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Our economy is stuck in the present.

We need investment in innovation for the future.

How the Government could skirt the 'no new taxes' promise

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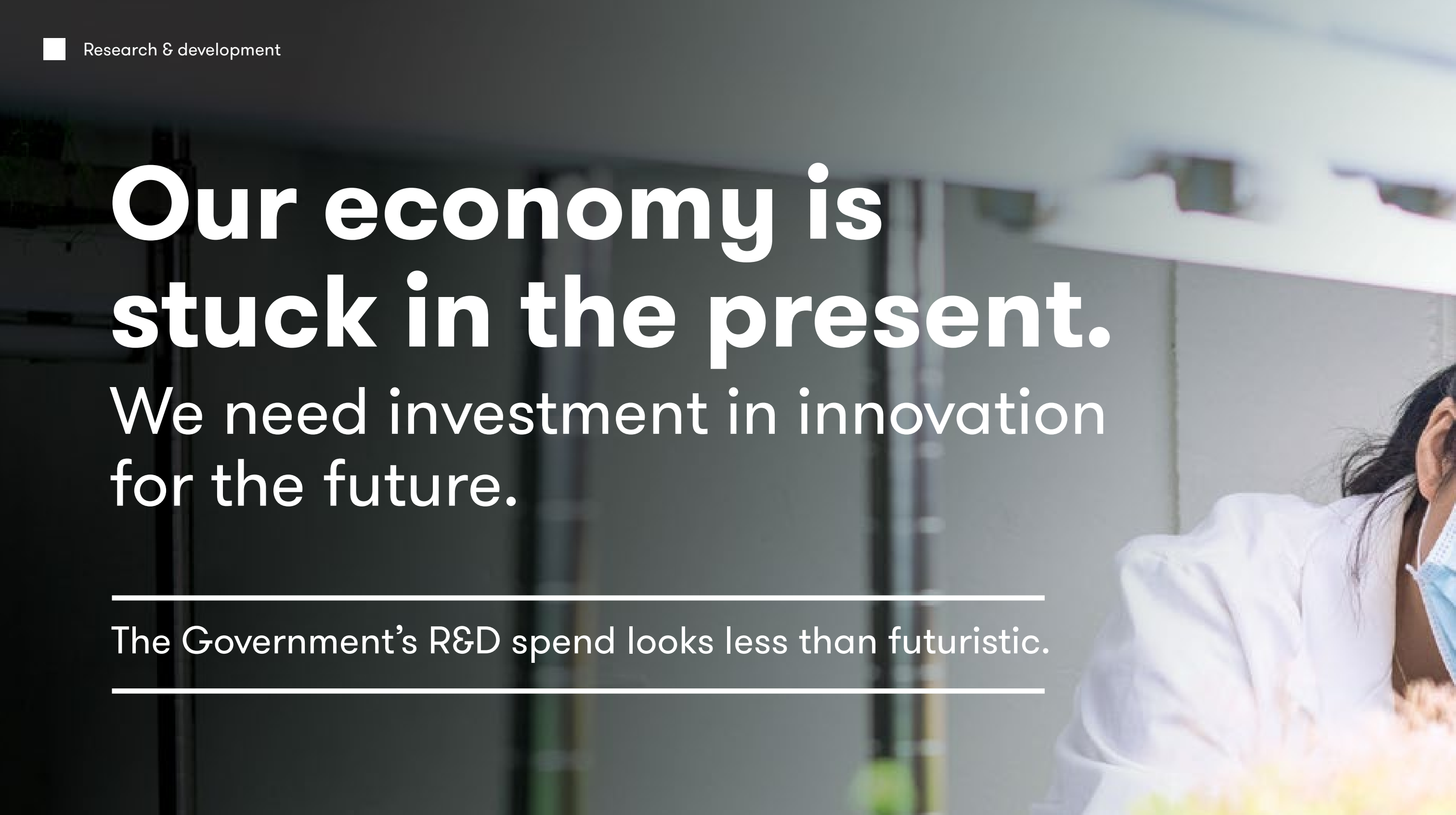
Borrowing from the PPP model could cure the future of healthcare

Proportion of women in NZ senior leadership roles has hit rock bottom



Our economy is stuck in the present.

We need investment in innovation for the future.

The Government's R&D spend looks less than futuristic.

