also has a big role to play as our foremost diplomat and has driven a punishing schedule in recent month with visits to Washington DC to meet Vice-President Mike Pence, to Turkey to meet President Recep Tayyip Erdoğan in the wake of the Christchurch massacre, and on multiple trips to the Pacific.

But it is in the domestic arena where CEOs have chipped in.

Respondents also noted the labour law changes and climate change as areas where NZ First is having a notable influence.

Banker Don Brash says the business community owes the partial retention of the 90-day trial period for smaller businesses to NZ First, "and the farming community may well owe NZ First for moderation in the Zero Carbon Bill".

> I scored Winston as being impressive in his ability to influence because he exercises a veto right over a lot of strategy — however I am not saying that is good.
>
> Public sector boss

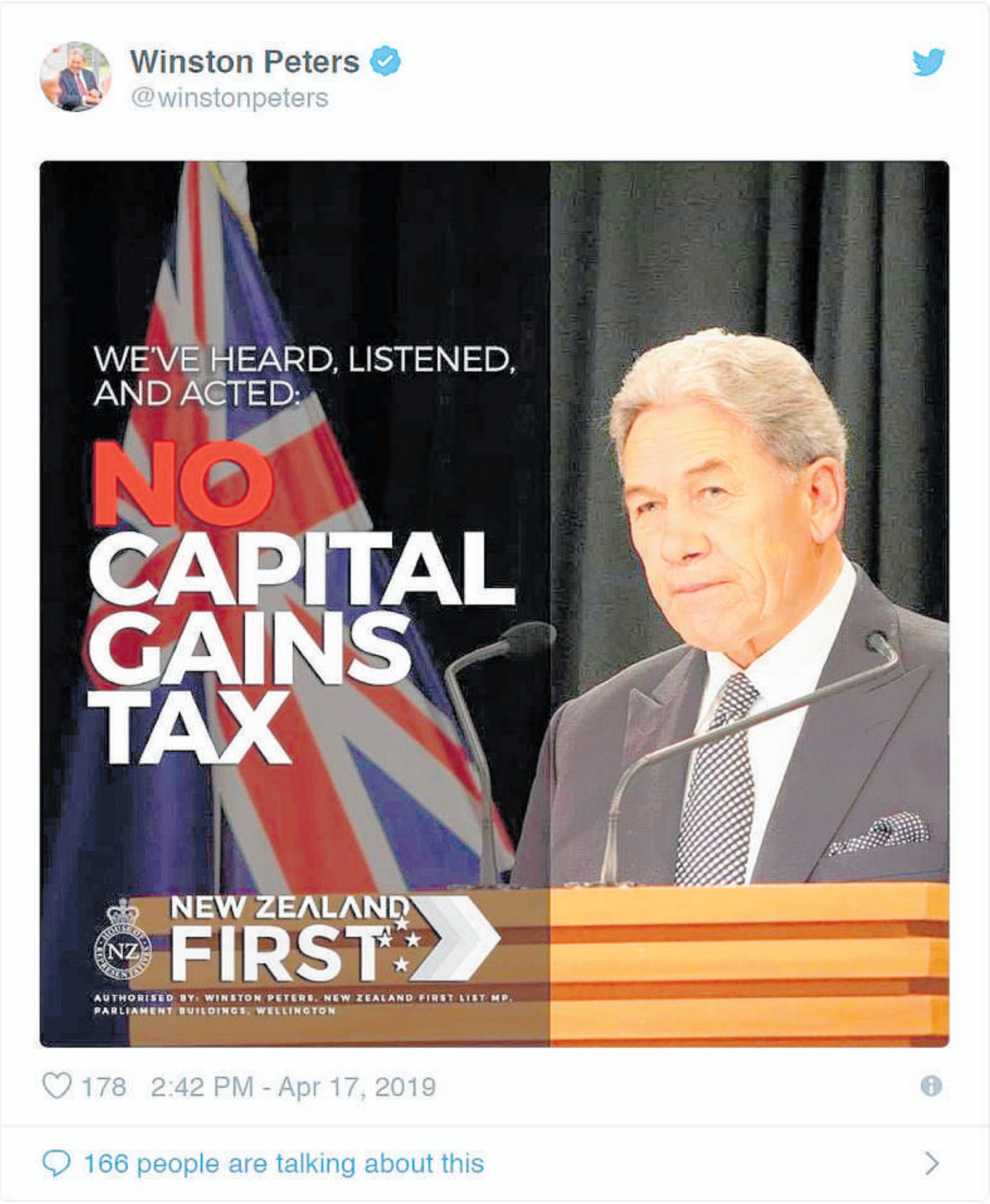
"Yes — and keep it up Winston," says independent director Cathy Quinn. "We do need to see that the climate change legislation allows business and farming to adapt in a sensible time frame.

"I'm not saying we shouldn't reduce emissions in NZ or play our part — I very much believe we should. But we shouldn't expect business (including farming) to reduce emissions before there are variable pathways to do so. That is unreasonable, unfair and bad for our economy. For example, if we want farmers to cut emissions, we need to look at allowing the use of genetically modified grasses and the like which would facilitate this."

Quips another respondent: "It is a bit of a worry when we all say: thank God for Winston!"

But not everyone was a fan of NZ First moderation. Fulton Hogan managing director Cos Bruyn agrees with the moderating effect, but is "unsure if it is producing better outcomes".

Explains a public sector boss: "I scored Winston as being impressive in his ability to influence because he exercises a veto right over a lot of strategy — however I am not saying that is good."



Seymour needs to sharpen up his Act

Act Leader David Seymour's infamous appearance on reality television show *Dancing with the Stars* has continued to dog him: "Less dance twerking more policy tweaking please," says Craig Stobo, LGFA chair.

Adds an investment chief: "Hopeless. He should return to *Dancing with the Stars*."

When survey respondents were asked to rate Seymour's performance in holding the Coalition Government to account on a scale from 1 = not impressive to 5 = very impressive, he received a score of 2.31/5.

The Act party relaunched earlier this year, unveiling a new logo and a focus on freedom.

It announced a freedom to earn, and a freedom of education policy to go alongside its freedom of speech pledge.

Seymour is hoping to boost Act back into the 6 to 8 per cent territory it occupied between 1996 (6.1 per cent) and 2002 (7.1 per cent).

"Seymour is a lone voice and the media representation of him is as a shrill," says Cooper and Company's chief Matthew Cockram. "It is a shame really, as he is smart and articulate with good instincts and a heart that wants the best for New Zealand."

Independent director Cathy Quinn says Seymour is impressive but needs more MPs to be able to achieve more. "I admire his positivity nonetheless," she says.

A transport chief suggested: "he's actually better than I expected for a one-man band."

"By all accounts a nice guy albeit somewhat quirky — while stiff on the dancefloor — largely invisible in this term," says Deloitte's Thomas Pippos.

One of Seymour's most public achievements this year has been the progress made on his voluntary euthanasia private members bill, which would allow terminally ill adults to request assisted dying. The End of Life Choice Bill is due to return to the House tomorrow for a fourth debate.

Following the mosque attacks, he labelled the gun buyback scheme a waste of time, noting that the "people who are prepared to line up in the full public glare and hand in their firearms at below-market rates are not the people we should be worried about".

A banker commended his passion, noting that at times he seems to be the only voice of reason within Parliament: "He was able to shame the Government into retaining the essential features of charter schools and has embarrassed it on its largely ineffectual gun buy-back programme."

— Tim McCready

David Seymour gets his twerk on in *Dancing with the Stars*.

MOOD OF THE BOARDROOM

‘Solution in search of a problem’

Tim McCready

Business leaders and controversial Cabinet Minister Shane Jones haven’t gone so far as to smoke a peace pipe.

But this year’s *Herald* CEOs survey shows the sting has gone out of business criticism with just a few personally derogative comments on Jones compared to 2018 when he was slagged off for “pathetic populist posturing” and “short-sighted political point scoring” after the string of personal attacks he mounted against leading business people.

Respondents were asked to rate Jones on his performance as Regional Economic Development and Infrastructure Minister over the past year.

On a scale where 1 = not impressive and 5 = very impressive he received a score of 2.43/5.

Jones has toned down the bombast so his personality does not eclipse his policies.

This came after a word from Prime Minister Jacinda Arden, who Jones told the *Herald* had said to him “no news is good news”.

His championing of the new Infrastructure Commission has raised his reputation with that sector.

But his jawboning has also got results. Air New Zealand, where he called for top brass to go after the airline axed some provincial routes, this year hosted Jones on an inaugural direct flight from Auckland to Invercargill.

Jones, who refers to himself as the “provincial champion”, has attracted criticism over the Provincial Growth fund which sits within his portfolio responsibilities.

“It has delivered for Mr Jones and NZ First,” suggests independent director Craig Stobo. A professional director suggests it is a “NZ First get re-elected fund”.

Shane Jones and Christopher Luxon buddy up — a year ago Jones was calling for heads to roll at Air NZ.

The Provincial Growth Fund has been allocated three billion dollars over three years to invest in regional economic development.

Investments include upgrades to infrastructure, such as the announcement earlier this month that the Auckland to Whangārei rail line will be upgraded to the tune of $94.8 million, getting freight trains back up and running by next September.

Some say it has already delivered on what it set out to do.

“In some aspects it has, particularly in attracting investment into the smaller regions,” says a professional services chief.

“Solely based on the recent allocation to rail infrastructure improvement between the North and Auckland,” adds a top exporter.”

Business leaders were asked to choose as many of the following that apply in terms of the Provincial Growth Fund (PGF). They say the fund is:

- In need of financial monitoring to ensure appropriate investments (61 per cent)
- A political slush fund (60 per cent)
- Getting much needed economic focus on regional New Zealand (24 per cent)
- Delivering infrastructure investment that will boost regional links and infrastructure (11 per cent)

When asked how confident they were that the fund would help to address New Zealand’s infrastructure challenges, 2 per cent are very confident and 22 per cent are quite confident. The overwhelming majority — 76 per cent — say they are not confident it will help.

Will the Provinvial Growth Fund help to address New Zealand’s infrastructure challenges?

2% are very confident it will

22% are quite confident

76% are not confident it will help.

“It’s a solution in search of a problem which, when it finds a problem that does need solving, discovers it’s not the right solution,” says a real estate chief executive. “It’s also — let’s be fair — not the Government’s PGF, but NZ First’s, and it would exist whoever Winston Peters had chosen as his coalition partner.”

“The idea is a good one but these things take a while to feed through, so we’ll only be able to judge its success in a few more years,” suggests a top banking boss.

Beca’s chief Greg Lowe suggests the existence of the PGF is encouraging a significant increase in ideas to improve regional growth. But he says “a more integrated regional plan, bringing a collection of initiatives together within a region that can support each other, might give more effective outcomes”.

Questions about the way in which the PGF operates were frequently raised by respondents. “Investing in the provinces is a great idea — this model for doing so is a joke . . . ,” says one investment boss. “It has potential in places, but is also open to be used to finance projects that never stacked up in the past,” says another.

MOOD OF THE BOARDROOM

A radical community initiative

Tim McCready

The New Zealand Initiative's recently released report — *#localismNZ, Bringing power to the people* — argues the case for localism in New Zealand. It calls for a radical shift of political and fiscal power from central government to communities.

