


What businesses want from the incoming government

Briefing by BusinessNZ

Growing prosperity and potential

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BusinessNZ 

We are not
expecting the
government to
provide all the
solutions.

Introduction





It is abundantly clear that New Zealand faces a major challenge in rebuilding the economy after the effects of the COVID pandemic and the associated global economic slowdown. The nation must also confront the task of investing sufficiently to address the effects of climate change and the need to develop better and more resilient transport, energy and water infrastructure. Added to these is the persistent problem of low productivity and the need to adapt to a growing and ageing population.

All these things require the business community to grow and become more innovative and productive, enabling it to contribute in terms of generating greater wealth and tax revenues. The priorities described in this document are shared between the organisations that make up the BusinessNZ network, including the four regional organisations: the Employers and Manufacturers Association, Business Central, Canterbury Employers' Chamber of Commerce and Business South, together with ExportNZ, ManufacturingNZ, the Business Energy Council, the Sustainable Business Council, and Buy New Zealand Made. BusinessNZ is New Zealand's largest advocacy and service delivery organisation and, combined, the various organisations in the network have many thousands of members, ranging from the country's largest to its smallest businesses.

The priorities outlined in this document represent action we see as vital for the incoming government in charting a course to meet the challenges referred to. Some priorities require action that can be taken, and will bear fruit, in the short term. Others will require sustained action lasting a generation or more. We are not expecting the government to do all the work. Rather, we see the government's role as establishing the conditions in which businesses can flourish and help to provide the wherewithal to create a better future for New Zealand.

Businesses need to grow, so that they can contribute the resources to meet the challenges.



BusinessNZ's vision for New Zealand

Acting on the priorities discussed in the next sections will help create a future for New Zealand in which prosperity grows and opportunities for businesses and individuals abound. The vision is of a New Zealand where:

- **Businesses grow and have the confidence to recruit new employees.**

Business growth will provide more opportunities for individuals to enjoy rewarding

and satisfying work, and to develop their skills. It will also yield the tax revenues that are so important in enabling the country to achieve the wellbeing gains everyone wants to see. Employment growth will expand if excessive regulation does not impede the expansion process. Businesses need freedom to employ on a best- person-for-the-job basis, and to terminate employment relationships that don't work out.



High wages and salaries should be the result of high levels of education and productivity.

- **New business start-ups find it easier to survive and thrive.**

There is no shortage of people who want to create their own business, but start-up businesses have tended to struggle, and many fail within the first two years of their existence. Pre-start and early-stage businesses should be encouraged to seek support to enable them to become well-established and to grow. Support is available, but its importance is not necessarily known about or understood by would-be entrepreneurs.

- **The environment for investment by businesses is favourable and attractive to overseas investors interested in establishing new ventures.**

A clear distinction needs to be made between overseas investment in New Zealand that entails the establishment of entirely new businesses or activities, and investment that simply entails the acquisition of existing businesses and assets. More generally, conditions, such as tax settings and complicated Overseas Investment Act provisions constraining business investment, need to be fully understood and addressed or ameliorated.

- **New productivity-enhancing technologies are embraced.**

Artificial Intelligence (AI) technologies have the potential for application in a wide range of industries, and they carry the prospect of significant low-cost increases in productivity. They also carry potential risks to data security, as well as the threat of job displacement. The use of AI should be encouraged but, in order to allay the concerns about it, there is a case for regulation to protect people who could be exposed to harm. The regulation should be based on emerging international frameworks, such as the OECD's AI Principles.

- **Exporters enjoy free trade conditions and have access to new international markets.**

Rules-based international trade appears to be under threat, and there are concerns that non-tariff barriers to trade will proliferate. MFAT should make strenuous efforts to prevent this happening. In addition, opportunities to strengthen bilateral and multilateral trade and export relationships should continue to be pursued.

- **The workforce is highly skilled and well-rewarded for effort.**

BusinessNZ wants to see an economy in which workers are well-paid. This is not only fair, it is also good for business and, hence, the general wellbeing of the population. High wages and salaries should result from high levels of education, training and productivity, rather than from legislated measures that risk labour market rigidities and wage-push inflation.

- **Migrants rate the country highly as a place to bring their talents, and to raise their families.**

History demonstrates that migrants have contributed hugely to wellbeing in New Zealand, and not simply because they have added to workforce skills and the country's entrepreneurial capabilities. In particular, they have also added significantly to New Zealand's social fabric and culture. Migration settings need to be attractive to further encourage skilled migrant entry.