While a chunk of this year's budget expenditure naturally focuses on the perennial portfolios of health, education, justice and housing, the coalition Government has aimed to adjust the direction of our economy to deliver not just now but in years to come. This has been done through a mixture of 'investing' in people and organisations, ostensibly to remedy underfunding by the previous government in a wide range of areas.

To facilitate this refocus, the proposed catalyst of change is the Research and Development Tax Credit regime, which was announced earlier this year and is undergoing consultation. The desired outcome is to double the expenditure on R&D in New Zealand. However, simply providing a financial incentive for R&D doesn't necessarily mean that current levels of innovation will increase, or that it will occur in the areas that are needed for a future-proofed economy.

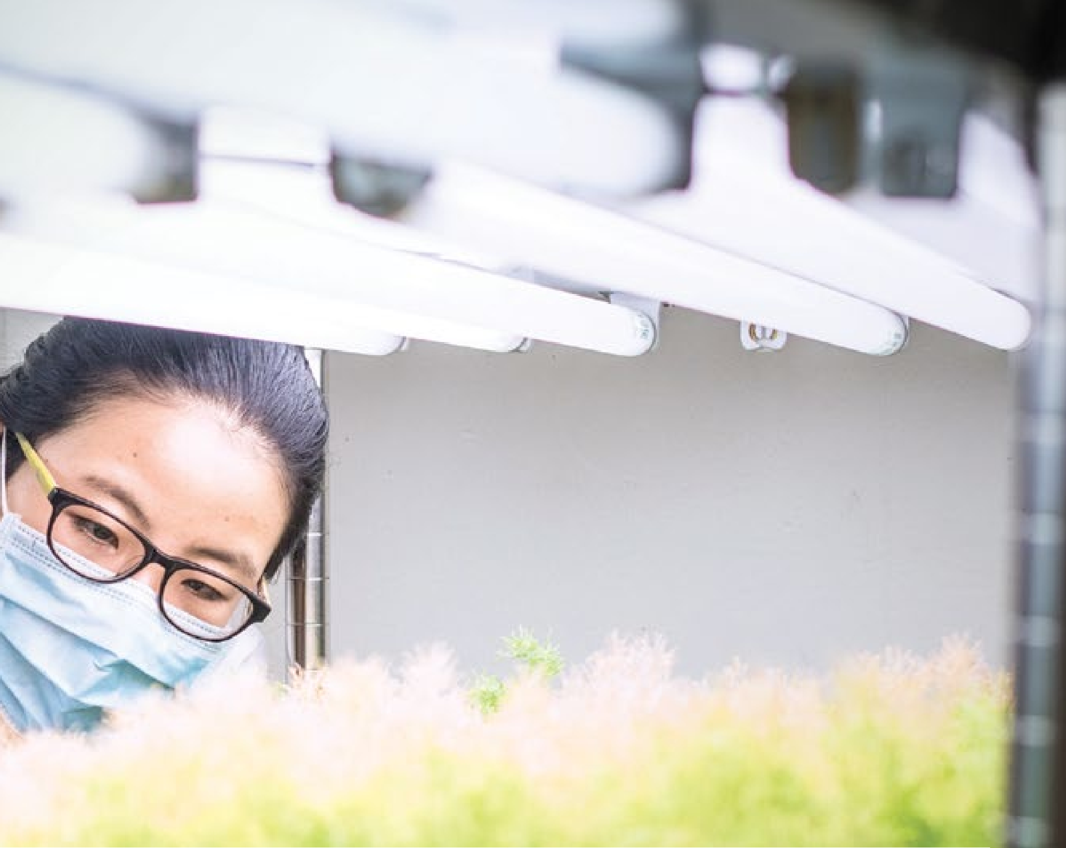
It also cuts small businesses out of innovation, with a de minimis of $100,000 R&D spend before qualifying

The proposed R&D regime will redefine the criteria for expenditure on innovation projects; these projects would need to use scientific methods to acquire new knowledge, or create new or improved outcomes to resolve scientific or technical uncertainty. A high standard to achieve.

The key question is whether the tax regime will achieve its stated aims and move New Zealand towards a desired future state, where according to Hon Megan Woods, Minister for Research, Science and Innovation, we "need new ideas, innovation and new ways of looking at the world". The tax credit regime is aimed at enabling businesses to innovate and deliver productivity gains. The Government doesn't seek to do this through the R&D credit scheme alone, recognising we need a sound education sector, an engaged workforce and fairness in the economy.