The Mood of the Boardroom asked New Zealand's leading CEOs and directors whether central government should give more decision-making responsibility to city and district councils; 67 per cent of respondents agree, 20 per cent disagree, and 13 per cent are unsure.

Beca's CEO Greg Lowe says that local authorities are facing increasing infrastructure challenges but in many cases they do not have the funding mechanisms to pay for all the improvements needed.

"Better regional investment plans would help the conversation between central and local government about how these needs can be funded and implemented," he says.

Port of Tauranga chief Mark Cairns agrees with the suggestion, assuming that "taxes or rates raised in a region are hypothecated to that region".

Says an energy boss: "decentralisation isn't about existing councils having more power, it is about distributing that power on relevant topics to even smaller democratic units."

A software boss agrees, suggesting that "decisions are always better made when the decision maker is closer to the community".

Simon Ellis, managing director at Ovato NZ, is unsure, and says it depends in what areas the decision-making is in. "In most instances in New Zealand we should have the same rules across the country — central government cannot absolve its responsibilities to NZ Inc," he says, giving water quality, water safety and fluoridation as examples.

Oliver Hartwich

In New Zealand, council revenue is largely separated from economic performance.

Local government is the core funder of transport and water services for new development, yet its revenue is derived from property rates — which are a cost allocation method linked to council costs, and not to the success of the economy or land prices.

Conversely, central government is the direct benefactor of growth: receiving increased GST, income tax and corporate tax when the economy grows.

New Zealand is unusual in that it is among the most centralised countries in the world. Local government is responsible for almost half (46 per cent) of public spending in OECD countries on average, whereas in New Zealand, central government controls 88 per cent of public expenditure. Business interest in localism was fired up when NZ Initiative executive director Oliver Hartwich organised a group of his think tank members to go to Switzerland — which is the poster-child for localism — on a study mission in 2017.

Vector chair Dame Alison Paterson disagrees in the idea for New Zealand — at least "until there has been an assessment of the capability of local body politicians to assume this responsibility".

This lack of confidence that local government in New Zealand has the capability and capacity for localism to work here was frequently raised by respondents.

A prominent chairperson suggests localism in New Zealand could work "only if they are capable of carrying out the additional responsibilities", but says he has seen nothing that gives him the confidence that they can.

The CEO of a large retail chain takes a similar stance, suggesting "councils across New Zealand are exceptionally good at incompetence — I am not in favour of increasing any of their responsibilities".

A lobbyist head offers a more candid take: "Hell no. They are often completely loony and I wouldn't trust most of them to run a pub raffle."

The NZ Initiative has published a string of reports on localism, including examining the myths, facts and challenges about local government; advocating for a Local Manifesto to restore local government accountability and giving a global perspective on localism.

Respondents were asked to indicate their level of support for each of the following local government funding options

Additional business and personal income taxes dedicated to local government
Support: 8%
Oppose: 92%

A new local government GST, say an additional 2 per cent
Support 21%
Oppose: 79%

Local government should make better use of their current funding tools
Support: 94%
Oppose: 6%

MOOD OF THE BOARDROOM

The road to improvement

Majorityof leaders have given a vote of confidence to new Infrastructure Commission writes **Tim McCready**

The Prime Minister's Business Advisory Council was on the money when it warned Prime Minister Jacinda Ardern New Zealand is at an "infrastructure crisis point".

Some 86 per cent of CEOs and directors responding to this year's Mood of the Boardroom survey agree: Just 7 per cent disagree, 7 per cent are unsure.

Roads, ports, hospitals and mass transport systems frequently appeared among comments from respondents as areas that need urgent attention.

Beca chief executive Greg Lowe says New Zealand's current infrastructure – on many fronts – is struggling to meet current demand and is falling further behind in regions that are growing. "We need to be catching up on the infrastructure backlog, not letting it get bigger," he says.

A dairy industry chief executive makes the case that infrastructure is an enabler for a thriving and productive economy that impacts on everything – from people's mindsets, productivity and life balance, through to the flow of goods and services. "Make it easy to be productive and get things done."

Waste Management's managing director Tom Nickels suggests "if we do not address our inadequate infrastructure, we risk becoming a nice place to visit providing you don't mind second rate amenities."

A transport chief executive says the infrastructure challenges are more acute in some regions over others, "however the country is years behind and must not only catch up – but get in front of the curve".

The significance of infrastructure as a concern to our top business leaders can be demonstrated from a question respondents were asked about business confidence.

Asked how concerned they are about the impact of infrastructure constraints on business confidence (on a scale of 1 to 10 where 1 = no concern and 10 = extremely concerned), they scored it 7.39/10. This was the second highest constraint among those polled, the constraint of highest concern was congestion in Auckland – also linked to infrastructure – which scored 7.60/10.

The head of a major education institution reckons "crisis" is the new buzz word. "A bit overdone in places," he says. "Not sure it is a crisis – but it is certainly challenged," says an energy boss. Local Government Funding Agency chair Craig Stobo suggests "New Zealand's infrastructure is a big bucket... I'm not sure that all of it is in crisis."

The Government recently appointed Alan Bollard to chair a newly launched Infrastructure Commission.

The Independent Commission will have two broad functions – strategy and planning, and procurement and delivery support:

- It will provide expert advice, planning and strategy, and support the delivery of major infrastructure projects.
- It will also be a one-stop shop for investors, including publishing a pipeline of infrastructure projects.
- As an autonomous Crown Entity with an independent board, the commission will have the credibility and influence required to effect real change. Ministers will retain final decision making rights, as is appropriate.

Some 7 per cent of respondents were very confident that the Bollard-led commission would help address New Zealand's infrastructure challenges.

Some 58 per cent were quite confident. But 35 per cent had no confidence the commission would make an impact.

Bollard is a former Governor of the Reserve Bank and Secretary of Treasury. The five other members of the board are: Infrastructure New Zealand's former chief executive Stephen Selwood, MinterEllisonRuddWatts chairwoman Sarah Sinclair, Watercare Services chief executive Raveen Jaduram, former banker and independent director Sue Tindal and Simpson Grierson special counsel David Cochrane.

The Government has shifted transport infrastructure focus from roading to public transport and rail, including the recent announcement of funding for the construction of a Hamilton-to-Auckland passenger rail service. Though when asked to rate the coalition government on its performance in addressing transport constraints on a scale where 1 = not impressive and 5 = very impressive, respondents gave a grade of just 1.57/5.

Many of those responding to the survey specifically mentioned roading improvements as essential to the country. A quarter of those surveyed that suggested building more roads to reduce congestion should be a "top three" priority for the Auckland mayoralty.

Waste Management's Nickels says congestion in Auckland remains a major constraint on productivity and quality of life in general.

"The movement of goods and services have become extremely challenging. Our drivers' unproductive time is increasing and it is becoming more difficult to meet customers' needs in a timely way," he says.

"We must invest in roading infrastructure to free up traffic over the next decade or two in support of the forecast growth of greater Auckland. For the longer term we also need to invest in our rail system."

On rail, an agribusiness boss disagrees: "Where railway works best is between large population centres, over huge distances with straight lines and limited hills to climb, carrying consistent cargo on a large gauge and with a modern rolling stock – New Zealand has none of these."

He suggests the answer has to be getting the roads right: "Imagine the benefit of a two-lane highway from one end of the country to the other. The new two lanes could be built where the railway lines currently are. We need to stop half-doing both."

The boss of a lobbying firm says that "with Twyford in charge and no money spent on roads anymore, no one is surprised that we're at a crisis point".

The Business Advisory Council's damning indictment of New Zealand's infrastructure regime says there is "no overarching vision or leadership in New Zealand for infrastructure development".

"This means there is no nation-building narrative upon which to build a strategic direction," it says – although it acknowledges the problem at hand was not created by the current government but is instead intergenerational.

Barfoot & Thompson's Peter Thompson agrees, adding that many of the existing issues have been around under prior governments before. "It is a matter establishing what are the essential ones and to actually get on and rectify such," he says. "Costs of fixing won't come down, so the longer they are put off the more the costs will go up".

Says the managing director of a large investment firm: "It was at a crisis a decade ago and National did bugger all".

Funding rail

Some 55 per cent of CEOs felt rail investment in NZ could be bolstered through an in increased share of the National Land Transport Fund (petrol excise tax and road user charges). But 30 per cent felt this mechanism had no role to play in rail investment.

A similar number (55 per cent) felt rail investment could be stepped up through the public purse: an increased share of funding from general taxes to fund health and environmental benefits of rail; 35 per cent were opposed.

There was two-thirds support however for bolstering investment through commercial, industrial and residential land development adjacent to rail.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Business

CHOKE POINT

Advisory council's message to PM: Get roads back on track

Fran O'Sullivan

We believe the infrastructure deficit ... needs urgent attention.
Business Advisory Council

See also
Top 10 infrastructure priorities
Fran O'Sullivan B2

Premium

If we do not address our inadequate infrastructure, we risk becoming a nice place to visit providing you don't mind second rate amenities says Waste Management's managing director Tom Nickel

We need to be catching up on the infrastructure backlog, not letting it get bigger says Beca chief executive Greg Lowe

TOP TEN

CEOs rate Infrastructure NZ's top 10 priorities.

- Deliver national long-term investment pipeline – 4.31
- Reform NZ's antiquated planning laws, local government structures and funding – 4.21
- Private investment in infrastructure/release capital through asset recycling – 4.13
- Develop aligned national planning and development framework – 4.12
- Scale development of housing and infrastructure to meet growth – 3.96
- National review of resilience of NZ's strategic networks – 3.96
- Road pricing to optimise traffic flow and raise revenue – 3.79
- Independent NZ Infrastructure Commission (underway) – 3.75
- Accelerate Housing and Urban Development Authority – 3.61
- Price water service delivery – 3.51

Scale 1-5 where 1 = unimportant and 5 = extremely important

It was at a crisis a decade ago and National did bugger all.
Investment firm boss

Improving the shape of water services

When asked which of the following options would be the most effective pathway to improving water service outcomes across New Zealand, respondents said:

- Establishing a nationally regulated model across asset owners that are not local authorities (similar to Watercare) **46%**
- Establishing national regulation across a shared services model with water assets still owned by local authorities (similar to Wellington Water) **29%**
- Establishing national regulation across the current local authority ownership model **14%**
- Leaving water services provision as it is under local council control **8%**

Independent director Dame Alison Paterson says we are infants when compared with the Netherlands' management of water, and "there is a need for careful consideration of how we manage our water resource, followed by a strategy to best manage, monitor and fund implementation."

Beca's Greg Lowe says: "Expertise and capacity in the water sector is thinly spread across a large number of local authority asset owners, who cannot adequately fund future infrastructure needs. Asset consolidation into sensible groups would allow prioritisation of infrastructure investment year-on-year to address community demands. This needs to come with a simpler and more effective funding model – the obvious choice being paying for water and waste services directly rather than through a regional council water rate."

Managing Director of Fulton Hogan Cos Bruyn thinks we "need to have five or less water authorities across New Zealand to create scale and efficiencies".