- **Health and education services are world class.**

The quality of these services has been in decline for some time, although the COVID pandemic exacerbated the decline. Efforts to restore the quality of the services should be a top government priority and it will be vital to ensure the work to address this priority is sustained and protected from political whim.



High quality and reliable infrastructure is essential for productivity growth and the general wellbeing of New Zealanders.



- **The transport, water, energy and housing infrastructure is modern and efficient.**

High quality and reliable infrastructure is essential for productivity growth and the general wellbeing of New Zealanders. However, it has become increasingly clear there has been long-term under-investment in the system's different components, caused by the high investment costs and RMA hold-ups. Paying for the investment needed will be a formidable and enduring challenge, and it will be important to explore and apply a range of funding mechanisms to make investment affordable.

- **Greenhouse gas emissions are reduced consistently over time, so that climate change commitments are met.**

It is important for New Zealand to honour its Nationally Determined Contribution towards a global reduction in greenhouse gas emissions. However, it will also be critical to ensure that there is a consistently applied emissions reduction strategy that is effective without crushing key industries, especially the livestock farming and emissions-intensive trade-exposed (EITE) companies that are so important to rural communities and the county's export performance. Equally, it will be necessary to avoid the adoption of climate change measures that simply result in carbon leakage.



Priority measures for the first 100 days

The new government should move quickly to create the conditions for realising the vision set out above. Some necessary actions can be taken in the short-term, while others may require a full parliamentary term, and others, sustained effort over the longer-term.

Focusing first on what we believe should be prioritised in the early stages of the incoming government, we urge the following achievable actions:

The RMA was flawed, but the Acts that replaced it are more flawed in some respects.

Repeal of the Natural and Built Environment Act and the Spatial Planning Act.

The former Resource Management Act was flawed, but the Acts that have replaced it have not addressed those flaws and, in some respects, they are even more flawed. Overall, the regulatory settings are contrary to business interests and the needs of the New Zealand economy. The new Acts should be repealed and there should be a reversion to the former legislation until such time as it is possible to develop and implement a new legal framework. In the meantime, fast-tracking provisions

should be used to expedite projects of national significance.

The design of the new framework should:

- i) ensure that resource management laws prioritise development and recognise the importance of upholding property rights to encourage efficient investment;
- ii) provide for longer consenting rights for resource use that will encourage business investment in expensive long-life assets; and
- iii) introduce a compensation regime for regulatory takings to encourage better decision-making from regulators when affecting private property in the public interest.

A new framework should prioritise development, encourage investment in long-life assets and safeguard private property.

Repeal of the Fair Pay Agreements Act.

We believe that poorly thought through, ideological and highly damaging legislation, such as the Fair Pay Agreements Act (FPA) - in reality, "forced pay" agreements - will make our labour market less responsive and less competitive, just at the time when responsiveness and competitiveness are needed

more than ever. This is because the Act imposes "one-size-fits-all" pay rates on entire industries, regardless of individual business scale, location or market circumstances. The system will remove much of workers' ability to have their individual performance appropriately rewarded, as well as much of employers' ability to negotiate freely according to business needs.

Reinstatement of 90-day trials for all new employees in any size of business.

Employers need to be able to make the right choice when employing people, particularly if there is a possibility of employing someone with, for example, misaligned skills or previous labour market detachment. Employers continue to tell us that the “90- day trial” (currently only available to organisations with fewer than 20 employees) should be returned to our regulatory landscape. A simple amendment to Employment Relations Act 2000, to remove the reference to an employment size threshold and reinstate what was in place originally, would give employers the confidence to provide people, especially those at the margins of the labour market, with an opportunity to prove their worth.


Completion of the Review of the Holidays Act.

Businesses have long struggled to comply with the complexity of the current Act. Remediation of compliance errors has cost government and businesses millions of dollars. The review, commissioned by the current Government, has identified a number of desirable changes. Completing the review and enacting its conclusions will reduce compliance risks and costs, and will give greater certainty to thousands of businesses and hundreds of thousands of employees.

Preparation of alternative legislation for resource management, water services and inward investment.

