Tuesday, September 27, 2016

Mood of the BOARDROOM

2016 Chief Executives' survey

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Mood of the Boardroom 2016

Executive Editor: Fran O'Sullivan
Writers: Christopher Adams, Bill Bennett, Grant Bradley, Liam Dann (Herald Business Editor-at-large), Anne Gibson, Tim McCready, Matt Nippert, James Penn, Thomas Pippos, Graham Skellern
Subeditor: Isobel Marriner
Graphics: Richard Dale, Isobel Marriner
Online: Sophie Ryan (Herald Digital Business Editor), Aimee Shaw
Social: Aimee Shaw
Advertising: Neil Cording; Megan Shaw
Survey Co-ordination: Lynaire Kittelty
Event Stage Management: Rebecca Widdison
nzherald.co.nz

The *Herald's* Mood of the Boardroom 2016 survey attracted participation from 101 respondents. This year there were more than 85 chief executives including CEOs of most of NZ's biggest companies, some significant publicly owned institutions a handful of company chairs and the heads of some influential business organisations. The *Herald* survey is conducted in association with BusinessNZ. Chief executives are drawn from the Deloitte Top 200 list which spans private and public sector companies, BusinessNZ's major companies group and major professional advisory firms. The survey is now in its 15th year having been launched in December 2002 within a *Herald* State of the Nation report.

*** Watch the Debate**
Finance Minister Bill English and Labour's shadow finance spokesman Grant Robertson will debate the results of the *Herald's* Mood of the Boardroom survey at a breakfast at the Langham hotel in Auckland this morning.
The debate will be chaired by Herald editor Murray Kirkness.
*** Take a look at the Herald's online business pages** which will feature video from the debate and interviews with leading CEOs attending the breakfast.

The importance of speaking out

Speaking out on important issues that face the nation has been a defining characteristic of the *Herald's* Mood of the Boardroom CEOs Survey.

The survey is now in its 15th year and CEOs are once again willing to speak out on important issues so the *Herald* can publish a snapshot of the "mood" at the senior levels of New Zealand business.

This year, we asked chief executives what best reflected their own philosophy: Whether as a CEO it was best to focus on issues that directly affected the bottom line and to "avoid controversial public issues"? Or, whether it was important to take a stand on some important public and political issues?

A clear majority — 63 per cent — opted for the latter option. Many CEOs were emphatic in their belief that business figures must take stances on matters of political importance.

Spark NZ managing director Simon Moutter says change will always be controversial. Forceful leadership from the business community is often necessary. "If CEOs won't stand up on matters of importance to the country, that just leaves politicians to do all of it," says Moutter. "That can't be the right outcome." And Moutter has certainly walked the talk, notably taking a strong stance this year against tax dodging by multi-nationals.

Social media is one of the channels making it easier for business leaders to take those stances. Moutter took to Twitter describing Google's behaviour as "despicable". That tweet sparked other articles, including one by Moutter himself, in which he challenged Facebook, Google, and Apple to "pay their fair share".

After the tech giants failed to respond to that challenge, Moutter took to Twitter again: "your silence is deafening!" he told them.

One transport sector chief executive agreed that it was important to take a stand on some issues, but warns: "always remain conscious of undermining important relationships in a small country".

Ex-patriate businessman Stephen Jennings, ANZ's David Hisco and Mainfreight founder Bruce Plested have also memorably challenged the status quo in 2016.

But others citing the potential for their comments to be misconstrued in a more populist media environment are reluctant to poke their heads up over the parapet. In this environment said an energy boss it was "best to focus on such public issues and matters of national interest where they are relevant/adjacent to your organisation."

A leading banker shares those frustrations: "The problem with doing that is New Zealand has a media and chattering class that loves taking potshots at anyone who takes a stand on an issue."

Only one third of respondents to the Mood of the Boardroom survey reflected the philosophy that it was best to focus on the bottom line and avoid controversial political issues.

Mainfreight group managing director Don Braid emphasised that his first priority is to focus on growth and profitability. The responsibility to speak up on public issues only comes into play "where we have an opinion or some expertise".

"Commenting for the sake of it is not part of our DNA," cautions Braid.

What's Inside

A Switzerland of the South Pacific?

Most chief executives find Key's 'haven' idea attractive

John Key's vision to position New Zealand as an Asia-Pacific Switzerland resonates with most chief executive respondents to the *Herald*'s 2016 Mood of the Boardroom CEOs survey.

Some 79 per cent of CEOs find the Key vision of a "wealthy, desirable and secure haven in a restive world that other people want to live and invest in" to be attractive.

"We would support positioning New Zealand as a desirable and secure haven in this part of the world," said Mainfreight Group managing director Don Braid.

"Calling it the Switzerland of the Pacific is not necessarily the best description — although there are plenty of lessons that we could take from the Swiss in the management and governance of their country.

"But I am unsure that adopting this vision will secure any long-term economic future for New Zealand without embarking on a number of other initiatives — like improving the education of our people, particularly in sciences and mathematical categories and addressing the infrastructure needs of the country."

Deloitte CEO Thomas Pippos noted the positioning was not deliberate. "But rather, where we may be ending up as others have moved away from their nirvana."

We would support positioning New Zealand as a desirable and secure haven in this part of the world.

Don Braid, Mainfreight

Though 79 per cent of CEOs find the Key vision attractive, they want the Government to address domestic issues like the working poor, housing, the widening gap between "haves" and "have nots", and environmental issues.

Societal tensions are rising as homes in our largest city now cost 10 times the median household income. "That will eventually lead to serious social unrest, and potentially violence," warns a leading banker. "It only takes one lunatic action to destroy our image as a desirable and secure haven."

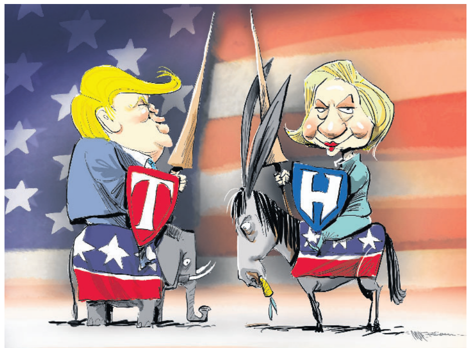
" New Zealand is a tremendous place to live, relative to other jurisdictions," said an energy boss. "Fundamental to our success is the ability to attract talent and, in turn, business.

"Having a million-dollar average house price in Auckland against local incomes doesn't help us to achieve that. But we need to attract more globally connected businesses to New Zealand."

KiwiRail CEO Peter Reidy cautioned that New Zealand needs to be productive — " not just a haven for the financially successful.

"Attracting foreign investment to create jobs is appealing."

Cybersecurity was the major international factor affecting business confidence; protectionism ranked second.