Whereas a chair reckons none of the above are suitable. "Following the electricity and telco models, we should corporatise and privatise the provision of water services," he says.

Says a tech boss: "Water is NZ's most precious resource and its management needs sorting out on delivery, environment and infrastructure levels.

"It is WRONG on every level that water can be extracted and exported at low/no cost while Kiwis languish in some areas with unsafe or inaccessible water."

MOOD OF THE BOARDROOM

Advantage in the long term

Taking the far-sighted approach will pay dividends, Mercury's Fraser Whineray tells **Gill South**

Long term thinking from the Government is what Fraser Whineray, the new chair of the Prime Minister's Business Advisory Council (BAC), would like to see and is something he will be pushing in his extra advisory role.

Whineray, who was already a member of the BAC, chairs his first meeting in December.

"My view is to make sure that they've got some really decent long-term stuff which will make a difference to multiple forms of capital," he says.

The Prime Minister established the Council last year to:

- provide high-level free and frank advice on policies that directly affect business
- harness the expertise of the private sector to inform government policy, and
- build closer relationships between government and business

Whineray, chief executive of Mercury, took over as chair last week from Christopher Luxon — who finishes up as Air New Zealand chief executive tomorrow after eight years with the airline.

He will be chair until March next year, when the Council will be paused in the run-up to the next general election.

Others on the now 12-strong council include: Rocket Lab's Peter Beck, Genesis chair Barbara Chapman, Jacqui Coombes (Bunnings), Anna Curzon (Xero), Andrew Grant (McKinsey & Company), Miles Hurrell (Fonterra), Bailey Mackey (Pango Productions), David McLean (Westpac), Joc O'Donnell (HW Richardson), Gretta Stephens (Bluescope/NZ Steel) and Rachel Taulelei (Kono).

10-year plan for KiwiSaver

Whineray said he would like to see a bipartisan 10-year plan for KiwiSaver, an "unscrewing of the value on KiwiSaver", as he puts it.

The idea would be to get to 10 per cent gross savings compulsorily in a decade.

If people had that backup, it would ultimately take pressure off those pension decisions ahead, says Whineray.

It would be a basic example of savings reducing people's cost of capital, giving them more resilience and building New Zealand's capital markets at the same time, he argues.

This KiwiSaver pool could be used for important policies. Denmark, for instance, has used some of its pension savings on flexicurity.

Flexicurity

Whineray led a New Zealand Initiative mission of CEOs and directors to Denmark this year where he learned more about the Danish flexicurity system. The initiative is about ensuring flexibility and security for citizens.

"For me, flexicurity is really important for people not being put in desperate situations which just grossly elevates the cost of capital risk, says Whineray.

One of the pillars of flexicurity is that employees have income support during employment transitions.

"I think they do need some time to find the right job. Better employers will get better employees so that's really important for the market competition to work for people. And they're not forced to take the next thing that's put in front of them," says Whineray. They can retrain in that period.

If they don't have this buffer, people are vulnerable, to everything from bullying to loan-sharking, says Whineray. "All of the stuff is preying on people with very limited choices because of the cost of capital," he says.

Education and Future of Work

Education is another key element Whineray will be looking at in his role at the BAC, in the context of the *Future of Work* report.

There needs to be better understanding about the integration between immigration, future of work, but also the "original skilling" rather than the re-skilling that goes on, he argues.

Employers and organisations are going to have to get much better at providing a five to 10 year view of the skills they want, says the BAC chair.

This will help parents and school students with their subject choices, he says.

How universities decide on courses can be based on funding drivers, not actually what the market needs, says Whineray.

"So getting the match-up five to 10 years out, so children coming through will feel happy that they've trained in something that there'll be a strong demand for, I'm really keen to see that," he says.

New Zealand can lead the way on decarbonisation

Meanwhile the Mercury chief executive is well aware of his responsibilities ahead at the energy company.

"We need it well known domestically that New Zealand is absolutely in the box seat for decarbonisation," says Whineray, who said his company's biggest achievement in the past 12 months was announcing the Turitea wind farm after 14 years of planning.

But this process needs to win the energy trifecta — it needs to be simultaneously cost-effective, it has to be a secure energy supply, and over time, it has to be renewable.

"We are decades and trillions ahead of all of our trading partners," says Whineray, and this message should be conveyed to them in trade discussions.

When trade partners are worrying about trade miles, New Zealand negotiators can point to the country's electricity system and — thanks to its efficiency — "all those goodies which are being shipped overseas and still, end to end, our carbon is better," says the Mercury chief executive.

"That is a huge competitive advantage and I want to make sure, on a bipartisan basis, that just how good New Zealand's electricity sector is, isn't being forgotten."

Fraser Whineray's Big Three

Regulatory challenges and the impact of policy uncertainty on his business are the concerns most likely to keep Mercury chief executive, Fraser Whineray up at night, he says, in this year's Mood of the Boardroom survey.

His priorities for his energy business in the next 12 months meanwhile are for a quality execution of growth capital expenditure, followed by digitisation of the customer experience with associated cost reductions.

The need for a smooth 2020 election especially as far as energy, climate and water settings are concerned, is number three on his priority list.

Leaders divided on PM's skills pledge

Nearly 20 per cent of respondents have signed up the Prime Minister's Business Advisory Council (BAC) Aotearoa New Zealand Skills Pledge or are intending to, the Mood of the Boardroom survey found.

The pledge asks companies to publicly disclose their investment in on-the-job training and re-skilling hours annually and to double the number of on-the-job training and re-skilling hours provided by 2025.

Twenty-eight companies are named on the BAC's website as having signed up the pledge. They are: Spark, Meridian, Lewis Road Creamery, Air New Zealand, Bunnings Warehouse, Westpac, Xero, Mercury, Whitecliffe, DB, Flux Capacity, Straker Translations, Fonterra, New Zealand Steel, McKinsey & Company, H.W. Richardson, Foodstuffs, Auckland Airport, Watercare, YoungShand, The IceHouse, Ngati Porou Holding Company and Capo, Tourism Industry Aotearoa and Pango Productions.

Some 15 per cent of survey respondents were unsure they would join.

Foodstuffs North Island CEO, Chris Quin said the company was an early signatory while Greg Lowe, Beca Group CEO said the engineering company was considering it.

"As we continue the journey to adapt to a more automated world, we see a clear need to increase that investment and make sure that our people can not only adapt, but embrace and lead change in our sector," he said.

The Prime Minister has also asked State Services Commission to see which Government departments are best placed to sign up.

The pledge was the first recommendation from the *A Future that Works: Harnessing Automation for a More Productive and Skilled New Zealand* report, developed by the BAC and consulting firm McKinsey & Company.

"The report is unique in that you can see automation's impacts from a task, job, sector and region perspective which is invaluable knowledge for policy makers and businesses," former BAC chair Christopher Luxon told the launch function.

But Mark Franklin, director of Stevenson Group, saw the pledge as a time-wasting exercise. "There are fora like this, the Zero Harm initiative etc, which are props for executives and government rather than decisions and outcomes," he said.

The outgoing chief executive of Chorus, Kate McKenzie said it was not yet clear what it required companies to do.

Mark Cairns, CEO of Ports of Tauranga, did not think it was relevant to his business. "We don't see the job losses through automation as being significant in our industry," he commented in the survey.

Others didn't take kindly to the idea of a pledge but backed the idea in principal. Said one agribusiness boss: "Pledges are stupid. It's like the Boy Scouts chasing a new badge. The Business Advisory Council has raised awareness of the issue which is great, and companies should then assess their position."

A number of respondents indicated they were planning on doing it. A boss from the waste industry commented: "It is under consideration but we need to be sure it is more than virtue-signalling or tokenism."

Another logistics industry head said they would prefer "an outcome-based goal rather than an input based one."

Eight key economic shifts for NZ

The Government's 30-year Economic Plan has an overarching vision to "build a productive, sustainable and inclusive economy to improve the wellbeing and living standards of all New Zealanders". The plan was released by Finance Minister Grant Robertson, Economic Development Minister Phil Twyford, Research, Science and Innovation Minister Megan Woods and Small Business Minister Stuart Nash at Callaghan Innovation in Lower Hutt yesterday. The plan has four goals. To grow and share New Zealand's prosperity, support thriving and sustainable regions, transition to a clean green and carbon neutral New Zealand and deliver responsible governance with a broader measure of success. The plan outlines eight key economic shifts that are needed to enable the Government to achieve its vision.

1 The NZ economy moves from volume to value with Kiwi businesses, including SMEs, becoming more productive by:

- Building on NZ's existing strengths and international connections to leverage new opportunities in domestic and international markets
- Investing in new technology and being at the forefront of digital innovation including to drive mitigation and adaptation to climate change
- Thriving and dynamic small, medium and large enterprises

2 People become skilled, adaptable and have access to lifelong learning through:

- Businesses accessing skills and labour when and where they need it
- People continually updating the skills they need for success in the future of work
- Higher wages and better conditions at work

3 Deeper pools of capital are available to invest in infrastructure and grow NZ's productive assets so:

- NZ has the modern infrastructure needed to enable the transition to a low emissions economy
- Kiwis have confidence to invest in innovative NZ firms
- Regions and businesses have access to the world's knowledge and innovation through stronger international connections
- NZ businesses have timely access to capital to innovate & grow

4 Strong and revitalised regions so:

- People and businesses thrive, irrespective of where they live or work
- Regions are connected and equipped with modern and resilient infrastructure
- Place-based comparative advantages and innovation strengths are backed

5 Enable a step change for Māori and Pacific economies resulting in:

- Higher economic, social, environmental and cultural wellbeing
- The Crown and Maori, as partners, having strong, ongoing and effective relationships
- Success in business, education, employment, regions and land use

6 Sustainable and affordable energy systems so:

- Businesses and households can access affordable, clean energy to achieve our economic potential
- NZ's foothold in high-value clean energy systems is established and NZ's know-how is exported to the world
- NZ's climate change targets are met by driving emissions reductions

7 Land and resource use delivers greater value and improves environmental outcomes resulting in:

- Shifting land use to higher value use while maintaining and improving our environment
- Redesigning activities to minimise waste
- Transitioning to a low emissions economy

8 Transform NZ's housing market to unlock productivity growth and make houses more affordable so:

- The housing shortage is overcome and capital investment is focused towards more productive areas of the NZ economy
- Current and future generations can access affordable housing in the places they desire close to the best jobs for them
- A productive building and construction sector results producing safe, healthy and durable homes and buildings

My hope: a rising tide that will lift all boats

Jacinda Ardern

Yesterday Finance Minister Grant Robertson released the coalition Government's Economic Plan. This pulls together a whole suite of initiatives that are well under way, but it does more than that — it lays out our blueprint for a 30-year collaboration with business to help transform the economy for the benefit of all New Zealanders.

The initiatives in this plan will advance our wellbeing agenda, to grow and share New Zealand's prosperity more fairly across communities and regions, and to better protect our natural heritage. This plan will drive better fiscal, social and environmental outcomes, rather than emphasising one over the other.

Our economic reality is in flux, and we don't shy away from that fact. We know that the nature of work is changing rapidly. The response to climate change will entail industry transformation worldwide. We're in the midst of a technological revolution. The economic norms of yesteryear are being rewritten daily.