New Zealand needs a system that encourages efficient and fit-for-purpose investment in natural resource and infrastructure development for the economic, social, environmental, and cultural well-being of current and future generations. We do not believe the current legislation governing resource management, water services and inward investment does this. Establishing sound and workable alternatives should be assigned top priority.

Alternative resource management, water services and inward investment preparations should have top priority.





Abolition of the Reserve Bank's dual mandate.

There is a conflict between RBNZ's objectives of: i) Achieving and maintaining stability in the general level of prices over the medium term, and ii) Supporting maximum sustainable employment. This has hindered efforts to contain inflation, and, in turn, has created turmoil in some markets and inhibited economic efficiency.

The dual mandate was imposed only in 2018 and should be replaced with a new Policy Targets Agreement between the incoming Minister of Finance and the Governor of the Reserve Bank.

The conflict between the Reserve Bank's dual mandates has hindered efforts to curb inflation and has inhibited economic efficiency.

Measures to be implemented **within the term of a parliament**

Creating a more favourable environment for business investment requires a suite of measures, including...



As well as replacing or amending the legislation referred to above within the first 100 days, we recommend the incoming government should work to achieve the following during the course of the parliamentary term:

Create an environment more favourable to business investment.

This would require a suite of measures.

Earlier this year, research for Business NZ by NZIER identified three key areas that could be explored to support more favourable conditions for investment:

- Lowering the barriers to foreign direct investment. This would support greater integration with global value chains and the diffusion of technology. The aim should be to make it more attractive for entirely new business ventures and activities to come to New Zealand.
- Corporate tax reform. The rate of tax on corporate profits in New Zealand is relatively high by international standards, as has been acknowledged by both the OECD and the IMF. The IMF's 2023 Country Report on New Zealand suggested a reduced rate would boost business investment and encourage the entry of new businesses, leading to higher productivity growth.
- Increased public-private investment in research and development. This would boost productivity and encourage the policy reform needed to focus university and CRI research

activities on what would help to grow the economy. Particular attention must be paid to university research and to the CRI's potential for commercialisation.

The first of these measures would require amendments to the Overseas Investment Act 2005, while the second would be a Budget measure. The third would require direction from the Minister for Tertiary Education and the Minister for Science and Innovation.

In addition, we recommend:

- Boosting R&D Tax Credits. The business sector regards these credits as one of the most powerful existing means of stimulating investment.
- Enabling faster depreciation of plant and equipment. This would help to reduce the risk associated with investment in new productivity-enhancing technologies, especially for small and medium-sized businesses.
- Increasing funding for the Industry Transformation Plans. The ITPs are regarded as promising, but to be fully effective need to be backed by adequate funding and commitment in government departments to deliver them.

The first two measures outlined above would probably need government to work with the Commissioner of Inland Revenue to agree and establish the settings, while increased funding for the roll-out of the Industry Transformation Plans would require a budget appropriation.

Alleviate the regulatory burden on businesses.

Compliance with government regulations is a significant burden on businesses and inhibits business effectiveness.

A case in point is the tendency to burden local government with more and more unfunded regulatory requirements, the associated obligations and costs of which are passed on to businesses and other ratepayers. BusinessNZ supports the recent Review into the Future for Local Government Final Report's recommendation (June 2023), that "Cabinet is required to consider the funding impact on local government of proposed policy decisions." We also believe a fundamental change in the culture of regulators in New Zealand is required, in particular to tackle what we see as regulation overkill.

As well as aiming to reduce the number of regulations affecting businesses, the incoming government should also examine the working of regulations that are retained. An example is Fringe Benefit Tax (FBT). Compliance with this tax is time-consuming and often confusing for businesses, and IRD has recommended the tax be reviewed. The aim of any changes should be to make compliance simpler with the further aim of adjusting the tax to reflect modern work environments, for example, working from home.



We agree that Cabinet should consider the funding impact on local government of proposed policy decisions.

Measures to be implemented
within the term of a parliament



Develop technology regulation policies that create safe pathways for productivity, growth and jobs.

With rapid advances in technological areas such as A.I, it is important New Zealand has the right regulatory settings going forward to ensure the private sector can feel confident when looking to innovate, whilst at the same time keeping the trust of the general public. This means striking the right balance between New Zealand recognising international settings for A.I, but looking to minimise restrictive and overbearing regulations that stifle opportunities for innovation.