Hillary gets the nod — but little enthusiasm

Chief executives overwhelmingly said "I'm with her" when asked who they favoured most as the next president of the United States.

But while 94 per cent nominated Hillary Clinton as their choice for president, the bulk of the commentary suggests many CEOs have little faith in either candidate.

"It is a tragedy that such a sizeable and progressive economy as the US cannot produce high quality, dynamic and capable candidates for President," said Beca chief executive Greg Lowe. "Hillary is lower risk, but not fresh. Donald is a risk to world stability and US economic success."

A media boss echoed. "While I have selected Hillary Clinton as favoured candidate, I believe both candidates pose a risk to the US (and therefore global) economy."

"Of the 320 million people available in the US is this the best two candidates they could find?" questioned Mainfreight's Don Braid.

Just six chief executives favoured Donald Trump, earning a jibe from a leading banker — "if anybody ticks Trump, have them certified!"

A boss of one of NZ's largest companies said he had concerns about both candidates "However if elected, the Democrat Party appears more likely to field a strong team behind Clinton to compensate for weaknesses."

Some 48 per cent of CEOs expect the disillusionment with traditional politicians — as seen with Brexit and the rise of Trump — will spill over to affect the NZ political environment in next year's election. "Centre/Centre Left supporters will be looking for someone to galvanise them, Trump style, to 'fight the good fight'," said a media boss.

But 40 per cent of respondents felt the international political turmoil would not have much effect in New Zealand. I think our politicians are largely pragmatic and grounded," said Beca's Lowe."UK and US politics has become populist and ego-driven which does not benefit their electorate in the long run."

Some pointed out NZ First was already a beneficiary. "The flag referendum and the Northland by-election were that sentiment manifesting already."

Among other comments:

"Here comes Winston. He seems to be the obvious winner of the disenfranchised voter (if they decide to vote at all). I never thought I would say it but I am glad we have MMP, it may prove to be a good moderator in this new political environment."

"It will emanate from the left. The right is too blinded by Key to distinguish. The country's performance is, overall, strong, that will tip the scale into tolerance."

"This will be National's biggest concern, as it runs the risk that Kiwis decide to 'give the other guys a go' and nationalistic agendas get the balance of power — such as NZ First."

Hillary Clinton

- **Democrat**
- **For: Baggage, but rational**
- **Against: Lesser of two pretty ugly evils**

Donald Trump

- **Republican**
- **For: Pragmatic. Nobody has Trump in their pocket**
- **Against: Trump is a fruit cake**

Globalisation under threat?

A majority of chief executives believe globalisation is under threat as the world moves to a more insular and protectionist phase. Some 57 per cent of survey respondents agreed with the proposition; 30 per cent disagreed and 10 per cent were unsure.

CEOs were particularly concerned about the potential rise of protectionism. "This poses a significant risk for NZ's export oriented economy," said the boss of one of New Zealand's largest exporters. His view was underlined by several agribusiness bosses who saw protectionism as their No 1. global threat.

A leading law firm boss said the reasons for the retreat from globalisation were understandable: "Paucity of leadership globally; big corporations cheating on tax and 'inequality' even though I don't like the expression.

"Governments have not delivered on the most basic requirements in many places — security; corruption-free politics and leadership."

Said Dame Alison Paterson: "Events in the USA [support for Trump's views], in the UK [Brexit vote] and in Europe [reaction against Angela Merkel's stance on immigration] can not be ignored."

Some like Deloitte's Thomas Pippos felt the risk was over-blown, "In some cases there is no doubt more rhetoric than action but how Brexit plays out will be key."

Mainfreight group managing director Don Braid said "if you are referring to borders and the freedom to move between countries then certainly the world is becoming more insular."

But Braid said trade was increasing globally.

"From a protectionist perspective there are more trade agreements being done than ever before".

"The beneficiaries of globalisation have been the Asian middle classes," said a public sector boss. "The actual experience of many working class and middle class people in the developed world is that globalisation has made them poorer, not richer.

"This is driving a massive protectionist reaction."

Many of the chief executives- like Spark NZ's Simon Moutter — believe that globalisation is unstoppable in a digital world

"Consumers will ultimately demand globalisation," said Xero's Anna Curzon. "Protectionism will not trump (forgive the pun!) consumerism".

A local boss from a global manufacturing firm said globalization will continue but it will adjust to reflect the new normal." In it's current form it hasn't prevented protectionist policies/ actions for the French farmers or NZ apples in Australia."

Strategic thinking from Air NZ's chief

Air New Zealand chief executive Christopher Luxon is urging a more strategic approach to some major issues facing New Zealand.

Luxon says NZ has a lot of advantages over bigger places in getting things done. "But our worst excesses are that we can be a bit enthusiastic, amateurish, and a bit tactical, and we don't fundamentally solve comprehensively for good strategy."

Luxon points to some real emerging issues he believes concern all New Zealanders. "Inequality is a big problem for us because it's getting back to the fabric of who are we as New Zealanders, and what's our narrative about what we're trying to do as this country, and what we want to be and what we don't want to be."

He questions whether enough attention is paid to the country's narrative. "We went into a more tactical conversation around the flag debate for example, without having that foundational support or narrative in place. So I think when you talk about inequality, as New Zealanders we either — implicitly or explicitly — have very strong views about where we think we should be on that continuum.

When you talk about inequality, as New Zealanders we either — implicitly or explicitly — have very strong views about where we think we should be on that continuum.

Christopher Luxon, Air NZ

"And we haven't had that debate as a nation yet about what that means for us all. Because with that comes some sacrifices about choices that you get to make, about how you might want that to be, and some consequences — good or bad."

The airline boss cites infrastructure as a second big issue which needs to be comprehensively and strategically solved. "As a CEO you build strategic plans to tool your business or to upgrade it or reform it. From the top to bottom of this country there's a list of infrastructure," Luxon explains.

"Central banks are running out of tools, and monetary policy, I think, has run its course. Germany can do a negative interest rate 10-year bond, New Zealand can do a 10-year bond for 2 per cent.

"So why wouldn't you fire up when debt's so cheap, and actually go off and do some one-off projects that fundamentally enhance our medium-term economic wealth?"

Luxon also cites the exponential growth in digitisation, which is fundamentally disrupting industries; noting that NZ's education system is still prescribed on "how we went to school".

"It's not just about numeracy and literacy — it's going to be about digital literacy. Our kids now are learning in different ways. It's important to resolve as this issue feeds directly into rising inequality, which in turn will become a bigger problem economically, socially and politically for us as a country."

Luxon recently unveiled a record result for the national flag carrier. Though the aviation market is becoming increasingly cut-throat he says "our relative performance is actually pretty good in the world.".