The near-term economic headwinds are strengthening, too, on the back of fears around fallout from Brexit and from ongoing trade disputes involving the US and China. Our trading partners and the countries we compare ourselves to are facing slowdowns. Australia just reported its lowest rate of growth since 2009 last quarter. In the same quarter, the German and UK economies contracted. New Zealand's growth rate continues to outperform against this volatility.

> We will demonstrate what we can achieve when Government and industry work together towards a common vision of higher living standards across New Zealand.

We're seeing stronger than expected export profits, and lower than expected unemployment, showing that businesses are confident taking on new staff. In New Zealand we're running ahead of many of our peers, but while the economic ground everyone's running on is getting rockier now is the time to prepare for the future.

We need to invest in infrastructure, because it's the springboard for future growth. This Government is investing record amounts in hospital and school building programmes, alongside large investments in transport safety, regional roads, and public transport, and we've done that while maintaining a responsible budget surplus.

We're improving the efficiency of our construction sector, through the Construction Sector Accord and Building Act reform, and improving urban development frameworks to better meet future needs. And we're addressing the infrastructure deficit we inherited in our health and education systems.

These initiatives create rewarding, skilled jobs across our economy at a time when stimulus is also needed.

We'll also keep tackling the long-term challenge in housing. Our economy works for everyone only when everyone has a warm, dry home, and a decent standard of living. That's something I ultimately believe people from across the political spectrum want to see.

That's why we've stopped the state house sell-off, stopped offshore speculators from driving up house prices, and built over 2000 state houses in the last year.

As our economic plan lays out, there is a strong role for both Government and business to play in growing the economy. By uniting behind this plan, we will demonstrate what we can achieve when Government and industry work together towards a common vision of higher living standards across New Zealand.

Business leaders agree that growth in New Zealand has been predicated too much on capital returns, and not enough on productive investment. To build an economy that works for all of us, we need to focus on productivity and innovation, especially through small businesses.

Growing the value we generate from our outputs — from kiwifruit, fashion, to screen production and space exploration — is the best way to make sure we all share in the benefits of growth. It also means we're not relying too heavily on any one part of our economy, which means we're less vulnerable to shocks.

To achieve that we need to encourage enterprise and creativity. We're doing this is by increasing the returns to research and development through our R&D tax credits. And we're pursuing ambitious trade policy to create better opportunities for New Zealand businesses overseas.

We must also make sure people can train and re-train for the jobs of the future. We've always been an exporting country, but I hope to see a shift in the way we think about what we have to offer.

One of the most valuable things New Zealand can offer the world is skills and knowledge, from our farming sector to our creative industries. That's why we're reforming the vocational education sector to ensure our polytechs are viable, create more apprenticeships and enable New Zealanders, no matter where they live, to participate in and benefit from our transforming economy.

Now's the time for us to future-proof our economy, and that's why the Government's plan provides leadership and certainty for our business community. This is about setting out our vision, as well as the steps to achieving it, and getting on with the job.

I want to see growth that brings New Zealanders along with it. I want to see the rising tide truly lifting all boats. We achieve that by giving every New Zealander the tools they need to participate fully in our changing economy.

Our economic plan sets out an ambitious vision, and together with the business community we're getting on with making it a reality.

MOOD OF THE BOARDROOM

It's Coalition Management 101 . . .

Fran O'Sullivan

Prime Minister Jacinda Ardern should have secured New Zealand First's support for a capital gains tax before establishing the Tax Working Group say nearly two-thirds of business leaders responding to this year's Mood of the Boardroom survey.

The upshot, they believe, was a major impact on the Government's credibility when it was forced to jettison the proposal.

"It's Coalition management 101," said Craig Stobo, chair of Precinct Properties and the Local Government Funding Agency. "What a waste of money," added Devon Funds Management's Paul Glass. "Unfortunately the report was poor and the recommendations of little use."

A private equity boss labelled the working group a frustrating sideshow: "an absolute waste of time and resources when the outcome was a foregone conclusion without Coalition support from Day One".

The working group, chaired by former Labour Finance Minister Sir Michael Cullen on $1062 a day, was funded to the tune of $2 million.

Other group members — Bill Rosenberg, Michelle Redington, Hinerangi Raumati-Tu'ua, Robin Oliver, Nick Malarao, Joanne Hodge, Kirk Hope, Marjan van den Belt, Geof Nightingale and Craig Elliffe — were paid $800 per day.

Under the group's proposal, a capital gains tax would have covered investment properties, land, shares, business assets and intangible assets like intellectual property, but excluded the family home, cars, boats and artwork.

Sir Michael said the tax would bring in $8 billion over the first five years, and the revenue raised could help pay for other initiatives — such as cutting the personal income tax rate and cutting KiwiSaver tax rates for low and middle-income savers.

But on April 17, Ardern announced there was no mandate — and no consensus — for the proposed capital gains tax regime.

"The tax working group gave the Government, and the country, an opportunity to look at the fairness of our tax system and debate options for change," she said. "All parties in the Government entered into this debate with different perspectives and, after significant discussion, we have ultimately been unable to find a consensus. As a result, we will not be introducing a capital gains tax."

Ardern said under her leadership, the Government would never again push for a capital gains tax.

"The tax working group was clearly captive and so their recommendations were as expected," said a dairy sector CEO. "Did they really expect NZ First to support what was clearly going to be a capital gains tax recommendation? I think the whole thing was relatively convenient for Labour where they can say the recommendation was clear, but that through MMP, the people have spoken and the support wasn't there."

A considerable number — some 23 per cent — felt the Prime Minister was right to test opinion on what had been a flagship commitment by her during the 2017 general election to setup a working group, and, if a tax was recommended, to introduce legislation before the 2020 election with a start date the following April.

Should PM have sought NZ First support before launching the Tax Working Group?

62% Yes

22% No

16% Unsure

Government credibility loss

A net two-thirds of respondents believed the Government's decision to drop the capital gains tax proposal led to a loss in its own credibility. There was a general view that political management of the issue was poor.

Others noted that it was left to Sir Michael to explain why the capital gains tax was needed. "Their problem is they didn't sell the argument. Instead they left the idea in a vacuum which the opponents filled," said a leading banker.

Some felt the Government's credibility was enhanced by dropping the proposal. "The Government listened to the view of the electorate," said Beca's Greg Lowe. "The public of New Zealand don't want this extra burden."

"The capital gains tax policy did nothing to address the issues it was aiming at. No one is going to support policy that doesn't have positive outcomes."

Noted a lobbyist: "She was never going to get New Zealand First's support for a scheme that hit small businesses and farmers. Anything NZ First would have supported wouldn't have got past Labour's centre-left support base.

"Proposing it hurt their credibility with the business and rural community. Accepting that it was never going to fly and moving on helped Labour's credibility."

Tax reform in state of limbo

But there are worse places to be, says **Thomas Pippos**, and our tax system continues to be well respected

Tax is an emotive topic, particularly when there is a policy vacuum. There are also as many opinions on tax as there are taxpayers. But outside of tinkering with rates and thresholds, which themselves raise challenges, substantive tax reform is never easy. This is especially true when it is politicised in an MMP environment.

Judging by business leaders' answers to the tax questions in this year's Mood of the Boardroom survey, the Government has found this out the hard way during the last year, with the Tax Working Group process leading to no reform in the one area that it was effectively established to consider — namely the taxation of capital gains.

A by-product of the tax working group process is that respondents' confidence in the Government, in particular their political management abilities in a coalition environment, has been noticeably impacted.

Sixty-two per cent of the respondents believe that the Prime Minister should have secured the support of New Zealand First for a capital gains tax before embarking on the tax working group process (22 per cent said "no" and 16 per cent remain "unsure"). And 68 per cent of respondents said the impact of dropping the capital gains tax was a significant loss in credibility for the Government (rating it 1 or 2 on a scale of 1-5, where 1 = major loss in credibility and 5 = major gain in credibility).

Though these results largely reflect the "new reality" that exists under a coalition government, it is still a material matter for respondents, painting a less than optimal picture of government coherence around what was meant to be a legacy policy initiative.

In saying that, the decision not to proceed with a capital gains tax has been met with a collective sigh of relief by most respondents, with 55 per cent supporting neither of the capital gains tax options presented. Just 11 per cent supported the broad regime proposed (excluding the family home). And only 34 per cent supported the narrower option targeted at rental property investment, which is somewhat surprising as targeted rules in problematic areas achieved widespread support in prior years' surveys.

A further irony with these results is that historically under a National Government there was considerably more support from Mood of the Boardroom survey respondents for a capital gains tax. From 2011 to 2017, the broad sentiment had actually been in favour of a capital gains tax including that not moving on one was a lost opportunity.

It wasn't until last year's survey when those against a capital gain tax outnumbered those for one. So have respondents changed their minds on the policy as a result of the current context or the tax working group process itself? Respondents may also simply be less comfortable with a capital gains tax under the current Government.

Under any rationale, a capital gains tax seems to now be part of our past. Labour have tried, and visibly failed, multiple times to introduce one in recent memory.

So, where to from here then, from a tax policy perspective and substantive tax reform? It feels like we are in a state of limbo — which actually accords with survey respondents — 77 per cent of whom don't believe there is any opportunity for substantive tax reform under the current Government (other than tinkering with rates and thresholds).

Such responses also call into question the public working group approach to tax reform.

Apart from being costly and longwinded, such approaches provide for a political battleground fought on soundbites rather than principle, which as in the present case stifled any reforms rather than actually facilitating them.

Juxtapose this approach with the manner in which the bright line test and loss quarantining rules — both targeted at the areas of most concern relating to residential property — were introduced relatively quickly (in the case of the former, by the previous National Government).

It's one of those situations where you are damned if you do and damned if you don't.

The related additional context is one where tax still mystifies people.

Survey respondents consider that there is little awareness, or understanding, that a small percentage of the population pay the lion's share of personal tax, or that around half of all households pay no net tax.

Eighty-three per cent said the former is not well understood while 88 per cent indicate that the latter is not well understood.

Adding further to this sense of limbo around the state of tax reform is that the majority of respondents (52 per cent) do not believe inequality (wealth and/or income) should be addressed through the tax system.

Interestingly, of the 34 per cent who say inequality should be more overtly addressed by the tax system, there seems to be appetite for some form of redistributive taxation, with the majority of those (63 per cent) being in favour of increasing the top personal tax rate as a method to reduce the gap between "haves" and "have nots".

Additionally, 19 per cent said there should be some form of comprehensive death duties/inheritance tax, and 17 per cent liked the idea of some form of annual wealth tax.

Perhaps unsurprisingly, 86 per cent were against the idea that the corporate tax rate should be increased as a way to deal with inequality.

In terms of increasing the highest marginal tax rates, an issue is that the top 3 per cent of income earners are already paying almost a quarter of personal income tax revenues.

Turning to that group of people for more is not a magic bullet nor does it address inequality in any real way other than symbolically giving the impression that it does.

Where does this leave us then given the potential for a global economic downturn?

Well, while all of this does sound a little morose, the irony is that New Zealand is an exemplar for level headed political management when compared to some of our main trading partners in the Northern Hemisphere.