We suggest that, as far as possible, work to develop the necessary framework should be on a cross-party basis. Accordingly, it might best be led by a Parliamentary Select Committee.

Establish a stable and predictable Minimum Wage-setting process.

The minimum wage has increased by 40% since 2017 and is now nearly 77% of the median wage. Businesses tell us that the process of setting the minimum wage is becoming too politicised. Added to that, the unpredictable nature of the increases granted, with little notice and too little consideration of the economic circumstances many small businesses face, has left many businesses feeling unable to respond confidently to costs. The Government needs to create an environment where minimum wage settings are stable, predictable, and depoliticised. The United Kingdom's Low Pay Commission is a possible model for an independent advisory body that would help to make future minimum wage levels more predictable. Any changes to the minimum wage itself would continue to be implemented through Order in Council.

It is undesirable that anyone should choose to remain on a Jobseeker benefit when they are able to work, especially when there are labour shortages.



Review the tax and benefits system.

From an individual, family, community and national perspective, it is undesirable that anyone capable of working should remain on a Jobseeker benefit, especially with labour shortages in many parts of the economy and an historically low unemployment rate. Regrettably, however, the number of Work-Ready Jobseekers is now significantly greater than it was pre-COVID. The reasons why this is the case are likely to be complex, but it will be important to research and fully understand them, so that unemployed people are able to receive get-back-to-work support that is appropriate to their needs and circumstances.

At the same time, there are also people in work who are reluctant to try to increase their incomes because Working for Families abatement rates and income tax thresholds provide for very little reward in terms of take-home pay. Removing this sort of poverty trap should be an objective of the incoming government. We recognize that finding and then implementing a solution to the problem could present a formidable challenge, but it is one that should not be ducked. The objective of Treasury and other advisors' research activities should be to find a solution that removes the disincentives for individuals and families to increase their incomes.

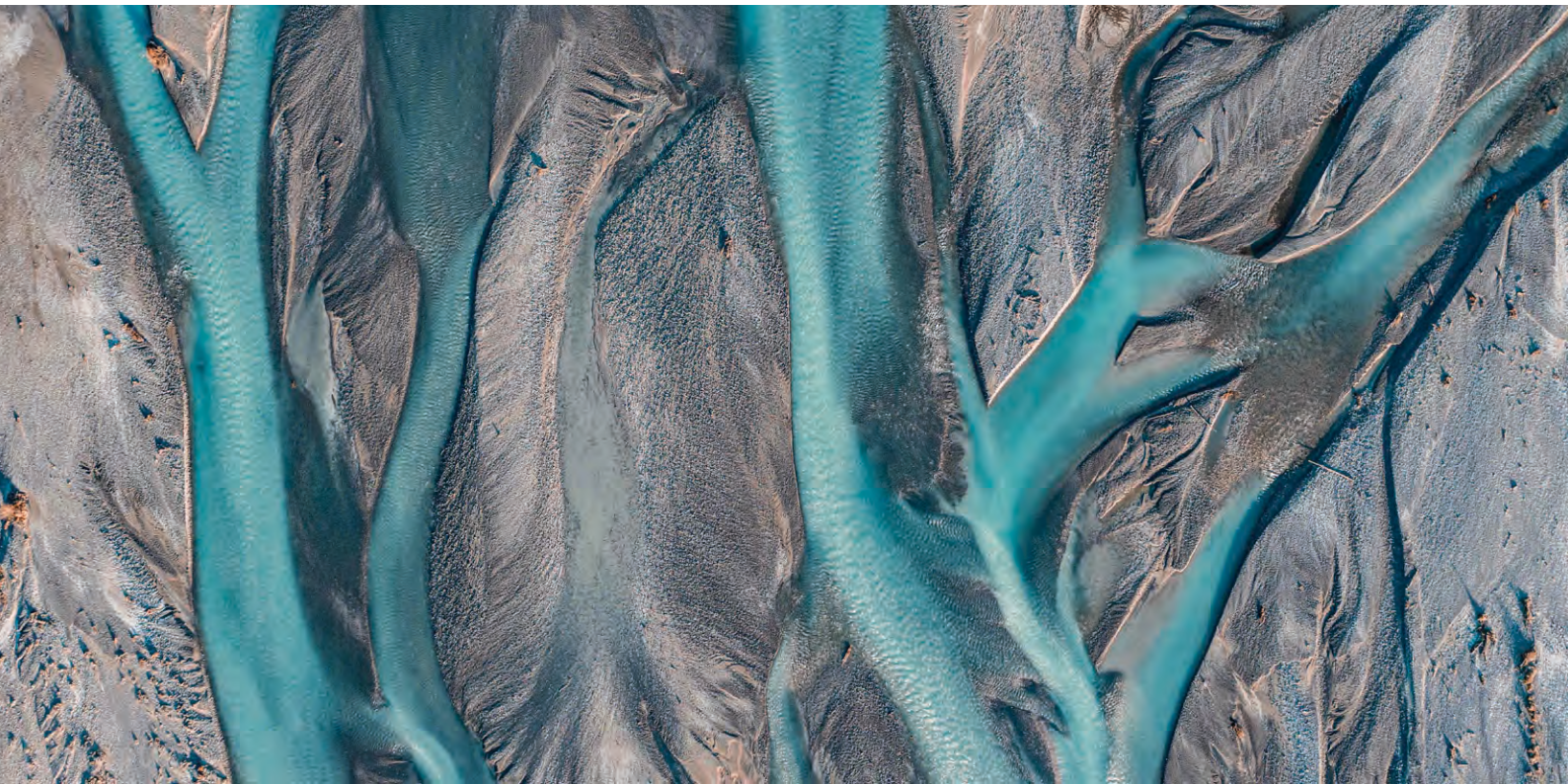
Measures to be implemented
within the term of a parliament