CEOs: Crank it up, Bill

Fix the housing crisis and develop a long-term economic plan, many of the country's CEOs have told Minister of Finance, Bill English, reports **Graham Skellern**

In the *Herald*'s 2016 Mood of the Boardroom survey, the CEOs were asked what English's major priority should be as Minister of Finance. Generally, they backed English's approach, but they singled out the housing shortage, infrastructure development and maintaining real economic growth as priority areas.

Three energy bosses said: "Sort out housing and the over-attractiveness of tying funds up in property"; "ensure a soft landing for housing"; and "tackle the issues around housing and the financial risk this may present."

A manufacturer wanted continued financial management with the express purpose of addressing housing supply and infrastructure development.

A recruitment boss said English's priority must be to resolve housing pressures and to focus on real economic growth. A property chief suggested English should get active on tax policy to deal with housing unaffordability.

Another approach was to dampen house price inflation, a media chief said. "This (inflation) is putting pressure on business and social outcomes, and banks are now required to hold increased capital due to the risk of housing market correction.

"This cost is being passed on to business."

Don Brash, chairman of ICBC (NZ) said English should push his Cabinet colleagues to take the measures needed to deal with the challenges — housing affordability and very slow growth in per capita incomes.

A travel boss said a priority was maintaining real economic growth for the country, ideally in a broader sense than just from the rural economy.

An airport boss said English should be driving some big thinking on New Zealand's future, "redefining how we measure success as a country and getting the economic policy settings in the right shape".

English should also drive local and central government harder to encourage investment in infrastructure to support economic growth.

Mark Cairns of Port of Tauranga said government expenditure should be managed and focused on what would produce the best GDP enhancing outcomes.

An electricity boss thought English should continue to manage the economy the way he's doing. "The merging challenge will potentially be the need to move from monetary policy solutions to fiscal policy measures if we approach negative interest rates/deflation."

Strahan Wallis of Porter Novelli wanted English to set out long term positive financial plans and ensure the country's debt is under control.

An investment banker wants more quality businesses to operate here and to ensure the taxation system is fair. "Remembering it is as much about setting the right environment and encouraging the right behaviours; and ensuring well-directed and efficient spending of taxpayer funds.

"Also, ensure regulation is right sized and Commerce Commission is appropriately mandated and resourced. The same with the Overseas Investment Office which is still badly off the pace in many respects."

Dr Rick Ede of the Unitec Institute of Technology said taxation and investment incentives should be reset to favour productive investment instead of property investment.

A sharebroker favoured passing future surpluses on to taxpayers through gradual tax threshold increases and rate reductions, alongside the election year temptation to spend money.

Simon Moutter of Spark NZ wanted English to "sort out the sustainable model for the tax base that better positions us in a world where value is fast migrating toward global digital business."

A printing chief said the tax burden should be reduced and more evenly spread. "Get on with an online transaction for GST on all goods imported. Nearly 100 per cent will be transacted by credit card and easy for the banks to collect GST.

"Start investment back into NZ Super and deal with the retirement age," he said.

A clothing manufacturer said funding education was the biggest investment "we can make for the future of the country. It is good to hear the use of big data is leading to effective targeting of funds, however there is too much loss of future resource potential (our children)."

A real estate boss outlined his priorities as major infrastructure support for Auckland, improved education and revitalised cadetships in the trades like plumbing, building, electrical, and better health services.

Dr Oliver Hartwich of The New Zealand Initiative said English should develop a comprehensive policy agency for reform.

"He is the most impressive thinker on big policy issues in government and he needs to lead the conversation on where New Zealand wants to be in 30 years' time."

Bill English's performance still rates highly with CEOs.

Rating the Cabinet

Bill English	**Finance Minister**	**4.51/5**
John Key	**Prime Minister**	**4.04/5**
Steven Joyce	**Economic Development**	**3.51/5**
Amy Adams	**Communications**	**3.47/5**
Nikki Kaye		**3.36/5**
Paula Bennett	**Social Housing**	**3.24/5**
Christopher Finlayson	**Attorney-General**	**3.23/5**

*** CEOs rating Cabinet Ministers' performance over the past year on a scale of 1-5 where 1=not impressive and 5=very impressive**

Time for a shakeup?

If John Key was looking for evidence that his Cabinet needs a shakeup look no further than the ratings that leading chief executives have awarded his ministers' performance over the past 12 months.

Yet again Finance Minister Bill English is the star of the show with his performance rated at 4.51/5 on a weighted averaged basis where 1 = not impressive and 5 = very impressive.

But aside from Key himself — who just marginally scrapes above the 4/5 level — no other Cabinet Minister squeezes into the top ranks.

A multi-national local boss, said "considering Key is well into the third term and is still favoured to lead the Government to a fourth term, irrespective of some of the shortcomings — that's pretty impressive."

But a banker said he'd given Key the lowest ranking because it should be his job to drive the overall strategy. "That strategy seems to be 'let's not rock the boat'." Fifty-five chief executives rated the finance minister at 5/5; just 33 CEOs gave Key full marks for his performance.

"The senior ministers need to start to move beyond incrementalism to identifying some big (but sensible) moves that will engage the voting public," said a transport player.

The EMA's Kim Campbell said it was a mixed performance reflective of "a third-term Cabinet who have become unimaginative and risk-averse".

What is notable is the slide in rankings of Key's own "kitchen Cabinet".

The 'Minister of Everything' Steven Joyce has slumped down to 3.51/5 — Joyce usually scores above 4/5. Social Housing Minister Paula Bennett — once seen as a future National Prime Minister — has lost her gloss. For third-ranked Gerry Brownlee his downwards trend has continued.

Other Cabinet ratings are: Health Minister Jonathan Coleman 3.17/5; Energy Minister Simon Bridges 3.12/5; Social Development Minister Anne Tolley 3.09/5; Immigration Minister Michael Woodhouse 3.06/5; Primary Industries Minister Nathan Guy 2.91/5; Trade Minister Todd McClay 2.90/5; Education Minister Hekia Parata 2.85/5; Police Minister Judith Collins 2.85/5; Foreign Minister Murray McCully 2.77/5, Defence Minister Brownlee 2.66/5 and Environment Minister Nick Smith 2.52/5. Those who rated under 2.5/5 included Seniors Minister Maggie Barry 2.34/5 and Local Government Minister Peseta Sam Lotu-liga 2.15/5.

— Fran O'Sullivan

Inflation no longer the defining measure?

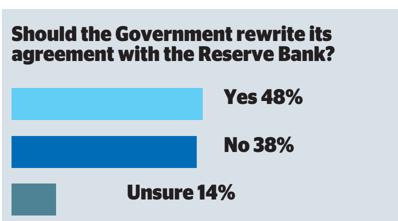
Nearly 50 per cent of CEO respondents believe the Government should rewrite its agreement with the Reserve Bank to give the Governor the ability to consider wider economic factors beyond inflation.