In this context, there are worse outcomes than being stuck in limbo when our tax system continues to be well respected by international standards and when our economy continues to be the gift that keeps on giving for all politicians regardless of political stripes — irrespective of whether it is "nurtured and respected" or "used and abused".

For now, things are still reasonably positive at the end of the known world.

● *Thomas Pippos is the CEO of Deloitte New Zealand*

Thomas Pippos says a capital gains tax seems to now be part of our past. Photo / Jason Oxenham

Tax Working Group proposal

55% supported neither capital gains option

34% supported narrower option targeted at rental property investment

11% supported broader excluding family home.

MOOD OF THE BOARDROOM

Keeping up with expansion

Anne Gibson

The pressing need for a toll-based second Auckland harbour crossing, lack of a railway connection to the airport, rising business compliance costs, a close two-man mayoral race and spring house sale resurgence — all are issues for Peter Thompson, Barfoot & Thompson managing director.

Last December, the city's largest agency, with more than 40 per cent of the residential sales, was named the winner of the best real estate company in the world at the International Property Awards, and Thompson acknowledges business success and details expansion, such as taking over a new outlet at Pokeno which is an area where he sees fast growth.

But he also sees issues for Auckland, particularly as it continues to grow yet he fears some aspects are not keeping pace with that expansion.

"Auckland needs a second harbour crossing, be it a tunnel or a bridge. We've been talking about it for so long but let's increase the size of it when we plan it. If we're thinking six lanes, go to eight. When we built the original harbour bridge, we had tolls. Any major city I go to, they have tolls and no one complains about the road toll north of Auckland," he said.

He also wants a heavy-rail link from the city to Auckland airport, saying a short connection was all that was needed to make that a reality.

"I've joined the board of the Auckland Chamber of Commerce and a survey of the biggest issues for Auckland is transport and the amount of time it takes to get anywhere."

Mayor candidate John Tamihere's harbour bridge plans were too big, he says but the crossing issue does need addressing; he wants to see action and says keeping the existing bridge makes sense as a toll-free alternative.

Thompson also raised concerns about the city's ageing underground pipe system, saying though Watercare's Central Interceptor would go a long way towards improvement, much more is yet to be done.

As head of the privately-owned agency chain with around 2500 staff working from Kerikeri to Tuakau, the business with 76 offices owns a headquarters on Shortland St where Thompson said expansion had meant leasing further floors in the tower to be able to accommodate growth.

He believes Auckland business is being penalised with new compliance and regulatory costs: "We're rebranding and although we have existing signage on our 76 buildings, we need council consent and a traffic management plan on each site — yet all we're simply doing is going through a rebranding."

The regional fuel tax is another bug for him, an example he sees of the city with so much potential being penalised for its growth.

The Phil Goff v John Tamihere mayoral race was "a very close fight" but Thompson said he favours Goff as "better the person you know". He praised councillors Bill Cashmore and Desley Simpson as effective.

As for Auckland's housing market, he envisages a spring volume surge "and you'll always see prices increase over September, October, November. It's a seasonal trend. I can't see prices falling back. There's no Government election this year so we have a clean three months towards the end of the year. We are optimistic about more activity."

Peter Thompson's Top issues

- **Top three issues facing the nation**
  Transport issues within Auckland region
  Education — pay of teachers and control over Boards
  New legislation placed on business owners that continue to take profit from their business
- **Top three business priorities for the next 12 months**
  Complete a major re-brand of the company
  Follow through with our new Wellness Programme
  Ensure we provide best practices for our people to implement into their everyday selling activity

> Auckland needs a second harbour crossing . . . We've been talking about it for so long but let's increase the size of it when we plan it.
>
> Peter Thompson

MOOD OF THE BOARDROOM

Infrastructure delivery and retaining skilled workers is of vital importance

Time to turn words into actions

The business community needs to see the Government driving tangible progress in investment decisions, putting spades in the ground and developing a pipeline of skilled workers, says EMA chief executive, Brett O'Riley.

"Only that will put a halt to the downward spiral on business confidence," he says. "Planning and investment have simply not kept up with projected growth, and constant delays and re-litigation of key infrastructure projects have exacerbated an already-fraught position."

He says no one should be surprised that business confidence is wobbly, and about the pervading sense of doom and gloom following the Reserve Bank's cut to the Official Cash Rate.

"It served to highlight the fragility of our growth prospects, exacerbated by global trade uncertainty, and ongoing domestic issues like housing and skills shortages, immigration delays and compliance costs."

Though it is not all bad news and the Government does deserve some kudos, there's a level of frustration at initiatives that have emerged under the Government's first Wellbeing Budget, which the business community feels has been at the expense of some of their key needs.

O'Riley says one of the greatest concerns from members in the EMA region from Taupo north — the country's economic powerhouse — is the worsening infrastructure deficit.

There are acute issues caused by the failure to keep up with natural population and economic growth, new migrants and the rapid increase

> No one should be surprised that business confidence is wobbly.
> Brett O'Riley EMA

in tourist numbers, he says. The new Infrastructure Commission, supported by the EMA, has a key role in getting infrastructure delivery back on track.

O'Riley says none of this should be a surprise to local or central government where the funding debate continues because the growth is both residual and stimulated. "The latter is a direct result of deliberate agreed strategies like Tourism 2025, inbound foreign investment attraction, NZ-China Free Trade Agreement and regional innovation strategies.

"Outside the main centres, the Provincial Growth Fund is now starting to further stimulate growth activity, and that has certainly bolstered regional confidence in areas like the Eastern Bay of Plenty and Northland."

He says another key obstacle for business is getting the people they need. While immigration has dropped from about 64,000 to around 50,000 a year, about half of those immigrants stay in Auckland. "We are at last seeing progress towards addressing processing delays. But with skills shortages at acute levels across most sectors, we need these people and we need housing for them. Unfortunately, construction of affordable homes has not kept up, let alone other infrastructure such as schools to support new housing areas."

O'Riley says there are encouraging signs around housing growth, led by Housing New Zealand, embarking on the largest state house building programme in decades. It plans to build more than 2000 new state homes a year, for at least the next decade, as well as refurbishing a similar number of existing state homes.

"In the longer term, the Resource Management Act and related legislation reform is key to removing bottlenecks and improving productivity, and we are delighted the Government has committed to this programme of work," O'Riley says.

Brett O'Riley's big issues

- **Top three issues facing the nation**
  1. Access to skilled people
  2. Infrastructure deficit
  3. Global economy
- **Biggest achievement past 12 months**
  Championing resource management reform
- **Biggest regret of the past 12 months**
  Ongoing infrastructure deficit
- **Top three business priorities in the next 12 months**
  1. Customer centricity
  2. Digital
  3. Service development
- **What's likely to keep me awake at night?**
  Sourcing and retaining key skilled staff; competitive pressures and meeting customer expectations.

Finest fish for our talent pool

Retaining experts in New Zealand should be a priority, Chapman Tripp's Nick Wells tells **Gill South**

Retaining high quality professionals whose skills are in demand around the world, is an issue New Zealand business continues to wrestle with.

They are regularly drawn away to international markets, particularly those with language skills such as Mandarin and Cantonese, says Nick Wells, Chief Executive Partner of law firm, Chapman Tripp.

"While New Zealand is a great working environment and it has great quality in its talent pool, it's a bit of a concern that we can't retain all of that talent because we're in a market that can't match offshore salaries," he says.

The ideal for New Zealand would be reaching a productivity which allows business to be more competitive on pay, he says.

Wells is concerned the evident uptick in the Australian economy will be a serious resources threat for New Zealand.

"Singapore, Hong Kong (a little bit) and Asia, but particularly Australia when it fires, it fires at a high rate of productivity. That's a major concern," he says.

Stepping up performance in transport, infrastructure and productivity would play a big part in improving New Zealand's competitiveness, says Wells.

Infrastructure provides a lot of work for his law firm and also helps the legal environment as a whole, he says.

Chapman Tripp's relatively young, idealistic lawyers expect the firm to be taking responsibility when it

The ideal for New Zealand would be reaching a productivity which allows business to be more competitive on pay, says Nick Wells.

comes to issues around sustainability, the environment and company culture, he says.

For them, "it's about more than doing bill-ables and earning money, they want to see a focus around work that serves a greater good rather than what we are doing at the moment," says Wells.

The Chapman Tripp partner reports seeing positive signs of health in the business community which is not necessarily being discussed publicly, he says.

"The employment market is still strong and our clients talking to us show a degree of confidence in the momentum that you don't get from the surveys," he says.

While international trade is unpredictable right now, the mixed messages from the New Zealand business environment presents a confused picture, says Wells.

"What worries me is you might find us talking ourselves into negative territory that doesn't really exist."

Nick Wells' big issues

- **Top three business priorities next 12 months**
  Technology and innovation
  Client engagement
  Culture, our people and community
- **Biggest achievement past 12 months**
  Retention of and dedication of a complement of high quality people
- **Biggest regret**
  Never doing enough for the community we work, live and play in
- **Single biggest factor to assist my business to remain internationally competitive from New Zealand**
  Ability to afford globally aligned salaries to attract more subject matter experts back to New Zealand, to then connect back with the international market, to increase productivity for the New Zealand economy as a whole.

And though the Government could have handled certain issue better — aiming high on things like renewable energy and then backtracking — it is putting issues on the table, which need to be confronted, says Wells.

"The thing we like is that there is an ability to engage with Government and be listened to," says Wells.

New Zealand has a relatively positive political environment to conduct business in compared with Australia, the UK and the US, he adds.

Wells predicts that housing will be what hurts the Government in the run up to the election.

This process was much more difficult than anyone anticipated and it's why, instead of many thousands of houses, only a few hundred have come onstream, he says.

Chapman Tripp is working on improving its own performance with the help of technology. It is automating certain contract processes which is allowing it to compete at different price points in the market and appeal to a new type of client.

If successful, it will lead ultimately to needing fewer junior lawyers and employing more technical staff.

"It's been quite a lot of work in collaborative teams, it sounds a little bit like some of the transformation that Spark's gone through.

"But it's really just facing up to, this is the technological world we're working in and we've got to keep working and moving with that," he says.

(Additional reporting Fran O'Sullivan)

MOOD OF THE BOARDROOM

Disruptions and disruptors

I expect major disruption in my sector in the coming three years as a result of technological innovation

65% agree
20% disagree
15% unsure

Although there are a number of technologies that hold the potential to revolutionise the use and construction of infrastructure as we know it, the timing, public acceptance and capital investment requirements are not likely to become evident within a horizon 1 timeframe.
Steve Killeen, CEO Downer

I wouldn't classify it as major disruption but more an opportunity. Advancements in technology is a challenge to all businesses and it is a major factor in business, but in our business, it won't replace the fact we still have to deal face to face with our customers. Technology is an aid for us to create better opportunity.
Property CEO

Open banking and disruption will threaten many financial provider models, which are distribution and commission heavy.
Sam Stubbs, managing director Simplicity

Yes and it's both exciting and terrifying! NZ can be a world leader here.
Technology firm boss

My organisation is actively disrupting the sector in which we operate

58% Agree
33% Disagree
9% Unsure

We are developing unique technology solutions that can be widely deployed to help our clients do things they could not do before, in at least one case on a global scale. Clients that embrace these solutions create enhanced outcomes for their businesses.
Greg Lowe, CEO Beca

Not disrupting, but we are changing and raising the bar in our industry.
Logistics boss

We innovate, focussing on health factors.
Wine exporter

We made an early investment in artificial intelligence.
Silvana Schenone, partner MinterEllisonRuddWatt

Do you believe the current global political landscape is having a greater impact on your organisation than in recent years?