The credit system works on the assumption that businesses will invest as desired, have the resources to do so, and possess the technical ability to meet the requisite technical standard. Effectively, it sets a framework and seeks businesses to take up the challenge and deliver – similar principles the previous government had employed over its term in office.

It also cuts small businesses out of innovation, with a de minimis of $100,000 R&D spend before qualifying and no provision of cash back to businesses that are often in start-up phase, and it sets a high technical



standard which business are not currently set up to accommodate.

So is it time for a complete rethink on priming the New Zealand economy for innovation? The Future of Work Commission has been formed to look at what is required for the future, and this is a great start. But whether that leads to innovation – or simply an understanding of the shift in employment needs and practices, technology requirements and skill changes – is yet to be seen.

Of course, innovation fundamentally requires investment. Most businesses can't fund real innovation out of business as usual and that has been the problem; R&D in New Zealand has mainly been more about adjustments to existing products and ideas rather than ground breaking developments. New Zealand has a limited capital market to provide the necessary funding; the R&D credit will probably only provide 15% of spend (up from an initially proposed 12.5%), meaning businesses need to fund the remaining 87.5%.

It's time for a rethink of innovation and the future of the New Zealand economy, and how to create a real framework for directing resources, skills and expertise towards innovation that will move New Zealand into the future. Providing broad incentives and creating core framework enhancements doesn't create the focus and speed of change which is required.

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How the Government could skirt the ‘no new taxes’ promise

If it walks like a duck and quacks like a duck, it’s probably a tax.

> “We can’t do it all through the tax take and so we need to find new, innovative ways to generate revenue that can support growth.”
>
> Hon Grant Robertson, Minister of Finance

Bold pre-election promises have put the Government in a difficult position. In September last year, Labour announced that there would be no new taxes until after 2020, while its Budget Responsibility Rules – a self-imposed agreement between Labour and the Greens to reduce core government expenditure and debt – means the Government has given itself limited room to manoeuvre when it comes to spending, a move that’s attracted its fair share of flack.

The Government previously indicated the books don’t have enough cash, and costly initiatives like free tertiary education for the first year of study will only compound their problems. But the 2018 budget actually delivered a $3.1 billion surplus which is forecast to rise to $7.3 billion by 2022. This is good news, however the ‘surplus’ can be a little misleading as it ignores the capital spend requirements and a range of costs on the horizon that are still to be fully costed (like public service wage rounds and the M. Bovis eradication plan). To achieve the investment required, the Government has had to borrow more which ultimately means more revenue is required. Its pre-election pledges have hamstrung its scope to choose how, when and where it can get money from. The Tax Working Group is currently looking at a number of tax-related possibilities, but it won’t be until February 2019 that we see the group’s final recommendations.

This is where the art of euphemism has really stepped up. If you don’t call it a tax, then it’s not really a tax, right? Let us consider recent developments: an increase in excise duty on petrol; the removal of the concession on low value imported goods; and, probably my favourite, ‘land value capture’. This option was tabled with some political genius from Finance Minister Grant Robertson: “We can’t do it all through the tax take and so we need to find new, innovative ways to generate revenue that can support growth.”

There is no doubt that our tax system needs adjusting and with the rapid changes that are occurring all over the world, a significant rethink

and overhaul will be necessary. I actually embrace the concept of the Tax Working Group (TWG) and what it stands for – intellectual powerhouses combined with public consultation to review the current framework and tackle the challenges that we face as a society. This is a great initiative for a high level strategic approach. But by its nature nothing happens at speed and there is real danger the breadth of potential change has been hampered by it narrow scope.

Kiwis are engaged on this topic too. The TWG consultation process resulted in 6,700 submissions and over 16,000 votes on their online poll. This is unprecedented engagement, showing that many New Zealanders realise something needs to change to ensure funding of our core public services in the future.

With all of these challenges, limiting what can be done in the immediate term because of a pre-election promise is not what New Zealand needs. We need to be agile and focused on the changes that are required now and how best they can be implemented.

> There's been a lot of deep seated resistance to introducing a CGT, which is why governments keep shying away from bringing it in. But is it fair not to?

Historically there's been a lot of deep seated resistance to introducing a capital gains tax (CGT), which is why governments keep shying away from bringing it in. But is it fair not to? If you run a business for ten years and make a million dollars profit annually, you end up paying $300,000 in tax every year. But if you sell it after just one year for $7million (based on future revenue projections), the tax you end up paying is zero. It's economically inequitable.

So what changes do I think are needed?