This is a marked change from previous surveys where there was a consensus that inflation should be the prime focus for the central bank.

A leading banker said the current Reserve Bank Act was right for the 1980s and 1990s, when inflation was the problem — in a post-global financial crisis, low-inflation world, the Governor needed to focus on different things.

"Inflation only leads to ill-matched decisions," said a SME chief. An agribusiness boss said "it should not just be inflation — economic growth needs to be included".

Don Brash, chairman of ICBC (NZ), said there remained a high degree of consensus that over the longer term monetary policy can't significantly effect an improvement in real economic growth or employment.



Reserve Bank Governor Graeme Wheeler

"And the Government should probably either reduce or widen the inflation target band. It's not obvious to me that an average movement in the price of goods and services (as measured by the CPI) of say 0.5 per cent a year should be regarded as a serious problem to be solved. There's not much evidence of people holding off spending because the CPI is at current levels," said Brash, who is a former Reserve Bank governor.

Several felt giving the Governor the ability to look at broader economic factors would place too much power in a single person. But an investment banker said there could also be a Board of Governors or similar "so that monetary policy is not the sole domain of one individual".

There was "a rumble" recently between the Government and the Reserve Bank over monetary policy. John Key urged the bank to target property investors with tougher lending rules, saying it should "just get on with it".

Reserve Bank Deputy Governor Grant Spencer said the bank was considering new loan-to-value ratio (LVR) restrictions, but would not introduce them before the end of the year. He also suggested the Government might consider taking another look at its immigration and tax settings.

Several chief executives suggested there should at least be open debate over how best fiscal stimulus should be delivered — infrastructure, social spending, tax cuts or science and research and development.

At present, lack of inflation is killing wage growth; businesses are making gains on costs but sales margins are falling, and low interest rates have pushed stored wealth into property and shares.

On the question of whether the Government should use its fiscal levers to take pressure off monetary policy, an investment banker said, "I am inclined to keep protecting the balance sheet — use it counter-cyclically when New Zealand is not going so well. Remember, we are outpointing most countries at the moment." Beca's Greg Lowe cautioned levers need to be applied carefully and gently: "Too much cooling can slow the economy, slow growth and reduce jobs."

Forty-one per cent of CEOs were against using fiscal policy in this fashion. But 25 per cent of respondents were in favour, with EMA boss Kim Campbell saying "with such low interest rates and these expected to remain, it's an opportunity of a generation to invest in infrastructure".

Thirty-four per cent were unsure.

Leaders show more optimism

Despite last year's gloomy outlook, we've managed to keep going and growing through the worst, says **Liam Dann**

Strong GDP growth in the past two quarters has put New Zealand near the top of the OECD pack for annual economic growth, but the good data has been tempered by concerns about growing inequality as house prices continue to soar.

Global worries also continue to undercut the optimism as nervous sharemarket investors brace for a lift in United States interest rates.

It's an economic outlook broadly reflected in the results of the Mood of the Boardroom survey.

On the local front there is some serious optimism breaking out and that can't be a bad thing.

Last year's gloomier Mood of the Boardroom outlook results came as we were bracing ourselves for a dairy downturn. There was some real concern about how the fragile economy would cope.

But with a bit of a nudge from record immigration levels, we've managed to keep growing through the worst of it.

Second quarter GDP growth took our annual rate to 3.6 per cent – ahead of Australia, United States, the UK and Germany.

The top-line figure is good news. It creates an environment in which business can grow.

Business leaders are certainly feeling more optimistic about their own prospects and the local economy than a year ago. But on the global economy they were less upbeat, with a sizeable number feeling less optimistic than last year.

After the market turmoil in January, the Brexit meltdown in June and now growing fears around the US Federal Reserve's next move to raise rates, it is hardly surprising the scepticism about the global recovery remains.

The spectre of a Chinese economic slowdown also looms large. Throw in the Donald Trump factor and there are no shortage of issues to be concerned about.

> It is important to recognise relative good times and use them to make the structural change and long term plans necessary to ensure we're in shape for the next cycle.

But it would be foolish to ignore the relatively benign local economic environment. It might not be so flash on a per capita basis but it is vastly preferable to the opposite scenario of a contracting economy and shrinking population.

Coping with growth constraints – one of the biggest issues for business leaders in this survey – and even adapting to technological disruption are real problems, but who'd swap them for the shrinking revenue and cost cutting of a serious recession.

It has been eight years since New Zealand has been there.

We entered recession in early 2008 after a severe drought and were out before the end of the year – just as the rest of the world slumped into the global financial crisis.

That's not to say the past eight years have been plain sailing – but it is important to recognise relative good times and use them to make the structural change and long-term plans necessary to ensure we're in shape for the next cycle. Some of that enthusiasm for structural change is evident in survey responses.

With regards to monetary policy, a sizeable proportion of CEOs felt the Reserve Bank's policy targets should be renegotiated to deal with the unusual low inflation conditions.

Inflation has now been outside the official target band of 1 to 3 per cent since the third quarter of 2014.

Some economists have suggested we should relax about that target and that chasing it is keeping rates unrealistically low – further inflating the housing market.

There is also a sizeable number of CEOs who feel the Government need to take a more targeted approach to issues like immigration and infrastructure.

But it was worth noting that the Bill English still gets plenty of support for his economic management and tight fiscal approach to balancing the books. Calls for English to take a more fiscally stimulatory approach to ease pressure on monetary policy still get a resounding "no" from the majority of respondents.

In the end, despite increased concern about social issues such as housing, the Government can still feel comfortable about its support base among senior business leadership.

An overwhelming majority agree the Government's current economic management is good.

Judged on the economic environment in which most companies are doing their business this year, it is not hard to see why.

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

MOOD OF THE BOARDROOM 2016

A place to call home

While the CEOs agree the government must do something to curb housing inflation, there are mixed views over how this can be achieved, reports Tim McCready

We fear our children won't own homes, say the nation's business leaders. Housing is one of the biggest issues in New Zealand at the moment — that was the response from CEOs in this year's Mood of the Boardroom survey.

Cathy Quinn, chair of law firm Minter Ellison Rudd Watts, says "New Zealand is a comparatively good place in the world and our economy is doing well. But like many New Zealanders, I worry about housing affordability in Auckland for our staff and our children."

When asked whether the Government should be doing more to dampen house price inflation, 70 per cent of CEOs agreed, while 18 per cent think the Government is doing enough, and 12 per cent are unsure.

Chris Gudgeon, chief executive of Kiwi Property, says the Government has been "lazy, naive, and negligent".