63% Yes
31% No
6% Unsure

As partly government owned the level of sensitivity to government matters has increased dramatically.
Independent director

Geopolitics is now a very relevant consideration. We are changing the structure of our organisation as a result.
Consulting head

Only in the sense that it can produce a Government distracted from what it can change domestically (and having the humility to accept what it cannot internationally).
Energy boss

The global political landscape is unprecedented in its superficiality – unfortunately probably a function of its constituents.
Thomas Pippos, CEO Deloitte

Are you reassessing your global strategy as a result of the changing pace of globalisation and protectionism?

56% No
41% Yes
3% Unsure

Although we don't have an offshore business, global trends and developments have a huge impact on our business locally.
Technology boss

No, we attend many global events to keep up with the play on what is happening around the world, and actively pushing how good NZ is to live and work.
Peter Thompson, Barfoot & Thompson

The global environment is scary but that should not make us afraid.
Grant Webster, Tourism Holdings Limited

Services exporting requires free mobility of key professional skills into overseas markets. Complex operating rules in some countries (such as non-trade barriers) make effective deployment harder and therefore choices on where to operate internationally need to be made carefully.
Professional services firm CEO

MOOD OF THE BOARDROOM

Is US shareholder primacy dead? NZ CEOs ahead of the play with conscious capitalism

Fran O'Sullivan and Gill South

When JP Morgan Chase CEO Jamie Dimon issued a letter on behalf of the powerful US Business Roundtable abandoning the idea that companies must maximise profits for shareholders above all else it reinvoked the debate on whether capitalism is dead.

The Roundtable statement came as US President Donald Trump and the candidates vying for the Democratic presidential nomination took aim at companies for putting profits before the needs of workers and customers on issues as varied as drug pricing, outsourcing and data privacy, reports the *Washington Post*. For decades, US wages have climbed only moderately as the pay of top executives at public companies has soared.

Thankfully for Dimon this new era of prudence did not affect his own pay packet.

According to US Securities and Exchange Commission filings his full compensation for 2018 totalled US$31 million, up from US$29.5m in 2017

The compensation includes a base salary of US$1.5 million for Dimon and US$29.5 million from performance-based incentives.

Another irksome fact. Dimon is JP Morgan's second largest shareholder.

At the bank's annual meeting investors voted to approve his pay over the objections of a shareholder-advisory firm; with investors holding nearly 72 of the shares voting in favour of the non-binding approval just above the 70 per cent threshold that is viewed as a minimum by US corporate-governance experts. Institutional Shareholder Services had criticised the bank for not providing enough clarity to shareholders on how it determines the compensation.

These are the everyday contradictions at the heart of US capitalism — in practice — that spark critics to claim the US Business Roundtable's new statement about the purpose of a corporation is posturing.

The Business Roundtable's August letter said business leaders should commit to balancing the needs of shareholders with customers, employees, suppliers and local communities.

"Americans deserve an economy that allows each person to succeed through hard work and creativity and to lead a life of meaning and dignity," said the Roundtable's statement. "We commit to deliver value to all of them, for the future success of our companies, our communities and our country."

The group — representing chief executives from 192 of the American most powerful companies — has named issues such as diversity, social inclusion and the environment as key to the new conversation.

Their statement came amid growing national debate in the US about the responsibilities of corporations at a time of stark economic inequality.

New Zealand CEOs ahead in the social license debate?

In response to a question in the *Herald*'s CEOs survey, asking New Zealand chief executives whether their businesses have adopted commitments similar to the five outlined in the Business Roundtable letter, a large majority said they had.

They ranked their biggest responsibility as delivering value to customers (88 per cent) followed closely by investing in employees by supporting them to acquire new skills for a rapidly changing world (86 per cent).

Some 84 per cent say they are supporting the communities in which their businesses work and are protecting the environment by embracing sustainable business practices.

Eighty-one per cent say they are committed to generating long-term value for shareholders and 78 per cent say they deal fairly and ethically with suppliers.

These issues get to the heart of the debate over businesses' licence to operate.

Deloitte CEO Thomas Pippos said the Roundtable commitments may be a new sentiment in the US — "but its not new in New Zealand".

"I see this not so much as copping out of capitalism, but recognising that business is part of society," said a property CEO. "If your actions as a business do not support or indeed actively undermine the society of which you are a part, then in the long term you are killing yourself. It's the difference between a symbiotic or a parasitic relationship with society as your host organism."

Others said societal expectations have changed and profit before all things is no longer acceptable. Leading with purpose is not only necessary but every day it is more strongly demanded by stakeholders. Companies best deliver long term value for shareholders by delivering good value for customers, and that in turn implies investing in employees, dealing fairly with suppliers, and generally being, and being perceived as, a responsible employer.

Others said they had been operating this way for some time.

Independent director Cathy Quinn said: "I think for some time most businesses have understood acting in the company's best interests and maximising wealth for shareholders requires companies to take into account wider interests. I don't think it's revolutionary, it's common sense."

"I actually don't think this idea is that new as ultimately if you focus only on short-term wealth at the expense of long-term health of the business (ie by not supporting your employees to re-train, supporting your local community, sustainable business practices), it will undermine your business," said a transport chief.

But Sam Stubbs, founder and managing director of Simplicity noted that business in New Zealand had been funded and encouraged to think too short-term. "It has been encouraged to focus on shareholder returns to the exclusion at times of other stakeholders, he said.

Not all New Zealand respondents were in accordance with the changed stance in the United States.

Craig Stobo, chair of the NZ Local Government Funding Agency, saw the new approach as a luxury only large companies could afford. He said: "Nice for some. There is a clear shift in New Zealand to ESG-style reporting on stakeholder commitments by larger businesses. For most SMEs, however, the first rule of business is to stay in business."

Michael Lorimer, founding director of the New Zealand office of Grant Samuel, was unambiguous in his response: "The US Business Roundtable is wrong," he said. Others described the Roundtable's letter as "claptrap" and a "silly way to frame the issue".

Climate Change

Z Energy was already across a lot of this new approach but had not put it all into one statement as the US Business Roundtable had done, said Mike Bennetts, the firm's CEO and a key figure in the development of the Climate Leaders Coalition.

The Coalition was launched in July 2018 to promote business leadership and collective action on climate change.

So far, 120 CEOs have signed the original joint statement, which commits their organisations to take voluntary action on climate change including measuring and publicly reporting their greenhouse gas emissions, setting a public emissions reduction target, and working with suppliers to reduce their emissions.

Coalition members have also committed to support the Paris Agreement and New Zealand's commitment to it, the introduction of a Climate Commission and carbon budgets enshrined in law.

In July 2019, to mark its first anniversary, the Coalition launched a second higher ambition pledge reflecting the latest science that illustrates the need to limit global warming to 1.5 degrees and aligns with the Government's ambitions in the Zero Carbon legislation. The Coalition hopes to transition new and existing signatories to this more ambitious pledge over time.

> I see this not so much as copping out of capitalism, but recognising that business is part of society. If your actions as a business do not support or indeed actively undermine the society of which you are a part, then in the long term you are killing yourself. It's the difference between a symbiotic or a parasitic relationship with society as your host organism.
>
> Property CEO

Organisations from all sectors of the economy are represented in the Coalition and together the signatories make up 60 per cent of New Zealand's gross emissions.

But a tech services head cautioned: "This is urgently needed in all organisations. Not just the PR spin on it but genuine 'action for change'. In some companies this will require existential thinking and planning for wholesale change (e.g. a plastics company might need to reinvent itself)."

ESG reigns?

ESG refers to environmental, social and governance factors which are central to measuring the sustainability and ethical impact of an investment in a company or business. These criteria help to better determine the future financial performance of companies (return and risk). The sustainability focus is critical and seen as very much in shareholders' long-term interests — particularly to secure the critical social licence to operate.

A property CEO added that this broader approach was about recognising business is part of society.

"If your actions as a business do not support or indeed actively undermine the society of which you are a part, then in the long term you are killing yourself."

A casino operator noted "as a casino group we deal with long-term social licence issues as an integral part of doing business."

In the Maori business sector, one leader pointed out that "Maori economic development is about our people, and how we conduct our business for today for future generations."

And he last word goes to a logistics firm head — who agreed with the five principles but warned: "let us not forget the responsibility to generate acceptable and increasing profitability".

Jamie Dimon (above); climate change signatories take a selfie (below).

The US Business Roundtable has issued a letter essentially advocating that the primacy of shareholder interests is over and instead adopting conscious capitalism' ideas by proposing a broader company responsibility to society which it can better serve by considering all stakeholders in its investment decisions. Has your business adopted similar commitments?

88%
Deliver value to customers

86%
Invest in employees by supporting them to acquire new skills for a rapidly changing world

84%
Support the communities in which your business works and protect the environment by embracing sustainable practices

81%
Generate long term value for shareholders

78%
Deal fairly and ethically with suppliers

Source: NZ Herald 2019 Mood of the Boardroom CEOs Survey

MOOD OF THE BOARDROOM

Government appetite for tax reform wanes?

With the demise of the CGT, business leaders expect little movement on tax reform, writes **Fran O'Sullivan**

Chief executives believe the Coalition has lost its appetite for substantive tax reform other than tinkering with rates and thresholds.

Some 77 per cent felt the oppportunity had gone in the wake of the jettisoned Tax Working Group report on Capital Gains Taxes.

"They have taken it off the table," said Chris Quin, CEO of Foodstuffs.

There was scepticism from an auto firm boss who believed that though there was an opportunity for reform, he doubted that "Jacinda could manage her team (including Winston) to deliver on a well thought-through policy."

"The capital gains tax review poorly managed and will inhibit their ability to do further major changes unless they take a very different approach," agreed an innovation sector head.

Among the menu of tax changes business leaders would like to see were:

- Policies to tax internet-based trade to put international firms on a level playing field with what domestic businesses have to pay — tech services firm boss.
- Address the corporate tax rate: "It harms our competitiveness and is high by international standards" — Don Braid of Mainfreight.

CEOs were critical about how taxation revenue is being spent.

"It's clear that tax is increasingly being used as a tool to influence public and social policy outcomes, beyond simply collecting revenue," said a primary sector chief.

Said an energy boss: "People have less of an issue paying tax if they know it is well spent. Centralisation will not deliver this."

There was also concern that the Government might look to slap higher-income earners with a higher tax rate to drag in more revenue.

"This is especially frustrating when anyone proposes that increased rates be applied to higher income where we are already paying the lion's share," said an agribusiness head.

"Expect a pre-election bribe to increase top threshold taxes and redistribute to middle and lower thresholds," scoffed a media chief executive.

