



*Business New Zealand Recommendations*

*to the*

## **Employment Summit**

**27 February 2009**

# Summary of Business NZ recommendations and ideas for Jobs Summit:

## Redundancy

- Look to alternatives to redundancies, including investing in skills.
- Ensure workers made redundant have access to timely opportunities for skill development that meets the needs of business and industry.
- Ensure those with no or low skills are provided with relevant opportunities for skill development.
- Alternatives to redundancy to be guided by appropriate criteria, e.g.:
  - All options are voluntary, i.e. they are a menu not a code
  - Options are chosen to suit circumstances of enterprise
  - Options are effective only by agreement (through existing contractual provisions, or specifically)
  - Options chosen are effective for fixed (agreed) terms only (identify trigger points for activation and cessation of options)

## Training and skills

- Government and industry to encourage employers to improve, not cut back, on training (the focus on skills and productivity improvement should not be lost).
- Government, industry, business organisations to inform enterprises, unions and workers of the alternatives to redundancies.
- Expand tertiary education where it is linked with employer and industry needs.
- Explore the setting up of support that would allow employers to keep their employees while they release them for training (e.g., combining options that include training for existing workers with reduced or flexible hours).
- Introduce a scheme to encourage employers to take on unemployed apprentices who have not fully completed their apprenticeships.
- Fast-track laid off employees into training and retraining (e.g., numeracy and literacy programmes, digital literacy, health and safety).
- Expand job matching, transition and adjustment arrangements (e.g., skills of laid off workers matched with regions and workplaces needing those skills, for example through web based tools).
- Improve access to careers and labour market information and advice for adults in the workforce, including enabling pathways between industries.
- Introduce an apprentice or trainee guarantee into small and large scale Government funded infrastructure projects (e.g., 10% of all infrastructure spending).
- Support the expansion of group apprenticeship and training schemes (e.g., ETCO).

- Achieve better recognition of existing skills and experience of laid off workers to fast track them into work or appropriate retraining opportunities.
- Review the adequacy of current volume levels in the context of emerging tertiary education participation patterns.
- Reconsider the rule that penalises tertiary education organisations for taking on unfunded volumes, or suspend the rule for the duration of the recession.
- Actively work with employers and employees, anticipating and dealing with crises before they happen.
- Adequately support part-timers and marginally detached workers.
- Smooth transition by minimising friction around re-entry into the workforce (interview skills, skills and competencies are captured and portable).
- Create more visibility around available jobs (opening up and connecting existing databases).
- Expand access to training and skills development.
- Introducing paid work experience.
- Increase opportunities for Recognition of Prior Learning assessment.
- Connect young people who have left school with skills, training and pre-apprenticeship training, career and employment information and opportunities.
- Acknowledge options that extend beyond school years and offer support for programmes that combine education, employment and training.
- Improve access to careers and labour market information and advice for adults in the workforce, including enabling pathways within and between industries.
- Improve provision of information, access to careers advice, and life long learning advice for young people currently in the workforce and their families.

### **Business capability**

- Government to partner with the private sector to provide advice and management capability development opportunities.
- Provide small enterprises with a voucher to access business planning advice and mentoring services.

### **Tax**

- Government immediately conduct a comprehensive independent review of New Zealand's tax system, taking into account the importance of competitiveness and efficiency (i.e. McLeod Report II).
- Policies to reduce tax compliance costs for SMEs to be extended to larger companies also.

## **Regulation**

- Identify and remove regulatory barriers to job creation and retention at the local/regional government level.
- Government to initiate a 'top five areas of regulatory creep' investigation to ensure imposed costs that reduce enterprise capacity are examined and rectified.
- Introduce a Regulatory Responsibility Act to improve the overall quality of regulation in New Zealand.

## **New businesses**

- Government to consider providing funding (vouchers?) for new enterprises to seek quality 'start up' knowledge and information about the requirements for business planning.

## **Infrastructure**

- Invest in small scale infrastructure, e.g. water meters, schools, and hospitals and upgrade existing infrastructure.
- Central and local government to work together to bring forward public sector infrastructure projects currently in the pipeline. Where feasible, private sector investment to also be involved.

## **Finance**

- Financial institutions to continually examine criteria used to evaluate new enterprises, particularly those enterprises whose assets are predominantly of an intellectual services nature
- More information to be made available to enterprises, particularly small enterprises, many of whom have tended to try and fund enterprise expansion through debt rather than through equity finance, when equity may be more appropriate.
- Banks, government, enterprises and households to communicate better so that there is an understanding of the current status of, and potential changes to, credit supply, thus minimising uncertainty for enterprises and households seeking finance.