He thinks it has lost sight of the crucial societal role that affordable housing plays.

"The Government has allowed housing to move from becoming a social good (when affordable) to a tax-effective investment that has only served to enrich investors at the expense of the next generation of talent we need to retain and attract," he says.

The Government's refusal to use both the demand lever as well as the supply lever has exacerbated the problem, Gudgeon says.

"I think New Zealand is in a comparatively good place in the world and our economy is doing well. Like many New Zealanders I worry about housing affordability in Auckland for our staff and children. Again, like many New Zealanders I worry about Aucklan's infrastructure — are we spending enough? How can we finance the infrastructure we need? Personally, I would support the sale of local assets on the basis that the money was used for the infrastructure we need. Similarly around New Zealand — are we investing in the infrastructure we need to support the increase in tourism so that visitors have the positive experience we need?

— Cathy Quinn, MERW

"The continued labelling of the problem as purely a supply issue is disingenuous, and blaming the Reserve Bank and Auckland Council is pure politics.

"Government should be imposing restrictions on non-resident investors until supply issue is resolved, and imposing a stamp duty on domestic investors to raise revenue to fund the infrastructure investment needed to support new supply and to disincentivise speculation," he says.

The boss of one of New Zealand's major banks thinks that "the Government has been far too hands-off around Auckland housing and the stresses and strains that the city's infrastructure is under".

Deloitte CEO Thomas Pippos says "while it is healthy for asset values like property to increase over time, the rate of recent change is unhelpful on a number of fronts, including exacerbating wealth and income disparity that will continue to raise challenges".

Independent director Dame Alison Paterson says all the initiatives announced are worthwhile, however they take too long to have an impact. "While the incentives are to invest for capital gain and not in productive industries, the position will not change."

Another CEO suggested: "Get Nick Smith off the (housing) portfolio. The man is clueless and disinterested."

Although most CEOs agree the Government must step up and do something to curb housing inflation, there is considerable debate over what that action should be, and an appreciation that perhaps there is no silver bullet.

"This is clearly not an easy issue to fix — otherwise it would have been done," says Quinn. "Collapsing the housing market and having people lose their equity does not seem right."

Pippos cautions that "what is unhelpful is that property will become even more of a political football that may result in populous measures rather than those that are effective in the long run."

The chief executive of an Auckland law firm says "we need to assess what has and hasn't been effective elsewhere. Australia has massive taxes and stamp duties, but rather than blindly follow we need to assess and tailor make something sensible".

Many CEOs see housing as a personal issue. Not necessarily because of the effects it will have on them, but because it will affect the ability of their children or grandchildren to own property in Auckland. Just over 70 per cent of those surveyed are concerned that the New Zealand "dream" of owning property is becoming out of reach for younger generations, and 73 per cent are concerned that younger New Zealanders are being priced out of the Auckland residential property market.

"I think it is really sad to see so many young people — many of whom are well-educated and in good jobs — that don't believe they will ever be able to afford their own home," says one CEO.

Though only a third of those surveyed worry that the Auckland property market will stall, there is concern

continued on D7

AFFORDABLE POCKETS

Although many CEOs agree that housing unaffordability is a significant problem, some agree with the Prime Minister's statements that there are plenty of affordable Auckland homes available.

A real estate boss thinks that although certain pockets of Auckland are unaffordable for first home buyers, this is the case in all truly international cities.

"Owning your first home in traditionally sought after and established suburbs such as the Eastern Bays, Remuera, Parnell or the Inner West is an unrealistic expectation.

"There are plenty of opportunities for first home buyers in 'up and coming' regions such as Hobsonville Point in the West and Papakura and Takanini in the South," he says.

The chief executive of an energy company says that young Aucklanders should look at options outside the CBD but close to public transport. "Papakura, Ranui, Beachhaven, Manurewa are examples of affordable locations with great public transport options."

The chief executive of an agricultural company says "young Aucklanders are free to locate elsewhere in New Zealand where jobs are available and houses are more affordable."

The head of a distribution business believes many housing issues are social, and largely self-inflicted. "Families are too large, or come from broken families. This is putting pressure on 'affordable' housing as the government is expected to bail out many."

'While the incentives are to invest for capital gain and not in productive industries, the position will not change' - Dame Alison Paterson

NZ Business Confidence factors

7.21/10 Auckland growth pressures

7.19/10 Infrastructure

6.69/10 Housing affordability

6.55/10 Skills and labour shortages

6.19/10 Labour productivity

5.65/10 Regulation

4.61/10 Weakening consumer demand

4.53/10 Christchurch rebuild

4.2/10 Deflation

4.18/10 Wage increases

3.93/10 Government spending

3.81/10 Energy costs

3.80/10 Increased net migration

3.62/10 Access to capital

3.53/10 Current account

3.43/10 Personal tax rates

3.39/10 Corporate tax rates

3.34/10 Interest rates

3.18/10 Government borrowing

*CEOs were asked to rate what effect domestic factors had on business confidence and within their industry on a scale of 1-10 where 1=no concern and 10=extremely concerned.

Four-point plan to solve housing crisis

A combination of factors could help deal ease tensions, says Peter Thompson of Barfoot & Thompson

More relaxed bank mortgage lending policies, political unity and an expansion of apprenticeship schemes to ease tensions in New Zealand's biggest city — that's what the boss of Auckland's biggest real estate agency wants.

Outlining potential housing crisis solutions, Peter Thompson, Barfoot & Thompson managing director, says affordability is his biggest worry but a four-point plan could deal with some of the issues.

He says there is no quick fix but suggests a combination of factors:

Easing lending: The Reserve Bank should relax the loan to value ratios for first home buyers on all purchases of residential properties under $500,000 in New Zealand, including Auckland. "I've been trying to raise it for a long time through various means we have with political parties"

He wants the restrictions on investors to remain. However, the Reserve Bank has long expressed concerns about the housing market's risk to New Zealand's economy and on October 1, more restrictive lending policies come into force.

> We will see lots of new product in the next 12 to 18 months but things just don't happen overnight.
>
> Peter Thompson

Political unity: Thompson would like to see political parties form a group on housing affordability — "like they did with superannuation" — and try to come up with a paper of substance and implement that.

Polls show next year's election could see the Greens and New Zealand First gain more seats, he noted.

More training: More apprenticeships in electrical, plumbing and building. "There's some dodgy buildings," he says, citing currently high building inspection failure rates revealed by Auckland Council. "We need quality builders who don't put up leaky homes. There are definitely some dodgy buildings."

Patience on housing supply: Thompson says this issue is being addressed but he indicated patience was needed because vast new housing estates don't rise overnight. "There's a lot of criticism about the growth but it takes two to three years to get an apartment block designed, sold, built and opened. So we will see lots of new product in the next 12 to 18 months but things just don't happen overnight."