Asked if it was well understood that a small percentage of the population pays the lion's share of all personal income tax (12 per cent pay just under half and 3 per cent pay just under one quarter) before taking account of transfers such as Working for Families, 84 per cent of those surveyed said no.

A former banker put it pungently: "The narrative has been tax the rich 'pricks' because they aren't paying their share. Which is bollocks."

Is there any opportunity for substantive tax reform under the current Government (other than tinkering with rates and thresholds)?

77% No

12% Unsure

11% Yes

Source: NZ Herald 20129 Mood of the Boardroom CEOs Survey

Sir Michael Cullen outlines the proposals for the now-jettisoned capital gains tax.

"Media prefer to focus on the wealth disparities and rich business people," chimed a government relations firm boss.

"And it's politically convenient that this is not understood," agreed an innovation firm head.

Some 89 per cent of CEO respondents also felt it was not well understood that around half of all households pay no net tax (income tax, GST and ACC) and are in fact net recipients after transfers such as Working for Families.

"New Zealand's social welfare model is antiquated and abused," said a tech services head. "Additionally when people have no motivation to work it lowers the national productivity level and leaves the potential for more social harm and unrest.

"This area of NZ society needs a genuine and urgent rethink. People who genuinely need help must always receive it but the current system is flawed in so many ways."

Just 34 per cent felt that wealth inequality should be more overtly addressed through the tax system; accepting that a small but generally a different group of households hold the greatest levels of assets, and derive the greatest income (both from labour (taxed) and capital (which may not be taxed).

"Capital Gains taxes have not assisted with a reduction in wealth inequality elsewhere in the world," said BusinessNZ CEO Kirk Hope.

"For NZ it would simply tax an already scarce resource (capital) and redistribute to government expenditure — which is a very low-quality outcome. It would be better to develop and execute policies that increase wealth and asset accumulation for lower socio-economic households."

"Outside of taxing capital gains, wealth inequality is not something that equitably can be addressed through tax," said Deloitte CEO Thomas Pippos.

"Unfortunately the media haven't done their job in investigating the facts," said a chair. "The current levels of income inequality are the lowest in history and more people have been lifted out of poverty by Capitalism than any other economic or political system."

"There are other much much smarter ways of addressing this. Let's start a more intelligent, transformative and genuine national conversation. Every Kiwi wants to see life improving for all citizens but increasing tax burden on innovators, entrepreneurs and others is NOT the way forward, said a CEO.

"There will always be wealth inequality ie 'haves' v 'have nots', but addressing the needs of the 'have nots' is more important than transferring value between the groups," said a media boss.

"The ideal outcome is to achieve 'haves' and 'super-haves'."

A banker noted that official data suggests that in New Zealand, unlike the US, there has been no significant increase in wealth inequality over the past 20 years. "What has happened is that the huge increase in the price of housing has put very substantial economic pressure on the bottom two quintiles of the income distribution in recent years."

The 34 per cent of respondents who felt wealth inequality should be addressed through the tax system were asked to rate options: 63 per cent ticked more progressive personal income tax rates; 88 per cent were against increasing the corporate tax rate; 67 per cent felt it worthwhile to persevere with measures that tax capital gains (like more bright line type tests); just 19 per cent agreed with some form of comprehensive death duty or inheritance tax and 80 per cent were opposed to some form of annual wealth tax .

Said Dame Alison Paterson: "A CGT would be equitable but should be balanced by reductions in taxation."

"I think a directed property focused tax (Stamp Duty) is the ideal way to curb the infatuation with property. This targets property, and capital," said private equity player.

The 2019 Budget data shows individuals will pay $36 billion in tax for the 2018 financial year and in the 2019 financial year wage earners and individuals will pay an estimated $37.4b, growing to more than $40b in 2020.

And, the Tax Working Group noted, personal income tax is the largest source of revenue for the Government.

Accepting that a small but generally a different group of households hold the greatest levels of assets, and derive the greatest income (both from labour (taxed) and capital (which may not be taxed)), and that there is wealth inequality in NZ, do you believe that this wealth inequality should be more overtly addressed through the tax system?

52% No

34% Yes

14% Unsure

Is it well understood that a small percentage of the population pays the lion's share of all personal income tax (that 12% pay just under half and 3% pay just under one quarter) before taking account of transfers such as Working for Families?

83% No

9% Unsure

8% Yes

Taxing questions

Some 55 per cent of respondents to this year's survey supported neither of the capital gains options presented; 34 per cent supported the narrower option targeted at rental property investment; 11 per cent the broader option excluding the family home.

"There are CGT rules on investment properties now," said Panuku chair Adrienne Young — Cooper. "Rigorously enforce them."

"Most of the estimated revenue to be generated from the proposed CGT was to come from a gradual increase in real estate values. It was an odd assumption from a Government committed to making housing more affordable. If that revenue was not realised, the proposed CGT involved a very substantial increase in compliance costs for little revenue gain," pointed out a banker.

"There is beauty in simplicity, and the bright line test and KiwiSaver goes along way to achieving the benefits of a CGT i.e. better allocation of capital into the productive economy," observed Sam Stubbs from Simplicity.

Others said:

- If any nation was starting from scratch, CGT is a great idea. Introducing it to an economy where housing investment has become a vital part of middle New Zealand's superannuation thinking is fraught with problems" — Lobbyist
- I support the principle of a CGT but the practical implementation of this was never going to work" — Funds boss.

"I support a CGT, as long as the net tax take is not increased" — Education leader

Is it well understood that around half of all households pay no net tax (income tax, GST and ACC) and are in fact net recipients after transfers such as Working for Families?

88% No

9% Unsure

3% Yes

MOOD OF THE BOARDROOM

Not a comfortable

Uncertainty is seen by company heads as being the biggest dampener on business confidence

Mood of the Boardroom
Gill South

A Wellbeing Budget which didn't scare the horses, neither did the canning of the capital gains tax, but the New Zealand business community is still not comfortable with the policy changes and policy direction from the Labour-NZ First Coalition Government after its second year in office, according to responses in a survey of BusinessNZ's membership.

BusinessNZ asked 17 questions from the *NZ Herald*'s 2019 Mood of the Boardroom CEOs survey to its membership and collected 150 responses from a wide range of companies including those from the construction, manufacturing, agriculture and tech sectors.

This research found that 46 per cent of companies put the uncertainty caused by the Government's policies as being the biggest dampener on business confidence for the general business community. In their own organisations, it ranked as the biggest concern too (38 per cent).

The level and quality of government spending was another concern for the general business community, according to almost 30 per cent of respondents.

"Businesses need reassurance that the Government's policies won't lead to lower economic and business growth," said BusinessNZ chief executive Kirk Hope.

The overall policy direction and policy surprises like the oil and gas exploration ban are contributing to this lower business confidence, he added.

"Business really wants positive policies that can support a growing economy," he said.

Achievements and regrets

Leaders share their best achievement and biggest regret over the past 12 months

Best achievement: Coping with and adjusting to new EU medical regulation, harder than you'd think and essential to our market. **Biggest Regret:** I should have bought a small block of factories in close proximity while they were available.
Murray Fenton, Adept

Biggest achievement: $16 million turnaround in EBIT to go from $10 million loss to $6m profit **Biggest regret:** having to raise more debt, couldn't quite squeak through despite our team working hard on this.
Hartley Atkinson, AFT Pharmaceuticals

Best achievement: Built world first flat bed powder coating line for pre-finishing heat sensitive building materials. **Biggest regret:** Not investing sooner in flat bed technology.
Jeff Stewart, Climate Coating

Biggest achievement: Starting prototype phase on a project for US customer which has been 2.5 years in the making. **Biggest regret:** Not buying more USD at 0.7 at the beginning of the year
Craig Wilson, Kilwell Group of Companies

Best achievement: bringing six new immigrants to New Zealand and having their skills produce the workflow we needed. **Biggest regret:** Not being able to bring the immigrants in earlier due to immigration constraints from the Christchurch issue.
Peter Henderson, Bay Sandblasting Services

Best achievement: Exporting 22 SharpGrades in a month. **Biggest regret:** Not being able to find sufficient competent staff to fulfil our export market.
Rodney Sharp, Progressive Group

Best achievement: Surviving death by a thousand cuts from government policy which is business unfriendly including but not limited to compulsory minimum wage increases, foreign buyers ban, dropping of the 90 day trial, union reps entering the workplace without consent, capital gains tax threats, regular changes to LVR, the Auckland real estate sales volume nosedive. **Biggest regret:** Renting a new larger premises.
Mark Ridling, The House & Building Wash Company

Uncertainty

46%
of companies put the uncertainty caused by the Government's policies as being the biggest dampener on business confidence in the general business community

38%
said it was the biggest concern for their own organisation

Co-owner of The House & Building Wash company, Mark Ridling, described government policies as "death by a thousand cuts" for his Auckland business which is reliant on an active real estate market.

His business was hit in the last year by compulsory minimum wage increases, the foreign buyers ban, the dropping of the 90 day trial, the threat of a capital gains tax as well as regular changes to LVR, and what he calls the "Auckland real estate sales volume nosedive."

And while Ridling's woes are quite sector-specific, one of the clear messages coming through from a number of respondents in the BusinessNZ survey was that they were readying for a slowdown and tougher times ahead.

The survey found that over a third (36 per cent) of the company heads surveyed were planning to authorise less capital expenditure in the coming year than in the previous year, while 28 per cent were planning to authorise more, and 30 per cent expected to spend about the same.

Investment in IT was still a priority for most, according to the survey's findings. Companies were expecting to spend more or the same on most cases — 36 per cent were expecting to spend more, and 34 per cent the same amount as the previous year.

For many of these companies in the BusinessNZ membership, they were still feeling like they were winning at this point. They said they were growing their export markets, had increased productivity, and were achieving growth thanks to innovation and good R&D. They were succeeding at recruiting key staff, in some cases they had too many customers and they were busy businesses, opening factories, expanding branches, and increasing margins.

Exporters' concerns

The unpredictable international trade environment over the past 12 months was, unsurprisingly, high up on the general business community's list of concerns, the survey found. This was the second biggest concern for the general business community, according to nearly 35 per cent of respondents.

For exporting firms, they have a lot to contend with in the current climate, the study found. Respondents said their lives would be improved if there were more free trade agreements (FTAs), FTAs with the UK and the EU were seen as especially important.

There was some anxiety about New Zealand's ability to negotiate the advantageous deals exporters needed.

"Market access negotiators from New Zealand routinely give away too much in their negotiations. Rather than pushing for the importing partner to accept our production standards, they bend over backwards to make NZ exporters meet the standard of the importing country. Rather than do the hard yards of negotiating equivalency they cop-out at market access. This leads to NZ exporters needing to spend to meet these multiple overseas standards," said one respondent.

BusinessNZ's Kirk Hope however, applauded New Zealand trade negotiators for the job they were doing across the many aspects of gaining access to overseas markets for exporters.

Countries with large pre-existing trading blocs weren't likely to meet New Zealand's production standards so New Zealand negotiators often focused on international standards like ISO standards, he said.

"Gaining market access also means overcoming non-tariff barriers that hinder New Zealand exports like apples into Australia or beef into Indonesia, where appealing to WTO rules has been successful," he said.