## **Context and background**

- New Zealand is in the midst of arguably the most serious economic downturn since the Great Depression. The economy needs a mix of fiscal policy, monetary policy and enterprise responses in order to minimise the worst effects of the economic downturn. At the same time, the Government needs to build long term prosperity to drive New Zealand's economy once it has reached the turning point of the downturn.
- Stronger economic performance requires making investments in infrastructure and New Zealanders today to increase New Zealand's competitiveness.
- For many employers tightened access to financing and loss of revenue means they are having trouble paying expenses. Redundancies are rising, and a further increase in unemployment is projected. Historical experience suggests that youth, immigrants, low-skilled and older workers are more likely to bear the brunt of rising unemployment.
- Government cannot solve such issues alone, without consultation with and help from private sector partners and the wider business community.
- Innovative measures are needed to prevent a loss of productive skills to the New Zealand economy and to create opportunities to raise the skill levels of the workforce, supporting enterprise competitiveness in the long run.
- The role of Government in the skills area is to provide an environment conducive to systematic/ongoing investment in skills development by enterprises and communities.
- Consideration should be given to initiatives that maintain or enable skills development during this period of economic weakness. Strongly linking skills development with productivity will ensure that enterprises and New Zealanders are well placed to take advantage of new opportunities when the economic upturn comes.

## **Introduction**

In this paper Business New Zealand sets out its thoughts and suggestions for the Employment Summit to be held on 27 February 2009. The ideas and suggestions identified below are not policy positions, nor are they exhaustive. Rather, they are ideas that focus on creating jobs in the next 12-24 months.

Infrastructure, a business friendly environment, responsible government action in taxing and spending, flexible employment laws, skills and productivity, investment, innovation and entrepreneurship, and trade are necessary for the New Zealand economy to grow.

The ability of government to directly foster enterprise development and entrepreneurship is limited, although government does have a major role in removing regulations and controls that (often unintentionally) inhibit enterprise investment and development.

It is crucial that any examination of measures to counteract recessionary outcomes support New Zealand's growth and competitiveness in the long term.

Measures introduced that focus only on short-term relief and which have not been fully considered in terms of ongoing policy implications will often have the opposite effect from that originally intended.

Proposals need to be consistent with improving productivity and competitiveness, and have long-term growth prospects for the New Zealand economy.

Business New Zealand has focused on initiatives that:

- Stimulate the economy
- Create an environment that supports enterprise
- Assist employers to retain workers
- Assist workers newly unemployed.

Innovative measures are needed not only to mitigate the loss of productive skills to the New Zealand economy, but also to create opportunities to raise the skill levels of the workforce, supporting enterprise productivity and competitiveness in the long run.

Business NZ welcomes the opportunity to contribute to this very timely and relevant Summit, and stands ready, on behalf of its members, to work with the Government, unions and others to frame its proposals in more detail.

### **Brief to Government based on economic downturn**

In November 2009 Business NZ's briefing provided advice to the incoming Government based on the reality of deteriorating economic conditions. The briefing identified matters that are issues for business no matter what the economic situation. Business NZ's briefing is available from [www.businessnz.org.nz](http://www.businessnz.org.nz) under 'submissions'. The pace at which the economy has weakened makes action on these issues even more appropriate and timely, given that it will be healthy enterprises operating in an environment fit for growth that will lead to improved economic performance.

### **A strong focus on employment**

Historical experience and international research shows that youth, immigrants, low-skilled and older workers are more likely to bear the brunt of rising unemployment. The slowdown is also likely to disproportionately affect workers in certain industries (e.g., construction, tourism).

Experience also shows that the economic downturn is likely to have a serious effect on the numbers of apprenticeship places and level of training as employers reduce their workforces and/or cut back on training – adversely impacting on productivity and competitiveness in the long run.

Business NZ believes that the economic downturn is a significant opportunity to improve the skills of the workforce, better positioning the economy, enterprises and workers to take advantage of growth opportunities when the upturn comes.

To help employers and workers through the economic downturn and support them to gain the new technical and professional skills and qualifications which our future economy will require, new measures and initiatives should be concentrated in areas that will enhance the economy's growth potential so that increased spending today can be covered by higher fiscal revenues without requiring higher taxes in the future.

Investment in human capital and infrastructure both fall within these parameters.

### **The workplace and core employment issues**

The workplace and labour markets are areas in which Business NZ has a particularly strong interest.

A well-functioning and flexible labour market has a positive impact on employment growth, enabling enterprises to adjust in response to rapidly changing market conditions, thereby remaining internationally competitive.