Introduce a capital gains tax on everything except the family home (the best answer being to taking the market value of assets on the date of announcement as the new cost base if a simplified valuation model can be achieved). When it comes to being an international anomaly, New Zealand's lack of CGT stands out. Interestingly enough, the introduction of a CGT topped the TWG polls when asked "What tax issues matter most to you?" This suggests there's a big change happening among Kiwis who have traditionally been deeply resistant to the idea of a CGT.

Reduce corporate tax rates. New

Zealand's corporate tax rate is high in OECD terms. Businesses need reasons to operate at the bottom of the world, and when it comes to New Zealand, there needs to be an economic incentive.

Raise the personal income tax thresholds to account for fiscal creep that has occurred over the years, but retain the current tax rates. Introducing an additional rate for those on high incomes would also help boost government revenue, while aligning New Zealand with other OECD countries. Tag these thresholds to annual inflation:

Current threshold	**Tax**
	%
Income up to $14,000	10.5%
Income over $14,000 to $48,000	17.5%
Income over $48,000 to $70,000	30%
Income over $70,000	33%

Change threshold to	**Tax**
	%
Income up to $20,000	10.5%
Income over $20,000 to $55,000	17.5%
Income over $55,000 to $80,000	30%
Income over $80,000 to $150,000	33%
Income over $150,000	38%

Make superannuation contributions compulsory and remove tax on these contributions. Currently, contributions to superannuation schemes come from after-tax income (once PAYE has been deducted). This restricts the speed at which the retirement savings can grow and also acts as a disincentive to contribute. What if we allowed people to grow their nest egg by deferring the tax on contributions and the income it generates until the point of withdrawal? This could encourage people to increase their contributions (particularly as they get closer to retirement) as it produces a more favourable economic outcome. Imagine that, New Zealanders actively engaged with their retirement savings! It's a change that would reduce the burden on the country to support retirees, because New Zealanders would be saving more for their retirement, thanks to the incentive on the way in and the fact that the investment would compound.

Leave GST alone. Our broad based approach is the envy of other countries. Exempting fruit and vegetables is a noble idea, but in practice it would create no end of complexity and the only winners would be the tax accountants.

Of course none of these ideas will be considered by the Government – not in the first term anyway – as they all relate to tax. But through some clever euphemisms and fudging, we may see new community charges, levies, contributions or user fees to help fund the Government's spending.

I for one can't wait to receive my temporary refund adjustment.

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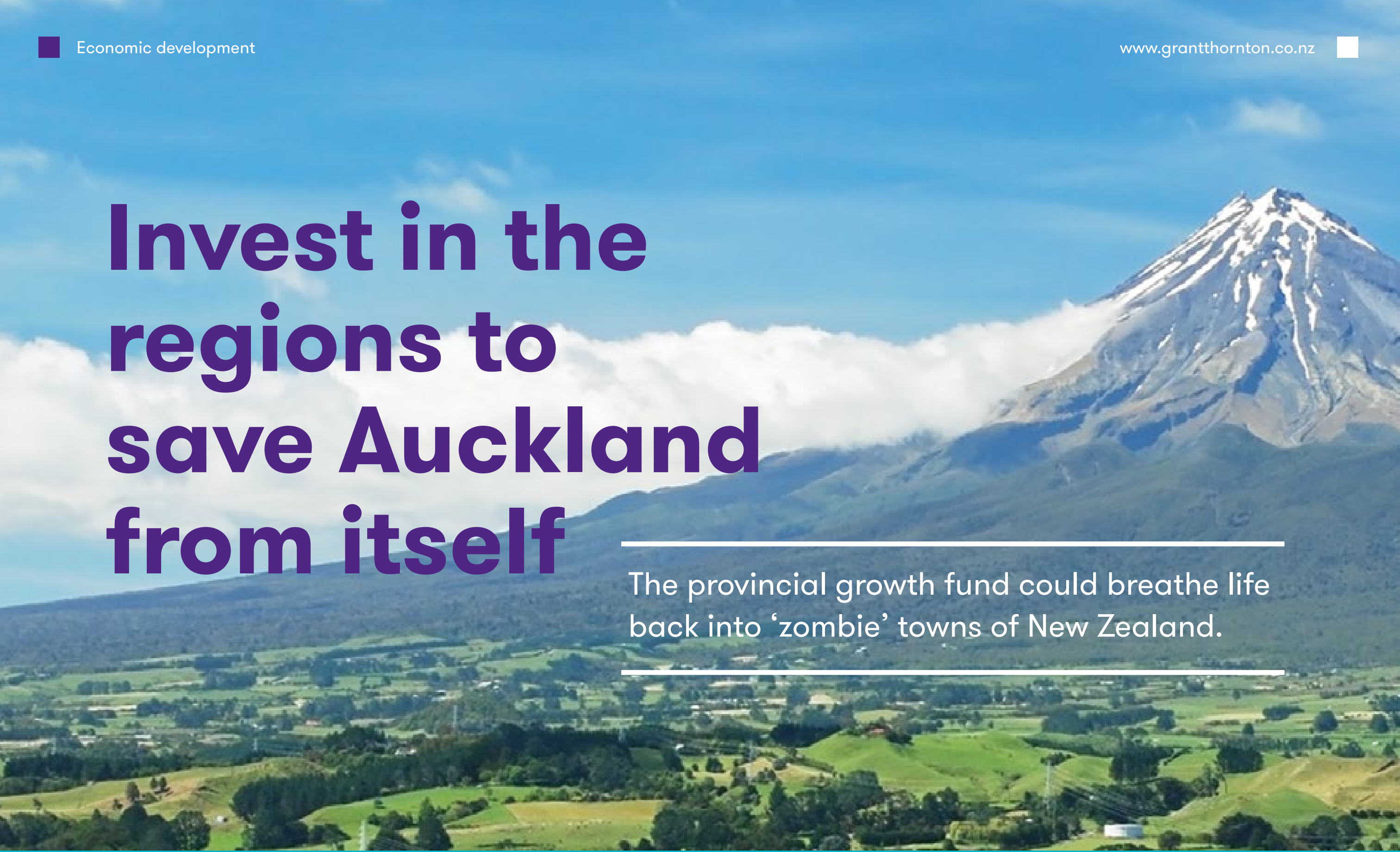