Repeal or amendment of the Water Services Act, Water Services Economic Efficiency and Consumer Protection Act, and Water Services Entities Act.

The recently enacted Three Waters legislation recognises the importance of a framework encouraging the investment necessary to ensure New Zealand has high quality, safe and reliable water services. However, the legislation currently contains provisions that are divisive, likely to engender political strife and that will impede investment roll-out. Consideration should be given to its amendment, repeal or

replacement by alternative legislation.

Consideration should also extend to the mechanisms for funding water services investment and how this should be shared between central government and local authorities, a question especially relevant given the need to modernise and extend other infrastructure components. Furthermore, in light of the sensitivities associated with water assets, it will be important, if possible, to take a bi-partisan approach to the design of any funding mechanisms. Accordingly, it would be inadvisable to rush the legislative process.



The recent Three Waters legislation contains provisions that are divisive and could impede the roll-out of investment in water infrastructure.

Improve literacy, numeracy and digital skills teaching and attainment in schools.

Literacy and numeracy standards among young people in New Zealand have been falling for a decade or more, and this decline must be stopped if New Zealand is to prosper economically, socially and culturally. The policies of the two main political parties focused on arresting and reversing the decline are in many respects similar. A curriculum that is more focused on teaching literacy and numeracy is absolutely essential. In addition, teachers, many of whom were themselves not adequately taught, need guidance and support to enable them deliver literacy and numeracy teaching effectively. Effective teaching of digital skills and their use is also crucial if young people are to succeed in higher education, training and in the workplace. We understand the necessary curriculum changes can be introduced under the terms of the existing Education Act.

The ongoing decline in literacy and numeracy standards among young people needs to be stopped.





Review vocational education and training.

It will be equally important to safeguard vocational education and training. We are concerned that the Reform of Vocational Education (ROVE) initiative has not delivered the intended improvements. Te Pukenga is struggling, and the Workforce Development Councils and the Regional Skills Leadership Groups have disappointed. On the other hand, the Apprenticeship Boost scheme has had good results, at least in terms of numbers of people undergoing training.

We recommend that there should be an urgent review of the vocational education and training system to identify what aspects are working well and should be maintained, and what should be done away with, replaced or revised.

Measures to be implemented
within the term of a parliament

Simplify the Accredited Employers Work Visa Scheme / Introduce more pathways to residence for immigrants.

The aim of these two key measures would be for immigration settings to be open, simple, and predictable, making New Zealand a more attractive destination for migrants. We recommend that the Accredited Employers Work Visa (AEWV) should be simplified to abolish labour market tests and wage requirements above market rates, and make variation of conditions easier for migrants to navigate. The other key change we desire is the introduction of clear residency pathways. It is likely these changes can be made by means of an Immigration Instrument issued by the Minister for Immigration.