Attention should be given to the impact labour market regulations have on employment. Labour market regulations add significantly to the cost of employing staff, add to the perceived risk of employing staff or are seen as unnecessarily complex and act as a disincentive to new hires or worker retention. To this end Business NZ welcomes the Holidays Act Review and encourages further reviews of this nature.

Given the continued existence of reasonable flexibility in the labour market, Business NZ at this time does not recommend any actions in association with the Employment Summit towards workplace and labour market regulation. That is not to say action in this regard is not necessary. Business NZ believes actions are very necessary to improving the competitiveness of the economy, but these should follow the normal select committee process.

#### ***Keeping people in their jobs - alternatives to redundancy***

Laying workers off and/or cutting back on training are obvious ways for employers to save money in the short term. However, such an approach means risking a skills gap at the end of the recession, constraining the ability to take advantage of growth opportunities.

New Zealand enterprises need to be careful not to throw away their investment in employees. They will require a skilled workforce to remain productive, both to sustain themselves over the downturn and to take advantage of new growth opportunities.

There are a number of possible options to redundancy that enterprises, both large and small, could consider before retrenching workers. Use of any of these options to temporarily mitigate the effects of the downturn needs to be guided by appropriate criteria. In this context, possible criteria include:

- All options are voluntary, i.e. they are a menu not a code
- Options are chosen to suit circumstances of enterprise.
- Options are effective only by agreement (through existing contractual provisions, or specifically)
- Options chosen are effective for fixed (agreed) terms only (identify trigger points for activation and cessation of options).

Against this framework, approaches may involve a range of possibilities in a number of areas including:

| Positions  | Possible Menu of Options   |  |  |
|--|--|--|--|
|  | Days/Hours   | Absences   | Wages  |
| Don't fill vacancies   | Job sharing (2 or more employees working reduced hours in a common position)                           | Require untaken leave to be taken (could be in conjunction with temporary cessation of operations) | Reduce normal hourly rates   |
| Reduce use of fixed term/casual staffing                                     |  |  | Reduce paid overtime rates   |
| Transfer underutilised staff to other jobs within enterprise                 | Reduced hours per day/days per week (could be in tandem with subsidised external training to options). | Permit use of large untaken sick leave entitlements for non sickness purposes                      | Reduce/cease allowances  |
| Second underutilised staff to other enterprises                              |  |  | Moratorium on wage increases   |
| Pool resources with co-located/nearby enterprises (e.g., maintenance trades) | Reduce use of paid overtime  | Unpaid leave (could be in conjunction with externally subsidised training or other activities)     | Tie any increases to criteria around growth, productivity, cash flows etc. |
|  | Review use of flexible hours (increase or decrease may both be appropriate)                            |  |  |
|  | Manage breaks to ensure maximum work continuity  | Cash up leave (increases labour force capacity)  |  |

| Perks   | Training  | Redundancy Payments   |
|---|---|---|
| Reduce/remove right to use enterprise property e.g., vehicles | Offer up-skilling, retraining for own/other jobs within enterprise<br><br>Government subsidised training opportunities to:<br>- offset reductions in wages caused by fewer hours/lower wages etc.<br>- train for alternative careers. | Waive right to available redundancy compensation if another (acceptable/similar?) position is found by employer (or government through active labour market options) within a reasonable timeframe. |

There have been examples recently where enterprises and workers having worked together to preserve jobs by adopting creative solutions to the challenges presented by the difficult economic conditions. Consideration should be given to providing examples of successful collaboration between Government, unions, enterprise and social partners (including collaboration between the social partners, Government, the CTU and Business NZ). This type of information, advice and support for enterprises and industries, particularly small and medium sized enterprises and mono-enterprise towns, could be provided through existing networks as well as through other innovative approaches.

In this regard, the work of the *Security in Change Steering Group* should be considered. This *Group*, comprised of social partners, developed proposals and explored options that aimed to:

- Smooth and speed up employee transitions following restructuring or redundancy
- Provide greater security for individuals affected by economic circumstances
- Promote optimal labour market participation and more effective use of New Zealand's available workforce.

Affected workers may be entitled to Working for Families tax credits or other assistance from Work and Income. For people who have been made redundant, help may be available through the Government's ReStart package which provides extra support for workers to help them get back on their feet. Straight2Work, Cadet Max and the Skills Investment Subsidy are packages that provide training opportunities.

The report of the Public Advisory Group on Redundancy and Restructuring is the first comprehensive review of redundancy law in New Zealand and should be considered a resource.

***Small enterprises - if there is ever a time for good quality business advice and leadership it is now***

Significant growth in employment will depend much on small to medium sized enterprises creating and sustaining viable enterprises.