Expenditure

36%
of company heads were planning to authorise less capital expenditure in the coming year

28%
were planning to authorise more

A stable exchange rate was also on the wish list for a number of exporters in this survey as well as access to capital for expansion and a more level playing ground for New Zealand companies against their competition in overseas markets.

Supply of skilled labour

Supply of skilled labour was another key issue highlighted by the BusinessNZ survey, with 37 per cent of those surveyed saying it was a real concern for their businesses.

One IT company head said: "Supply of skilled labour is a huge issue and our biggest."

Employment law changes and wage increases were also both high on the list of concerns for businesses in their own businesses and for the general business community. Respondents called for better government internal training and skills efficiency.

Over half of those surveyed, (57 per cent) meanwhile said it had been very difficult or difficult (one or two out of five) to fill staff vacancies over the last year.

A number of respondents said that retaining staff and hiring staff with the correct skills was one of their three top priorities in the next year.

Meanwhile half of the survey's respondents found it difficult or very difficult to fill staff vacancies from overseas over the last year.

Rodney Sharp, owner of Hamilton-based engineering business, Progressive Group said not being able to find sufficient competent staff to fulfil the company's export market had been a problem in the last 12 months.

Another business head added: "We operate in export education. Immigration and NZQA handicap us."

Peter Henderson, director of Bay Sandblasting Services in the Bay of Plenty, said that immigration red tape was hampering his ability to bring in skilled people to his business.

Housing still an issue

Being based in an unaffordable housing market can contribute to companies' ability to hire, the survey confirmed, with 32 per cent of respondents saying affordable housing was an issue for them making it harder to retain staff.

One business owner commented: "We have lost a couple of employees based on their desire to live in place where they can afford to buy a house. We pay relatively high wages to assist our staff but it is still very difficult for many and impossible for a lot to buy in Auckland."

The lack of affordable housing in the big cities was a real source of stress for staff, said a number of respondents.

Said one business leader, "Workers invariably cannot simply move to a more affordable housing area. They remain but require increased wages.

Skilled labour

37%
said skilled labour supply it was a real concern for their businesses

57%
said it had been very difficult or difficult to fill staff vacancies

The shrinking disposable income affects their health, mentally and physically and higher wages become a focus for them."

NZ businesses want parity with Australian corporate tax

BusinessNZ asked respondents about New Zealand's relatively high headline corporate tax rate in the OECD, where it ranks seventh highest which it said made it insufficiently competitive to attract foreign investment.

Half of those surveyed said they were concerned about this.

Peter Brown, managing director of Miscanthus New Zealand said: "It is

Coalition

Housing

32%

of respondents said affordable housing was an issue for them making it harder to retain staff

becoming more attractive for Kiwi investors to invest overseas, thus starving smaller New Zealand businesses of development capital."

Another respondent said: companies look at some key indicators when determining whether to seriously assess investment options in a country. "Unless we are competitive with the key indicators, we don't get a look-in."

Others were more sanguine about it. "High quality foreign investment seeks high quality businesses to invest in. There is no long-term sustainable advantage to NZ to woo foreign investment using a value proposition of a lower corporate tax rate."

When asked if the Government should consider a phased reduction of the headline corporate tax to 25 per cent by 2027 matching Australia's, nearly 70 per cent of respondents said they would like to see this.

Australia may not be the place to aspire to, said one business owner.

Corporate tax

Nearly 70%

of respondents would like a phased reduction of the headline corporate tax to 25 per cent by 2027, matching Australia's

"We have a subsidiary in Australia. Although the headline tax rate there is lower, the actual cost of compliance and doing in business in Australia is higher than in NZ."

How to improve RMA

BusinessNZ also checked with its membership how well the Resource Management Act had worked to facilitate growth and development in the last year and it continues to attract heavy criticism.

Nearly half of respondents gave it a "not impressive" one out of five, and a further 24 per cent gave it a low two out of five.

Asked for suggestions to include in the proposed replacement for the RMA, respondents suggested it should allow for denser urban housing and to make infrastructure projects easier "to get across the line", and for there to be more clarity for councils to work with.

One company director who had a current submission which had required 12 sets of consultant reports, a submission of over 2000 pages and an estimated timeline for a decision of over 6 months, saw plenty of room for improvement.

"The time and substantial cost are a drag on progress.

"There should be a recognition that business needs confidence in regulator plans in order to invest/streamline process," they commented. And there should be a balance of environmental impact with economic benefit.

RMA

Nearly 50%

of respondents rated the Resource Management Act a "not impressive" one out of five

Local councils were meanwhile being blamed by businesses for projects not being done.

The survey found 100 out of 148 respondents said their council was not impressive, or not very impressive (1 and 2 out of five) at facilitating growth and development.

A question from BusinessNZ on whether businesses should pay higher rates than domestic rate payers was declined, with 52 per cent giving a firm no and a further 21 respondents unsure.

"Higher payment for higher services is fine, but this should be transparent and ideally voted on in some method and paid for by targeted rates," said one.

The top priorities

Complete Landscape Supplies
Staffing
Managing likely downturn in the NZ market
Attempting to grow in this environment

Shaun Newman, TrailLite
Increase productivity
Increase market share
Develop and retain our people

Mark Douglas, Martin Personnel
Strict control in costs operationally
More sales activity
Reducing debt

Peter Brown, Managing Director, Miscanthus New Zealand
Finalise contract to establish major Miscanthus stand for carbon negative renewable diesel production.
Set up New Zealand's first graphene production plant.
Get the carbon benefits from both of these officially recognised.

Other business priorities for the next 12 months:
Anumber of companies talked about getting ready for turbulent times or a downturn ahead, keeping a close eye on staff costs and achieving stability in a local and globally unstable environment.
Improving productivity, finding more "forward work" is top of mind for these BusinessNZ companies, and they are valuing the importance of innovation, ICT development, wellness, and retaining good staff. Seeking more export markets remains a priority for a number of respondents, as well as diversifying and capital-raising.

Key findings

Business confidence — nearly half (46 percent) of BusinessNZ companies surveyed said that the general uncertainty around the impact and direction of government policies were having the biggest effect on the confidence of the general business community. This was also the biggest concern in their own businesses too (38 per cent).

Some businesses preparing for downturn — A number of businesses said they were preparing for a downturn in the next year and talked of taking steps of preparing for a new environment although for most, their businesses were still doing well. However 36 per cent of the companies surveyed said they were going to authorise less capital expenditure in the coming year while 28 per cent said they would be investing more and 30 per cent said they would do invest the same amount.

International trade concerns — the ructions in the international trade environment were the second biggest concern affecting confidence (34 per cent) for the general business community. Respondents also expressed a concern about the international trade environment (20 percent) for their own businesses and wanted to see more consistency with foreign exchange.

Skills shortages and immigration — skills shortages from New Zealand and recruiting from overseas are a mounting concern for the business community with 57 per cent saying it was either difficult or very difficult to fill staff vacancies over the past year. And it was very difficult or difficult to fill staff vacancies from overseas over the last year for close to half (49 per cent) of the companies surveyed.

Resource Management Act (RMA) — nearly half of the respondents (49 per cent) gave the RMA the thumbs down, giving it a one out of five. A further 24 per cent gave it a two out of five. There were too many councils and other stakeholders getting in the way of projects getting greenlit, said respondents.

Corporate tax — A resounding 69 per cent of businesses would like to see a phased reduction of the headline corporate tax in New Zealand come down to 25 per cent by 2027, to match Australia. The current rate is not sufficiently competitive to attract foreign investment, thought half (51 per cent) of those in the survey.

A clear vision for future infrastructure

Infrastructure is a big challenge for the productivity of New Zealand, says BusinessNZ's Kirk Hope

The Government's plan for infrastructure is one of the most pressing issues that need to be addressed for the business community right now, says BusinessNZ chief executive Kirk Hope.

There is no doubt infrastructure is a big challenge for the productivity of New Zealand, so having a very clear, long-term plan around infrastructure is crucial, he says.

"We have $40 billion allocated for infrastructure over 10 years but it's still not very clear what that money is going on. When you make very big decisions around infrastructure and switch from roads to light rail, there are consequences."

The Government has done well in getting on to the review of the Resource Management Act, but there's still a lot to do around legislation which would enable New Zealand to build quality infrastructure quickly, says Hope. He warns that though the new Infrastructure Commission will be very helpful, it will have a strategic purpose only.

The Government is fiscally well positioned to put money into infrastructure projects if there is a downturn, but would the country be able to attract the builders and engineers they would need to do the work and how quickly, asks Hope.

Housing is included in the infrastructure issue, he says.

The Labour-led Coalition Government has been on a roll with social housing but there is less to be certain about with the general housing market.

Skills shortage

An issue which is really starting to crunch business is skills shortages, and these are across the spectrum, says Hope.

There is relatively high unemployment for 18-to-24 year olds, but It's about getting these young people "workforce-ready," he says.

There were some strong policy reasons for putting country's polytechnics recently to go into a single entity but the Government must make sure that it doesn't lose the pipeline of people currently in the system, he says.

Free trade agreements

As the US and China have a very public trade stoush and the UK's relationship with the European Union gets frostier by the minute, New Zealand exporters will have to be alert for challenges and opportunities.

Kirk Hope's top three issues

- A need for a clear, long-term plan for infrastructure
- Skills shortages
- The (too) long list of policy changes

"When you look at the landscape and where the demand is coming from, we're doing okay. Asia is still going fairly well for New Zealand," says Hope.

The Business NZ chief executive is thankful for the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) signed last year, which he thinks will lead to more free trade agreements.

The CPTPP broadens zones and markets for New Zealand, he says. Meanwhile a European Union free trade agreement would break down a lot of barriers for New Zealand export business, he says.

"The more free trade access, the better insulated we are against regional and global headwinds," says Hope.

A laundry list of worries

Looking at business confidence locally, New Zealand businesses have had to think about a raft of new government policies, says Hope.

The increase in the minimum wage was significant for SMEs, he says.

"In reality, it does not just hit the minimum wage workers, it goes right through the pay scale," says Hope.

Other issues on the business community's list of worries include the ongoing immigration policy, says Hope, which makes immigrants on three year visas, leave New Zealand for a year.

"The process by which we enable people to come into New Zealand remains challenging," says the Business NZ chief executive.

At the same time, businesses are still trying to understand the implications of the Coalition Government's climate policy.

They are currently digesting the new regulatory framework for drinking water safety and improving outcomes for wastewater and stormwater.

If you are a SME business owner who wants to look at the next step of growth or development and are questioning if the time is right to commit to more expansion, it's a lot to think about, says Hope.

Another concern keeping business owners up at night are the consequences of the Reserve Bank's increased capital requirements on the big banks which Hope is sure will restrict businesses' access to capital.

— Gill South

MOOD OF THE BOARDROOM

Herald managing editor Shayne Currie


Grant Robertson


Mood of the Boardroom debate 2018


Paul Goldsmith

The 2019 Mood of the Boardroom debate features Finance Minister Grant Robertson and National's finance spokesman Paul Goldsmith


Fran O'Sullivan, NZME Head of Business