He is optimistic the Unitary Plan will create one planning rule book for the entire city.

Thompson also has strong views on a number of other issues in relation to housing, particularly in Auckland.

Low interest rates concern him "because banks are lending a lot of money and if they put the percentage up to 3 or 4 per cent, how many people will be able to afford that? Then you start to get mortgagee sales and you don't wish that on anyone."

Migration is also an issue. "China, Australia, New Zealand returnees, UK, Americans — they're all coming for a different lifestyle, and some for work, and now we've got Brits from Brexit."

Thompson says the tourism sector's growth hit home when he went to Fiji for a weekend with friends and had to disembark in Auckland on to the tarmac because no air bridges were available.

He says housing supply is dogging the entire real estate sector and wonders whether too much information is confusing the situation. Thompson is also concerned about confusion, particularly when data sets on housing contradict each other.

On homelessness he says: "Every major city has it. I would love to have every person living in a property of some sort but they have to be able to help themselves. There's a few private investors trying to help, behind the scenes."

— Anne Gibson

Targeting the right skills crucial

Most CEOs agree NZ needs to upskill its workforce and if that involves immigration, so be it, reports **James Penn**

Only two of the respondents in the Mood of the Boardroom survey were interested in loosening New Zealand's immigration policies. The vast majority – 74 per cent – instead, suggested that immigration policies should be better targeted to ensure New Zealand obtains people with needed skills.

Matthew Cockram, of Cooper and Company, says better targeting may not even require legislative or regulatory change – it's "more about tuning and modifying existing policies and their application".

This focus reflected a broader mood among CEOs that New Zealand needs to upskill its workforce. Greg Lowe of Beca says the solution is "a mix of increased skilled migration and increased targeted training. We want skilled migrants because we are short of skilled labour and the problem is getting worse as baby boomers retire."

A winery boss suggests better targeting for job skills so that "you don't have geologists driving cabs."

Another area of concern as a result of immigration policy is capital allocation.

Andrew Harmos, co-founder of Harmos Horton Lusk, argues New Zealand is failing to extract sufficient benefits from its ever-increasing attractiveness as an immigration destination.

He says New Zealand's criteria for qualifying investments under the Investor and Investor Plus visa categories are too modest.

"It is odd that qualifying investments include cash deposits in our generally Australian-owned banking system. Who does that benefit, and for how long?"

Similarly, qualifying categories also extend to investments in funds that acquire secondary market securities such as listed shares and bonds, or invest in existing, low-productivity real estate stock.

"Investments ought to be targeted to directly benefit New Zealand, provide needed growth capital, increase productivity, and contribute to the infrastructure that needs to cope with population growth," says Harmos.

"At a high level, this means investment in primary rather than secondary market assets or securities."

Harmos says New Zealand also needs to look at asset leases rather than outright sales as a way to facilitate overseas investment in important infrastructure. "New Zealanders investing in Chinese farms have to take a long-term leasehold interest," he explains. "Would the same requirement really dissuade investment here in New Zealand?"

One energy sector boss says excess net migration is driving hyper inflation in property prices and completely distorting the economy. "We need to cap net migration to something that the economy, in particular Auckland, can manage sustainably."

One way to do that without reducing overall numbers is to recalibrate immigration to regional New Zealand.

"I think the policy should also have a requirement to ensure the regions benefit from immigration," says a CEO in the energy sector. "So a targeted regional growth and migration plan would be good." Others point out that net migration is obscuring the fundamental growth level in the economy. "The migration boom is probably making growth better than it fundamentally is, placing pressure on infrastucture and services," according to one director in the finance sector.

Despite these concerns, the overall results of the survey indicate that the migration impact is marginal in the context of other challenges.

When the CEOs were asked to rate their level of concern about the impact of 19 different domestic factors on business confidence, increased net migration only ranks 13th. However, skills and labour shortages sit fourth highest, reflecting that for most it is a question of quality rather than quantity.

Michael Barnett, chief executive of the Auckland Chamber of Commerce, agrees: "The issues associated with migration don't relate to the numbers; they relate to the mismatch between what we need and what we are getting."

DON BRASH'S TOP THREE

- Housing affordability in Auckland and, increasingly, in other cities. Dealing with this issue requires some throttling back on non-citizen immigration, a change in tax laws, the immediate scrapping of the rural urban boundary and the funding of infrastructure by bonds secured over the rating base of the new (fringe) development.
- The fiscal consequences of the ageing of the population. This will not be resolved without a significant increase in the age of eligibility for NZ Super. It will not be resolved by making KiwiSaver compulsory, because there is no evidence KiwiSaver is actually leading to any appreciable increase in net household saving and in any event could only reduce the fiscal cost of ageing if, with compulsory KiwiSaver, NZ Super were means-tested – and that doesn't seem at all likely.
- The persistent under-performance of productivity in New Zealand relative to other developed countries, leading to a continued gradual fall in our relative living standards. This will not be remedied by any single measure but I'd strongly favour three measures: a radical cut in the corporate income tax rate; a major reform of the RMA (not the tinkering currently envisaged); and a reduction in the rate of non-citizen immigration (for the reasons cogently argued by Michael Reddell).

Housing issues loom large for CEOs

continued from D6

that any fall in property prices will most severely impact first-home buyers who are more at risk of falling into negative equity.

"I wouldn't want to see my house value deliberately dropped by 20 per cent, but it's not me that would hurt," says one CEO. "It's my niece, for example, who just climbed on to the property ladder with an 'affordable' first home in Avondale."

Though CEOs think that the lack of supply is the most significant contributor to the rapid increase in Auckland house prices, the majority of those surveyed agree increased net migration, low interest rates, domestic speculation, foreign investment, and the absence of a full capital gains tax are all important factors.

Finding solutions

NZ Council for Infrastructure Development CEO Stephen Selwood thinks the Government should assist development by aggregating land and providing development opportunities to the market. "This will deliver subdivisions at scale adjacent to transport services," he says.

The head of a real estate company thinks the supply of homes is the fundamental issue, and is not convinced that any new bans, taxes, or regulation will provide a solution. "The biggest issue is a lack of supply. All other issues add to the situation, but not as significantly as supply.

"We need to encourage developers and investors (both local and foreign) to acquire land and redevelopment projects and get on with building homes and apartments," he says.

"Taxing residential investors and imposing LVR restrictions just discourages them from increasing supply to the rental market – this simply diminishes supply further and pushes rents upwards," says the real estate boss. "Fix the supply issue and the value equation will begin to balance out."

Beca chief executive Greg Lowe, says "empty houses owned by people who don't want to either live in them or provide rental homes, or are being held by short-term speculators (if the reports are correct), creates an unhelpful distortion of demand".