Professional advice on business planning and strong management capabilities is essential to longer-term enterprise viability.

While the ability of government to directly foster enterprise development and entrepreneurship is limited, it seems reasonable to consider developing a government programme to support business advice and management capability training for enterprises, SMEs in particular.

This could be achieved through stronger cooperation with existing private sector networks and unions. Such a public private/partnership could be further strengthened through the introduction of a grant or subsidy (e.g., through a voucher).

The wider Business NZ family is actively involved in helping enterprises improve themselves, through the provision of a wide range of services to enterprises, including training and tailored programmes on:

- Business planning advice  
Information on government activities, services and products
- Benefits of skills development and capability building
- Ongoing business as usual assistance and mentoring
- Business restructuring
- Redundancy law
- Alternatives to redundancies

EMAs and industry associations are well placed to provide business planning information and advice to enterprises, including practical steps enterprises can take to avoid redundancies. In many instances this information is already available through the Business NZ family.

Business NZ believes that the Government could:

- Partner with the private sector to provide advice and management capability development opportunities
- Provide small enterprises with a voucher to access business planning advice and mentoring services, helping enterprises improve their viability and employment generation potential.

**Seasonal work and primary industries**

Immigration is increasingly important to New Zealand's labour supply and attractive (compared to other countries) immigration policies are critical to our competitiveness in the long run.

With rising unemployment, there is a need to re-evaluate the focus and robustness of labour market testing processes across all immigration policies to ensure these are effectively assessing the potential for New Zealand workers to do the work before turning to overseas sources (training may be useful as will recognition of prior learning and experience).

That said, we must also take care that the real needs met by schemes such as the Recognised Seasonal Employers Scheme, as well as the regional cooperativeness required for overall economic prosperity, are not lost sight of.

It is also important to keep up-skilling and retraining seasonal workers and to create enabling pathways between industries.

## **Workers: Skills and Transitions**

Education and training remain the most important means to improve employment prospects. Maintaining the right skills for the labour market will help ensure that, when growth returns, the skills the economy needs will be in place. Investments in education and training now will benefit everyone in the long run.

### ***Skills, training and apprenticeships***

The near term economic environment challenges the capacity of employers and industries to keep workers in jobs and to continue to invest in capability development.

The recession associated with the early 1990s led to in disinvestment in skills, training and apprenticeship. The result: lasting skills shortages and constrained growth. Business NZ stresses the need to take measures to enable employers and industries to keep workers in jobs, and to maintain and to raise the skills levels of New Zealanders.

New Zealand's labour market faces a number of challenges:

- Low levels of functional literacy and numeracy
- Persistent low levels of productivity growth
- An ageing population
- Difficulties in attracting new entrants into traditional trades and labour intensive jobs
- Broad-based labour and skills shortages
- Up-skilling to remain internationally competitive.

The recent focus on overcoming these challenges should not be lost. The economic downturn provides an opportunity to address these issues. It is an opportunity we cannot let go to waste.

New Zealand enterprises will need skilled workers to remain strong and productive both to sustain enterprises for the duration of the economic downturn and to take advantage of growth when it flows through.

Innovative measures are needed not only to prevent a loss of productive skills to the New Zealand economy but also to create opportunities to raise the skill levels of the workforce, supporting enterprise competitiveness in the long run.

In this context, New Zealand needs to do three things to meet the challenges posed by the weak economic environment:

- Look to alternatives to redundancies, including investing in skills
- Ensure those workers who are made redundant have access to timely opportunities for skill development that meets the needs of business and industry
- Ensure those with no skills and low skills are provided with relevant opportunities for skill development.

If the Government is effective in these three areas, it will also, most importantly, improve opportunities for low skilled and no skilled workers, with positive spill-overs for families and communities, and will boost enterprise productivity and New Zealand's long-term competitiveness.

With these three things in mind, we have identified a number of high level initiatives that should be considered and developed further including (but not limited to):

- Government and industry encouraging employers to improve, not cut back, on training (the focus on skills and productivity improvement should not be lost)
- Government, industry, business organisations informing enterprises, unions and workers of the alternatives to redundancies
- Expanding tertiary education where it is linked with employer and industry needs
- Exploring the setting up of support that would allow employers to keep their employees while they release them for training (e.g., combining options that include training for existing workers with reduced hours or flexible hours)
- Introducing a scheme to encourage employers to take on unemployed apprentices who have not fully completed their apprenticeships
- Fast tracking laid off employees into training and retraining (e.g., numeracy and literacy programmes, digital literacy, health and safety)
- Expanding job matching, transition and adjustment arrangements (e.g., skills of laid off workers match with regions and workplaces needing those skills, for example through web based tools)
- Improving access to careers and labour market information and advice for adults in the workforce, including enabling pathways between industries
- Introducing an apprentice or trainee guarantee into small and large scale Government funded infrastructure projects (e.g., 10% of all infrastructure spending)
- Supporting the expansion of group apprenticeship and training schemes (e.g., ETCO)
- Achieving better recognition of existing skills and experience of laid off workers to fast track them into work or appropriate retraining opportunities.