Invest in the regions to save Auckland from itself

The provincial growth fund could breathe life back into 'zombie' towns of New Zealand.

The Government's moves on regional economic development are courageous and long-overdue, and will have impacts across the whole country. The key question now is how those who receive a slice of the billion dollar provincial growth fund will leverage the full benefits of this investment. This isn't just an opportunity to enhance economic development outside of the country's main centres, but to create resilient communities, sustainable jobs, and to boost social inclusion and participation.

The quality of life available to those living outside of Auckland and Wellington is a remarkable selling point that the country has been slow to take advantage of. Those two cities have historically been seen as where serious money can be made, but the rapidly rising costs of living are creating a revolving door effect,

> ...their commute passes through two sets of traffic lights, and they're going fishing this afternoon

where the wealthy are being replaced by those who are even more wealthy. There is increasingly limited housing stock, and a growing disparity between rich and poor. Something has got to give.

Descriptions of regional centres as "zombie towns" may have ironically given many in the cities pause for thought, as it was a clear signal that life could be better and more affordable there. My friends in smaller towns chuckle to me about how despite the predictions they haven't been mugged yet, their commute passes through two sets of traffic lights, and they're going fishing this afternoon. For Aucklanders stuck on the southern motorway for an hour and a half every morning, breathing in carbon monoxide and watching trucks practically parked in the slow lane, they may wonder what the point of it all is.

A fundamental problem for attracting people to live in the regions is that they're not well known for high incomes outside of the health sector and some aspects of primary industries. The economy of regional cities can't be built up through provision of public facilities and services. But to turn that point around, smaller cities and towns in the regions already boast some of the high quality infrastructure, such as hospitals, good schools and affordable, quality housing, needed for an economy to be built. Not to

We could have a dozen vibrant and thriving centres where talented people can go, rather than just a few.

mention, they've also got largely un-congested roads.

The provincial growth fund presents an opportunity to allow people to create meaningful and sustainable careers in the regions. Supporting and continuing the development of ultra-fast broadband will be crucial in this respect – an infrastructure initiative of the previous government that is bringing about much needed connectivity with towns and regional centres. The advantages of allowing more people to work remotely to workplaces headquartered in Auckland are manifold – not only will it bring much needed economic activity into the regions, it will also increase the quality of life for those who must still remain in Auckland.