Although house price inflation is a supply issue, Mazda NZ's Andrew Clearwater says the real issue is a lack of skilled tradespeople. "There needs to be a curb on foreign investment where it is at the expense of first time buyers."

CEO solutions

81% want to see satellite cities/towns established to service majormetropolitan areas

39% find it more difficult to attract staff to relocate to Auckland

70% believe Govt should do more to dampen house price inflation in NZ

70% are concerned the NZ dream of owning your own house is becoming out of reach for younger generations

62% are not concerned the Auckland housing market will stall

> While the incentives are to invest for capital gain and not in productive industries, the position will not change.

Dame Alison Paterson

Lowe agrees, believing more skilled labour is needed in New Zealand – skilled migration will help meet this need, and also add to growth in domestic demand."

The boss of an agricultural company says until supply catches up with demand, the Government needs to implement fairly drastic action in terms of immigration. "It needs to be Government-led, as immigration is a national choice, but Auckland is wearing most of the consequences."

Other CEOs agree New Zealand needs much lower and far more targeted immigration – "we need a smaller number of highly skilled migrants."

Auckland Chamber of Commerce chief executive Michael Barnett says: "We need to address the foreign buyer advantage."

The chairman of an investment management firm says there should be no sales of existing homes to foreigners, and an energy company chief executive says the Government must contemplate new building rules for overseas buyers.

"I support a Government housing programme, but only for permanent residents who take up occupation and do not use the property for investment purposes," says a real estate boss.

Are taxes the answer?

The Government has notably avoided an effective capital gains tax, instead implementing the two-year "bright line" test. Whether capital gains and other taxes should be implemented remains a contentious issue, with CEOs unsure whether it will make a difference.

The boss of a real estate company says "if we look overseas to countries that have capital gains tax, house prices have continued to increase".

On the other hand, a manufacturing chief executive thinks "a capital gains tax is needed now on property other than the family home. Shifting speculative property investment into investment in productive capital markets would be a better economic outcome."

Don Brash, chairman of ICBC (NZ), says if metropolitan urban limits were scrapped, and infrastructure on the fringe of major cities appropriately funded, local authorities wouldn't have to do much else. "Bill English understands this, and so does Phil Twyford".

Yet most chief executives believe the solution to the housing crisis shouldn't be the sole responsibility of the Government, and that local authorities need to step up and take action. Just over 80 per cent of those surveyed think local authorities should establish satellite towns or cities to service major metropolitan areas, and 57 per cent think local authorities should apply a substantial differential rate to "banked land"' to incentivise owners to make it available for housing.

Port of Tauranga CEO Mark Cairns says "unoccupied land tax seems to be a no-brainer".

Lowe says that there is plenty of land already in Auckland, but housing density is too low for the current and expected population.

"We waste the land we have on inefficient and unnecessary section sizes. Urban intensification, particularly around transport and retail hubs, has been a common solution overseas and provides for more efficient use of land that still allows a good urban lifestyle," he says.

The head of a government agency agrees: "We must embrace intensification, and tackle the Nimbys in the leafy suburbs of Auckland."

Another CEO suggests: "Build along the Auckland rail corridor. This will allow at least part of the growth to not impact on the roading network if rail continues to improve."

Yet most CEOs agree that any intensification should not be at the expense of Auckland's green space.

"I agree with selling off golf courses, but would not like to see all green areas gone," says a real estate chief executive.

"We must not compromise the desired quality of life that Aucklanders are after, including parks and golf courses."

MOOD OF THE BOARDROOM 2016

Planning for the downturn

The housing market will correct, but it will take a few years, Wespac's David McLean tells **Anne Gibson**

Top banking chief exeutive David McLean says the fortunes of residential property are "cause for some concern" but pose no widespread risk.

"Auckland housing would be a theoretical risk if you thought it was a bubble that was going to burst," says McLean. "I don't think it's a bubble that's going to burst but you'd have to assume that at some time there will be a downturn."

Asked what could cause that, McLean cited traditional issues including a massive swing to net emigration, a big spike in unemployment and massive spike in interest rates.

"So from a bank's point of view, rather than worrying what might cause it, we've got to say 'let's assume it does happen, how would we respond?'

" So we need to ask, 'are we writing loans now that we would regret in that situation?'

"From a credit risk point of view, most of our credit risk portfolios are in very good shape."

McLean, who is CEO of Westpac New Zealand, said downturn scenarios were being studied regularly by the bank.

"The housing market does cause us some concern.

"We don't think it's a tremendous risk for the banking sector, partly due to the fact that bank lending policy has not been excessively loose and partly due to the fact that the Reserve Bank has tightened up with the macro prudential standards, LVRs, etc.

"That's made the lending books safer. So there's a little bit of concern about the risk but when we forecast and stress test under various scenarios, we can't really see losses coming through," McLean says.

Those stress tests include assuming higher unemployment ratios and house price drops, modelled on events in Britain, Ireland, Spain "and New Zealand in the 1930s" — in effect a Depression-style downturn.

McLean cites two big housing sector problems:

- Social issues: Houses become unaffordable for people on a low to moderate incomes.
- Asset class dominance: Housing as an investment class dominates.

That is not good for the economy as it impact on stocks, bonds and managed funds. Capital was not being recycled which in turn created an issue for businesses raising money, McLean explains.

Banning or restricting foreign buyers was not the solution. "I don't see them as the real cause of the problem. And there's no easy way to fix that. It's supply," he says, referring to the need to build more residences, particularly in Auckland, which is partly being addressed by the Unitary Plan and other initiatives. "So it will correct, but it will take a few more years".

Cyber security remains one of his biggest concerns "for all businesses, particularly those who have customer data or those involved in payments". He cited phishing and denial-of-service attacks. "They aren't successful yet but they have the effect of slowing the system down. We worry about it for ourselves and we worry about it for our customers. We're not complacent about it."

Dairy prices concerned him last year but price rises were up, he noted. However, he questioned whether that was a short-term blip or a trend. "Farmers have a tremendous capacity to adjust their costs and we have seen across our portfolio there's been a 30 per cent reduction in costs over the last couple of years, so we think that almost all of the farmers in our portfolio are going to be able to manage through. For those who can't, we'll help them make the right decisions."

He is concerned about global structural changes in the dairy sector, resulting in more supply hitting world markets and inventories being better managed. The days of payouts of $7-$8 per kilogram of milk solids are past, so he is anticipating a more moderate payout environment.