To do nothing around skills, training and apprenticeships is not an option and creates real upside risks. Importantly, the ability to engage in education and training relies upon a foundation level of language, literacy and numeracy skills. Without basic skills, it is difficult to develop the skills needed in a working environment that is ever changing and increasingly technical. Business NZ believes that continuing access to on-job and off job literacy programmes is essential to support raising the literacy and numeracy skills of employees and underpins productivity improvement. Scaling up measures to enhance the management and leadership skills in enterprises should also be considered.

***Policy issues that need to be addressed***

Initiatives like those outlined above taken together with increased demand for short courses (on or off job) will directly challenge wider tertiary education

policy settings, raising some tricky issues that will need to be addressed with urgency.

The current availability of education and training places in the tertiary sector may not be enough to meet likely demand from New Zealanders wanting to upskill or retrain. Business NZ believes that the Government should review the adequacy of current volume levels in the context of emerging tertiary education participation patterns. Government should also reconsider the rule that penalises tertiary education organisations for taking on unfunded volumes or at least suspend the rule for the duration of the recession.

The Government must also guard against providing incentives for education and training that does not meet employer and industry need. Investing in education and training will only generate employment if it is directly linked with employer and industry needs. Employers and industry must continue to be closely involved in the design and delivery of employment, education and training programmes.

### ***Transition and adjustment arrangements***

If we are going to provide opportunities for New Zealanders, we need to make the right investments today in order to rebuild by investing in transition and adjustment arrangements that are focused on increased employability. A demand-led approach to employment, training, transition and adjustment arrangements should be a priority.

We know that in a globalised world New Zealand needs a workforce that can nimbly respond to dynamic changes that we cannot predict. We also know that recessions are discriminatory, affecting some groups more than others. The Government needs to ensure that these workers' skills remain relevant to employers' needs and are not lost altogether.

Declining and low skills levels can hold back productivity and growth and, if not addressed, will result in increasing inequality and the marginalisation of some groups within the labour market.

Business NZ believes that transition and adjustment arrangements for those workers at risk of retrenchment or newly unemployed must prepare them for new jobs in an increasingly competitive global economy. This will not only be good for workers but for enterprises and the overall economy as well.

In this context, Business NZ believes consideration should be given to:

- Actively working with employers and employees, anticipating and dealing with crises before they happen
- Adequately supporting part-time workers and marginally detached workers
- Smoothing the transition by minimising friction around re-entry into the workforce (interview skills, skills and competencies are captured and portable)
- Creating more visibility around available jobs (opening up and connecting existing databases)
- Expanding access to training and skills development
- Introducing paid work experience
- Increasing opportunities for Recognition of Prior Learning assessment – assessment of current skills and competencies, needs assessment/analysis, training plan development
- Connecting those young people who have left school to skills, training and pre-apprenticeship training, career and employment information and opportunities
- Acknowledging options that extend beyond school years and offer support for programmes that combine education, employment and training
- Improving access to careers and labour market information and advice for adults in the workforce, including enabling pathways within and between industries
- Improving the provision of information, access to careers advice, and life long learning advice for young people currently in the workforce and their families.

These measures emphasise the need to act collaboratively and to draw on the collective experience and observations of government agencies, schools, community groups and the private sector. They provide a menu of options that includes practical support options and recognise that many such strategies are already in varying stages of implementation, while others are the subject of continuing exploration.

### ***Maori economy, local and regional government***

Although unemployment, until recently, had trended down to historically low levels, Maori are still disproportionately represented amongst the unemployed.

The fact that many Maori have no formal qualifications reduces the options available to young Maori in pursuit of employment. Without basic qualifications, the ability to aspire to more technical and academic interests is reduced. In this respect, while the changing nature of work and the impact of global competition have forced many New Zealanders to adjust, particularly in terms of acquiring qualifications and work-related skills, this change in behaviour has not been so prevalent amongst Maori.

It must also be appreciated that many Maori are starting from a low base in respect to self-employment and would therefore need to maintain present growth rates into self-employment for a long time before they would compare favourably with the population as a whole. These factors raise questions as to the difficulties for Maori in starting up enterprises and in obtaining capital with which to support business growth. While these concerns are not unique to Maori, they nonetheless tend to impact more on Maori than on the general population.