However, as political tides go in and out, regions can't necessarily depend on always having access to the grants currently being handed out. There must be rigorous analysis, measurement and monitoring of any money given through the regional economic development fund, to ensure both that the money has been well spent, and to also show future governments what type of investments have succeeded, and which have failed. Grant Thornton has conducted rigorous and useful analysis through the GrowthAccelerator programme in England. GrowthAccelerator was a UK government service delivered by a private sector consortium led by Grant Thornton UK. The three year programme saw 23,000 small and medium enterprises receive support to realise their growth potential, through highly focused and tailored interventions and assistance. One of the key findings was that there was significant untapped potential for high growth in rural areas. The analysis also found that urban England wasn't necessarily the driving force behind business growth.

Clearly there are lessons for New Zealand out of that. The money being spent by the provincial growth fund will largely go towards private businesses, which could generate significant export revenue for the country provided their region is well supported in terms of infrastructure. Many areas around the country already fit that bill. We could have a dozen vibrant and thriving centres where talented people can go, rather than just a few.

Economically, it is a crucial time for New Zealand, for life to be breathed back into the so-called zombie towns of New Zealand. A lot of talented and driven people are finding their quality of life is diminishing in Auckland. It is crucial for the country that they choose to build their careers in a different part of the country. The right investment in the regions can see them flourish as an alternative to a departure for Australia or further afield.

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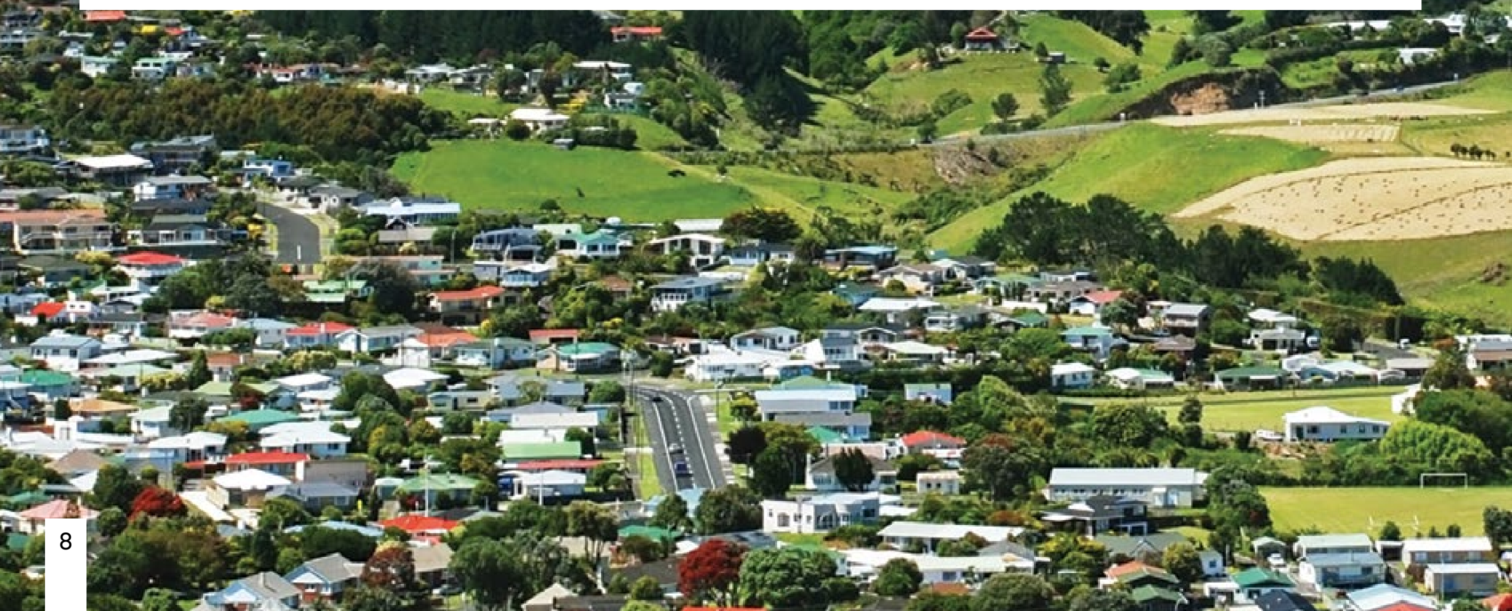

Borrowing from the PPP model could cure the future of healthcare

The health sector needs significant investment, but where is that money going to come from?

The Government has demonstrated an appetite for change across a number of areas, but its ability to afford the level of change desired is open to question. If healthcare services are left behind, the people of New Zealand will be worse off. To ensure that doesn't happen, the Government must embrace the best practices and skills of the private sector, which will be required to meet the coming changes.