We also recommend that immigration data and insights should be used to inform and support the development of housing and components of the social infrastructure, such as schools and hospitals, by boosting the supply of skills needed to increase those activities. Persistent skills shortages have not only increased the cost of building and construction, they have also slowed the pace of development.

Immigration settings open, simple, and predictable, will help to make New Zealand a more attractive destination for migrants.



Sustain climate change measures.

We believe the ETS provides a technology neutral, efficient, and effective framework for decision-making, benefiting consumers in the long-term. However, we are concerned that constant setting changes, frequent amendments and reviews, have damaged confidence in the scheme, weakening investment in decarbonisation. The sinking lid and price settings should be set out over a longer period, with settings reviewed less frequently.

We also believe agriculture should play its part in reducing emissions and recommend that this be achieved mainly through technology-led solutions, rather than policy measures that will reduce production and deliver no benefit on a global scale because of carbon leakage.

Promote exports.

New Zealand has one of the largest current account deficits in the world, and this needs to be rectified through export growth. Exporters are currently over-dependent on a few major markets, and efforts must be made to develop new markets. Recently signed Free Trade Agreements will provide the basis for some export growth, but it will be vital to pursue long-term strategic relationships.

Adequate funding should be available for programmes for SME business capability-building for exporting. In addition, the work done in Australia by the Simplified Trade System Implementation Taskforce should be analysed so the merits of establishing a similar New Zealand task force can be considered.

We are concerned that constant setting changes, frequent amendments and reviews, have damaged confidence in the ETS.

Measures to be implemented
within the term of a parliament

Partner with regional business organisations to deliver support services.

Especially at a time when there is ongoing pressure on the government's finances, it will be important to seek efficiency gains in service delivery, and we believe it would be advantageous for the government to out-source the support and advisory services it provides for SMEs. By virtue of their expertise and on-the-ground presence throughout the country, BusinessNZ's four regional network

organisations are well-placed, because of their regional and local presence, to connect with SMEs and support their growth, and to take on the task of service delivery and development.

There is a wide range of services for SMEs that could be delivered, these include; pre-start-up advice and training, early-stage mentoring and other support, advice and training related to AI, and support for activities to address climate change and sustainability challenges.

We believe that it would be advantageous for the government to out-source the support and advisory services it provides for SMEs.

Consider moving to a four-year parliamentary term.

There is widespread support within the BusinessNZ network for a four-year parliamentary term, largely because the current three-year term is considered not to lend itself to stability in policy settings. Policy instability creates uncertainty and inhibits investment.

We understand that there is in-principle support for this idea from the leaders of the main political parties. This being the case, a change to the length of the term could be achieved using the provisions of the Electoral Act 1993: a motion in the house supported by 75% of members, or a simple majority of voters in a referendum.

Develop a range of infrastructure funding mechanisms.

In our vision statement we highlighted the need to address the persistent under-investment in different parts of the country's infrastructure, notably transport (including coastal and inter-island shipping), water and energy. We believe conventional methods of funding the necessary investment, in particular through tax revenues, will overburden current taxpayers who will not necessarily enjoy any subsequent benefit. Accordingly, we recommend that the incoming government should work to design and apply alternative funding mechanisms, including but not limited to, those alluded to in the draft Government Policy Statement on Transport. One possibility would be to broaden the role of the Crown Infrastructure Partners, whose role currently focuses mainly on facilitating housing development.

The incoming government should work to design and apply alternative funding mechanisms for infrastructure development.



Measures to be implemented
within the term of a parliament

Measures requiring **long-term, sustained action**



Although some of the actions necessary to realise the vision we have set out could be completed within the short- to medium-term, a solid commitment to sustained action and a stable policy environment will be required in five main areas, namely:

- 1. Increasing business investment**
- 2. Export promotion**
- 3. Infrastructure investment**
- 4. Education**
- 5. Climate change.**



The business community is willing to contribute to the solutions through ideas, new technologies and financial resources that flow from profitability.

These areas have in common that they are all affected by issues that have developed over an extended period of time so that it will likely take decades to fully rectify them. The business community understands this and is willing to contribute solutions through the ideas, new technologies and financial resources that flow from profitability. However, to enable

businesses to contribute, what government must provide are favourable and stable policy settings that give businesses the confidence to invest in their employees, technologies, plant and equipment. Businesses stand ready to play their part and look forward to working with the incoming government to build a better, brighter future for the country.

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