Raising awareness around the breadth of services available for new and existing Maori enterprises should be considered. Specifically, the Business Facilitation Service of Te Puni Kōkiri helps new and existing enterprises with advice and guidance (e.g., mentoring, coaching, and referrals to other business services), and the Te Puni Kōkiri Accredited Business Mentors programme is based on long term mentoring relationships. These services are particularly relevant in the current economic environment. The work of the Hui Taumata Workforce Development Trust should also be considered further.

Three background papers developed for the Hui Taumata in 2005 made some very useful points. The paper *Developing Assets* posed some useful questions about the governance of Maori assets. By and large, governance arrangements that are as close as possible to those that have evolved in open and competitive markets seem most likely to be successful. Historical experience around the world suggests that tribal structures tend to diminish in importance in the longer run, unless they are artificially preserved by policies that fossilise existing arrangements.

The ability of many Maori to raise capital has been reduced by the unwillingness of many financiers to recognise Maori 'economic units', while Maori have tended to be averse to risk-taking which is part and parcel of self-employment and business growth.

In this context, banks and other lending institutions have an important role to play. Lending criteria usually fail to accept the nature of multiple-ownership of Maori land and the alienation imposed by a traditional mortgage despite financial viability being likely in other respects. There is a case for banks and other lenders to be innovative in their lending criteria to ensure greater opportunity for Maori land assets to be recognised as such for the development of Maori in business.

Recognising the current level of Maori unemployment and the potential for employment growth, there may be a place for the Government to consider providing Maori people with access to management and business training to optimise the use of such land.

Business NZ believes that financial lending institutions should be urged to review lending criteria and be innovative in their methods of lending on Maori land.

### ***Local and regional government***

Given the importance of the local government sector to the New Zealand economy, it is important that local government actively contribute to improvements in productivity and economic growth.

Local government spending is currently equivalent to more than 3 percent of gross domestic product while over the next 10 years councils in aggregate expect to spend over \$30 billion on infrastructure alone.

Ratepayers' equity is a massive \$81 billion – equivalent to about twice the value of all securities listed on the NZX and around twice as much as taxpayers' equity in central government.

Enterprises pay about half the country's rates bill, a high burden given the size of the business sector and extremely disproportionate to the level of services supplied to them.

Local and regional government has great influence over local and regional economic development. Consequently, local and regional government needs to work in partnership with local enterprises to improve employment creation and investment, boosting the local economy. This may also require a review of local government legislation, particularly where they stifle development.

The bulk of regional and local government activities is concerned with maintaining and renewing essential infrastructure (e.g., storm water systems). Local and regional government infrastructure projects stimulate growth regionally, with spin offs for local communities and enterprises.

A number of local and regional government infrastructure projects may be possible which do not require resource management consent (e.g. the potential installation of water meters). Business NZ supports a public/private partnership approach to longer-term infrastructure projects. For example, the Government should consider partnering with Iwi enterprises, often with Treaty of Waitangi settlements assets, to progress long-term infrastructure projects.

Like central government, local and regional government are large employers. There is scope to provide support for apprenticeships within local and regional government on a wider basis.

## **Helping firms survive**

### ***Tax***

A nation's tax system is one of the most crucial factors in determining economic growth. A broad-based, flat tax structure provides the simplest and most competitive way in which to boost growth in an economy, while a complex and multi-layered tax structure brings substantial deadweight costs and prompts efforts at tax avoidance.

An ongoing pathway to tax reform is required in New Zealand and Business NZ recommends measures to ensure our tax system is internationally competitive and conducive to growth. Specifically that:

- Government immediately conduct a full and comprehensive independent review of New Zealand's tax system, that takes into account the importance of competitiveness and efficiency (i.e. McLeod Report mark II)
- Policies to reduce tax compliance costs are taken beyond those that particularly hamper SMEs, to ensure that the overall deadweight loss of tax compliance is also minimised for medium-large enterprises.

### ***Regulation***

Too many laws, too many of low quality, are a concern for enterprises. Simply understanding new legislation, let alone complying with it, is an increasing challenge for enterprises, especially small enterprises.

A number of forces are driving the excessive amount of legislation and regulation including:

- Increased risk aversion - with legislation seen as an easy way to protect against physical or financial risk
- Pressure on governments and political parties to be seen to be 'doing something' in response to current issues
- An MMP system that encourages parties to focus on smaller constituencies and interest groups that sometimes wish to promote regulations for relatively narrow interests.