Partnerships with the private sector, where there is skill, expertise, and importantly capital, could accelerate the process of rebuilding and repairing the health infrastructure network across New Zealand. Hospitals aren't currently being considered as candidates for public-private partnerships, which is acceptable so long as the Government can put aside sufficient financial resources to deliver both infrastructure and services, while also creating sufficient capital reserves for the future. But that will require compromises.

In their first budget the Government committed $750 million of new money to tackle the problem. Much has been made of the mould in the walls at Middlemore Hospital. A lot of our public health infrastructure needs a major upgrade in the next 10 years, not just at Middlemore Hospital. The magnitude of the complexities and risks around health infrastructure means that governments could easily take on more risk than they can handle, if they aren't careful.

The Government's promises also include health spending, particularly in health infrastructure and nurses' pay. Nurses certainly deserve a pay rise, though it is difficult to see where the Government will be able to find the money to meet their full expectations. To underline that, Treasury has identified $14 billion dollars' worth of infrastructure upgrades that need to be made, but as Health Minister David Clark admitted recently on Q+A, so far only $10 billion has been earmarked. Only $3.2 billion over four years has been pledged in Budget 2018.

Significant challenges remain for the wider delivery of health services in New Zealand, and the new government has very different priorities to its predecessor. Balancing their priorities against the backdrop of significant capital investment requirements and continually rising demand for services will be a major challenge for the Government. This is

not to second guess the Government's priorities, but to acknowledge that they all come at a cost, and there needs to be a genuine sense check as to whether we can afford those things while still getting the basics right.

If not, it could be the very people who voted Labour in who suffer the most from substandard healthcare delivery. Those on lower incomes are more likely to need the services of the health system. OECD data shows a strong health system improves the wider quality of life in society, and correspondingly, increases productivity in the wider economy.

Service delivery is another area that could benefit from private sector expertise; there have been proven successes in the areas of cardiac services and orthopaedic surgery in the Auckland region where private expertise has been used. To not consider using PPPs, even in targeted areas, would indicate a preference for ideology over outcome, so one would hope the Government would at least give the option due consideration.

Successful public private partnerships are fundamentally more about improving outcomes and managing risk, than saving money, though that can be a benefit as well. Health is a sector in which huge changes are coming. Advancing technologies, an ageing population and ageing infrastructure, all present both challenges and opportunities if the Government is ready to look to the future. There is even new thinking around where health services are delivered. In the future, an increasing number of services will be delivered away from the traditional hospital setting. This could be a further driver for re-thinking the nature of capital investment needed.

> It could be the very people who voted Labour in who suffer the most from substandard healthcare delivery.

Even at a governance level, the Health Minister should be directing District Health Boards to apply private sector practices. There have long been perceptions that DHBs are overly influenced by political appointments rather than appointing the best people and practices to drive efficiency in what are very large, and very complex businesses. They have fundamental commercial imperatives, in that every dollar must be accounted for. There must correspondingly be more rigorous oversight and accountability around performance – the country can't afford any more debacles like the Waikato DHB's failed SmartHealth app, which has cost the organisation millions without any tangible benefits.

The Government must be future focused, as the health needs of today will not be those of twenty years from now. The significant and expensive capacity building and innovation needed must begin soon, if New Zealand's health system is going to keep up with international standards. Embracing the best of the private sector will ensure that the people who need a strong public health system the most don't get left behind.