Regulations are easily imposed but once in place are hard to get rid of; the consequence, high compliance costs. Options in this area include:

- Identifying and removing regulatory barriers at the local/regional Government level, to job creation/retention.
- Government initiating a 'top five areas of regulatory creep' investigation to ensure imposed costs that reduce enterprise capacity are examined and rectified.
- The introduction of a Regulatory Responsibility Act to improve the overall quality of regulation in New Zealand.

## **Business investment**

### ***New businesses***

A significant proportion of the future employment opportunities will depend on entrepreneurs creating new viable enterprises. While it is difficult to predict where these jobs will be, it seems clear that in general terms they will be knowledge-intensive, in the services sector and in the private sector.

There are a number of factors which impact on the extent of entrepreneurship. These include whether or not an individual is risk averse and the particular policies adopted by government that may encourage or discourage risk taking.

The ability of government to directly foster business development and entrepreneurship is limited, although government does have a major role in removing regulations and controls that (often unintentionally) inhibit business investment and development.

It is most important when starting up a small enterprise to have systems are appropriate, efficient and effective. It is normally not the technical aspects that let enterprises down – it is the lack of effective and efficient systems.

There is scope for an enhanced role for programmes that provide professional advice and act as mentors for small enterprises. While such programmes are already undertaken by both the public and private sectors to varying degrees, nevertheless it may be possible to expand these schemes into regional areas and communities where arguably the greatest need for small enterprise advice exists.

Investors are more likely to have confidence in enterprises that are well briefed and researched and that have access to good operational and strategic advice on an ongoing basis.

Business NZ believes that the Government should consider providing funding (vouchers?) for new enterprises to seek quality 'start up' knowledge and information about the requirements for business planning, such as bookkeeping, cash flow analysis and risk management planning, in order to improve enterprise viability and employment generation potential.

***Boosting existing businesses by bringing forward small and large scale infrastructure developments***

The right mix of fiscal and monetary policy will boost existing enterprises and can make a real difference. New Zealand has further room for monetary policy easing and for fiscal stimulus which can support household incomes and boost existing enterprises.

Significant extra investment in small and large scale infrastructure should be considered by the Government to head off the economic downturn and lay the foundation for future competitiveness where:

- It improves productive capacity
- Build's competitive advantage
- Increases overall efficiencies
- Improves New Zealander's quality of life.

Business NZ believes there are opportunities for the Government to introduce infrastructure projects and programmes that will assist in reducing the effect of the downturn. In particular, infrastructure projects with no or minimal Resource Management Act implications could provide a variety of possibilities. However,

any new policies should not crowd out projects that would otherwise be undertaken by the private sector. Also, they should not lead to any localised skills shortages that could hamper other project development.

Investment in small scale infrastructure, such as water meters, schools, and hospitals will generate economic flow-on effects and improve the living standards of New Zealanders. Upgrading existing infrastructure should also be considered.

It will also be important for Central and Local Government to work together to bring forward as many as possible of the public sector infrastructure projects that are in the pipeline throughout New Zealand. Where feasible, private sector investment should also be involved. Government infrastructure investment should act as a lever for increased private sector partnership and cooperation.

### ***Kick starting capital expenditure***

The current economic outlook is very challenging for enterprises. Difficulties in accessing credit may undermine otherwise viable capital expenditure programmes, further accentuating economic weakness and adversely impacting on employment.

That said, Business NZ would not support government becoming the lender of last resort to small and medium sized enterprises. While the availability of credit is important to ensure enterprises are able both to continue running and/or expand operations, the funding for such loans should come through private lending institutions.

Business NZ believes the Government can play a role in facilitating discussions amongst the major enterprise lenders to ensure sufficient funds are available to underpin enterprise investment.

Government investment in infrastructure also has the potential to kick start capital investment. It is important that any capital spending is clearly linked to the Government's objective of improving efficiency and productivity and hence the standard of living of New Zealanders over time. One such example would be the wide scale installation of water meters in domestic residences.

As local authorities face considerable pressures to upgrade water and sewerage systems, the use of water meters would provide households with clear signals as to their water consumption and the expenditure required to deliver such services thus improving incentives to use water efficiently. Currently, in many cases, water charges simply come out of general rates thus discouraging innovative ways of reducing water consumption.

From a longer-term perspective, the introduction of water meters would meet a number of key requirements aimed at preserving and generating employment:

- Involve installation across the country so the benefits would be widespread amongst local communities
- Be delivered over a time frame as resources permitted so would not create resourcing difficulties
- Meet one of the Government's key objectives of ensuring individuals and consumers meet the real costs associated with resource consumption
- Be consistent the Government's 'second stage' reform of the Resource Management Act (RMA), addressing important issues surrounding the allocation and tradability of water consents to improve efficiency through clear pricing signals
- Provide greater investor confidence that the Government is indeed committed to reform of the sector, thus assisting in long-term investment in water storage and general water infrastructure driven by clear market signals.

### **Firm funding**

It is now widely accepted that entrepreneurship and job creation are determined to a large extent by the business and legislative environment in which business must operate.

Government has a major role to play in providing the right environment for business to expand and generate further employment.

While government itself cannot generate economically productive jobs, it can certainly restrict employment growth through an inappropriate policy mix, both at the macro level with fiscal and monetary policies, and at the micro level through inappropriate regulation and controls. Institutions outside government, for example the banking sector, can also influence the level of employment indirectly, through their decisions to lend to new enterprises and existing enterprises seeking to expand.

Access to capital has often been considered to be one of the major barriers to small enterprise growth preserving or expanding employment opportunities. However, deregulated financial markets provide greater ability for marginal enterprises to secure finance. Moreover there has been a tendency for many small enterprises to try and fund enterprise expansion through debt rather than through equity finance when equity may be more appropriate.

The relatively strong growth in the NZ economy up until the recent international global crisis appears to have been sufficient to increase the availability of external markets funds for enterprises. Moreover, there has been considerable innovation and adaptation on the supply-side of the capital markets, particularly from the main trading banks keen to increase their loan portfolios. Nevertheless, banks appear to have been slow to examine critically lending criteria used to evaluate new enterprises, particularly those enterprises of which the assets are predominantly "intellectual" in nature

Despite significant cuts in the OCR rate and expectations of further cuts, there is a question mark as to whether such cuts will necessarily flow through

to the cost of borrowing for households and enterprises in particular. While there will always be debate about time lags etc which inevitably affect what people are paying at any given time, it is important that the nature of risk is considered along with the cost involved for banks borrowing on international wholesale markets.

In line with the greater risks associated with lending, banks have also tended to review their lending criteria and impose greater discipline on enterprises and households seeking finance. While some criteria have changed e.g. generally requiring households to have a deposit of at least 20 percent on housing finance, banks are being much more rigorous in respect to lending to enterprises, with requirements for comprehensive business plans and forecast cash flows.

Asset backing is often considered to be no longer adequate, with the emphasis on enterprises and households being able to service their debts out of cash flow. Arguably what banks are currently requiring could generally be considered sound business practice although it has tended to frustrate some customers who had grown used to gaining relatively easy credit.

It is not efficient for banks to rigorously pursue every potential business opportunity –standard lending criteria are therefore necessary to determine what rate of interest will be charged or perhaps more importantly, whether money will be lent to a particular enterprise at all. Enterprises that fail to meet the standard criteria are heavily penalised through premiums on the cost of acquiring money or simply fail to obtain the capital they require.

While the government has guaranteed both wholesale and retail deposits to ensure that confidence in the banking system is retained in light of the recent global crisis, the government should be very wary of any proposals to guarantee funding to any enterprise irrespective of size.

There is a moral hazard element to the decision to guarantee bank deposits, although in this case outweighed by the need to act in concert with other countries. Business NZ supports the decision but thinks the NZ Government, in coordination with the finance sector and other governments, should be actively seeking ways to remove these guarantees as international and domestic conditions permit.

Business NZ considers that there may be a role for government acting as a catalyst for enterprises to upskill themselves in respect to seeking finance – in terms of being better prepared with business plans, cash flow projections and risk analysis. There is no need for government to get involved in the provision of such services as these are already provided by a number of private sector organisations.

Business NZ considers that:

- Financial institutions continually examine criteria used to evaluate new enterprises, particularly those enterprises whose assets are predominantly of an intellectual services nature
- More information be made available to enterprises, particularly small enterprises, many of whom have tended to try and fund enterprise expansion through debt rather than through equity finance, when equity may be more appropriate
- Banks, government, enterprises and households communicate better so that there is an understanding of the current status of, and potential changes to, credit supply, thus minimising uncertainty for enterprises and households seeking finance.

## **Appendix 1**

### **BACKGROUND INFORMATION ON BUSINESS NEW ZEALAND**

Business New Zealand is New Zealand's largest business advocacy organisation.

Through its four founding member organisations – EMA Northern, EMA Central, Canterbury Employers' Chamber of Commerce and the Otago-Southland Employers' Association – and 70 affiliated trade and industry associations, Business NZ represents the views of over 76,000 employers and enterprises, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy on behalf of enterprise, Business NZ contributes to Governmental and tripartite working parties and international bodies including the International Labour Organisation, the International Organisation of Employers and the Business and Industry Advisory Council to the Organisation for Economic Cooperation and Development.