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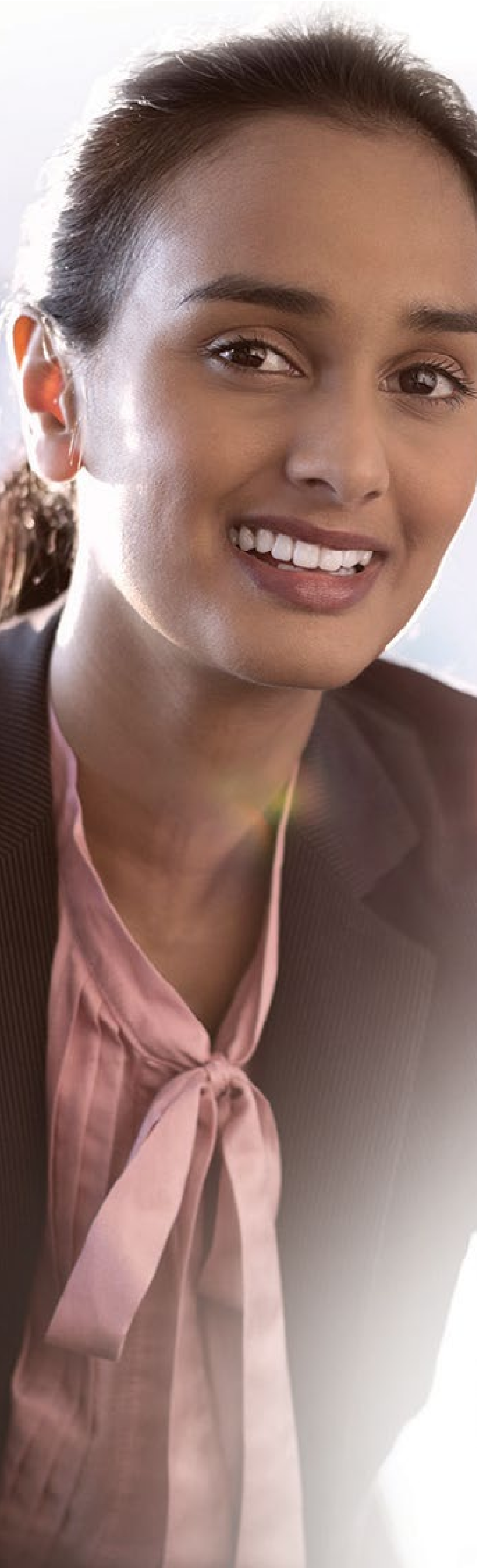

Proportion of women in NZ senior leadership roles has hit **rock bottom**

Whilst businesses globally have taken one step forward and one step back on women in leadership, New Zealand has taken two firm steps back.

Globally, significantly more businesses surveyed (75% in 2018 v 66% in 2017) now have at least one woman on their senior management teams, but the proportion of the team that is female has slipped from 25% to 24%, according to Grant Thornton International's annual Women in Business report. In New Zealand, the results are more dire, hitting an all-time low of 18% since the report began in 2004 (31%), compared to 20% in 2017. What is more discouraging is the marked increase in the number of businesses with no women in senior management roles at 56%, compared to 37% last year.

In 2015 when the proportion of women in senior management roles dropped significantly from 31% to 19%, we hoped this was a "blip" and we would see positive change in the coming years. We now have a four

There is a marked increase in the number of businesses with no women in management roles

56%
2018

37%
2017

Motivation to introduce gender equality

62% to attract and keep employees

58% vision of leadership

year average of 19% which suggests this is our new norm, and it's really not good enough.

Last year the report revealed a sense of complacency the "issue" had plateaued and the diversity challenge has been dealt with. Once upon a time, our global standing was among the top 10 countries surveyed – we are now ranked 33 out of 35 countries; clearly the challenge hasn't been dealt with in New Zealand.

There is compelling evidence of the link between gender diversity in leadership and commercial success. The current volatility in the global economy and ongoing technological innovation and disruption makes the issue more important than ever.

Grant Thornton's report investigates the role of businesses' policy in bringing about change. The data shows gender equality policies are abundant and widespread throughout the country, with 80% of businesses surveyed adopting equal pay for men and women performing the same roles, and 78% implementing non-discrimination policies for recruitment. Measures that support working parents are also popular among businesses, including remote working (74% - which is high compared to the global figure of 40%), paid parental leave (68%) and part time work (66%).

Our research reveals that introducing policies alone is not enough to drive real progress. There is no clear correlation between which, and how many, policies businesses have in place and the gender diversity of their senior management teams. No single policy seems to drive gender diversity.

Companies say they are motivated to introduce gender equality policies primarily to attract and keep employees (62%) and because of the vision of senior leadership (58%). Recruitment and retention are strategic priorities for businesses, and gender equality in leadership has become a core element of company branding. However, businesses say the barriers to introducing policies include the complexity of translating good intentions into practice (28%) and a business culture unsupportive of diversity (24%).

This perhaps suggests businesses are concentrating on box-ticking, rather than actual, tangible progress. Without meaningful behaviour changes at all levels of a business, no progress can be made towards creating a real gender balance regardless of policies that are in place. The tone has to be set from the top; leaders are the only ones who can really press for progress, and they can do this by actively championing the cause to create inclusive cultures where every individual has an equal opportunity to flourish.

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