> I don't think it's a bubble that's going to burst but you'd have to assume that at some time there will be a downturn.
>
> David McLean

David McLean's Top Three

- **Top issues facing the nation**
  – Deflation and the inability of monetary policy to stimulate the economy
  – Auckland housing affordability
  – Lack of retirement savings
- **Top business priorities for the next 12 months**
  – Productivity
  – Innovation
  – Customer satisfaction
- **What's likely to keep me awake at night?**
  – Meeting customer expectations
  – Digital disruption
  – Cybersecurity

Robertson's Future looks bright

Chief executives have delivered Grant Robertson a message to focus on the big issues that will define New Zealand's future economic success, writes **Bill Bennett**

Sixty-nine chief executives responded to an open-ended question as to what they would like to see on the Labour Shadow Finance Minister's policy agenda.

"Continue to constrain public expenditure to core and effective services," advised Unitec CRO Rick Ede. "Reset taxation and investment incentives to favour productive investment instead of property investment.

"Continue the investment approach to welfare services begun by Bill English."

Many, but not all, of the themes on Robertson's own priority list resonate with the boardroom. With 67 per cent per cent of CEOs predicting technological advances will be the single factor with the biggest impact on business in the next five years and a further 7 per cent singling out job losses through technology, it is clear Robertson's Future of Work initiative falls on fertile ground.

The Future of Work project has moved the party away from its historic focus on large-scale, traditional industries and unions towards engaging with small business and entrepreneurs. The goal is to lift skill levels, move New Zealand towards a knowledge economy and a more adaptable workforce to cope with rapid technological change.

An energy industry chair says furthering the Future of Work discussion inside the Labour caucus is important; "even if it isn't strictly part of the finance portfolio."

Hawkins Group CEO Geoff Hunt says a priority should be "getting the right skills delivered by the education system" while KiwiRail's Peter Reidy wants Labour to develop policies "to attract trade and technical skills into the market place".

Lifting education levels and focusing on social issues including poverty is a common theme. But a property boss says the finance spokesperson should prioritise "economic prosperity for all New Zealanders".

EMA boss Kim Campbell says Robertson "should identify the weaknesses in fiscal policy which is leaving National open to criticism".

Opinions were mixed on Labour's redistributive philosophy. A transport industry boss says Labour should "adopt a more centrist set of economic policies that steer away from a basic redistribution of wealth to supporting all New Zealanders and business to get ahead".

The head of a legal firm says Robertson needs to "demonstrate he really does understand economics and what makes a vibrant economy". A media chief executive says Robertson should "stop promising what is fiscally unsound, free university education and so on". Elsewhere a power industry chair says Labour needs to "work with Treasury on the Living Standards framework without dialling in significantly increased government expenditure".

Not surprisingly, some 20 per cent of CEO respondents say Robertson should prioritise housing policies – an area where the boardroom is frustrated by National's policy vacuum.

Kiwi Property CEO Chris Gudgeon wants Labour to "get active on tax policy" to deal with housing affordability.

A media boss recommended a proactive stance on unpopular but needed actions: capital gains on housing, increased aged of Super eligibility, and redistribution of wealth via a review of personal tax structure.

Grant Robertson at last year's Mood of the Boardroom event.

Picture / Jason Oxenham

Robertson's four priorities

- Find ways for industry to add value and diversify the economy: lift productivity and add value to primary industry and invest more in R&D.
- Focus on regional development and lift wages outside the main centres. Auckland's infrastructure and housing is under pressure. Housing costs less in the regions but there are not enough good jobs.
- Future of Work project to address the challenge of technology-led change head on.
- Share the rewards from prosperity: many people work hard and yet they don't earn enough to buy a house.
  "When I attend a business dinner, the conversation often turns to inequality. Many business leaders are concerned about this. They realise it can mean both a loss of potential and it can become a drain on the economy. Even organisations like the OECD, which is hardly a left-wing body, recognises that inequality inhibits growth," says Robertson.

The biggest issue?

Vector chief executive Simon Mackenzie spoke for many when he said technological advances will be considerable and touch all New Zealanders in positive and negative ways.

"We have to embrace these but also actively manage the potential wide ranging impacts of them to avoid inequality issues rising.

"In addition these impacts will challenge and potentially undermine many of the regulatory and financial systems in New Zealand."

Other survey respondents pointed to a period of profound societal change ahead through automation.

A major food firm boss said it was impossible to isolate a single factor. 'There are a number of critical factors that will impact business: the growth of protectionism, geopolitical instability, state of the global economy, changing customer perceptions and servicing models."

A CEO who picked demographic shifts pointed to increasing opportunities to supply middle-class Asia.

But there were also warnings. An energy boss put forward "wobbly capital markets" and tackling the issues of monetary policy as possibly having the greatest impact on business.

"Burst of the balloon — a spectacular post-quantitative easing crash in value across all asset classes globally," suggested Refining NZ's Sjoerd Post.

Single factor with greatest impact on business next five years

67% Technological advances

10% Demographic shifts

8% Fallout from globalisation

7% Job losses through technology

5% Shifts in global power

3% Urbanisation

0% Resource scarcity

An investment banker advises Robertson to provide; "incentives on productive investment rather than investment for capital gain in part financed by high leverage at the tax payers' cost with no or little return to the taxpayer".

Another leading banker also wants measures to improve housing affordability. He'd like to see an increase per capita incomes by cutting the corporate tax rate, fixing the Resource Management Act and removing obstacles to foreign investment, except where large or sensitive parcels of land are involved.

Not all Robertson's own themes resonate.

He attracts a fair share of criticism from a power industry boss who suggests the finance spokesperson needs to provide the Labour Party with lessons on how business works in the "real world".

A banker suggests the Labour Party should replace Robertson with "someone who understands the portfolio, like David Parker".

Meanwhile, a forestry boss says he need not worry about priorities as the Labour Party isn't going to win the election.

Among other suggestions: focus on digitalisation of the Government sector (KPMG's Ross Buckley); target financial illiteracy.

Opportunity to take best from diverse cultures

NZME chief executive Michael Boggs lists ensuring New Zealand's quality of life, adapting to cultural diversity and increasing globalisation among the key challenges the nation faces.

Boggs points out the two key income earners for the country, tourism and dairy, are running at high capacity. "This is risking the quality of life for New Zealanders and New Zealand's reputation both locally and globally," he says. "Immediate planning and substantial investment is required in key infrastructure, natural resource protection and cross city/community co-ordination."

Boggs, formerly the company's chief financial officer, stepped up as CEO earlier this year at a critical juncture in the company's history.

The company had recently shifted to its new Auckland HQ – NZME Central – enabling a fast-paced integration of its various news and commercial operations.

In May, NZME announced plans to merge with Fairfax NZ to form a major listed media company. Boggs says partnering with a local competitor will help build the scale needed to compete in a market increasingly dominated by global media companies. The deal still requires Commerce Commission approval, but meanwhile, NZME has listed on the ASX and NZX as a stand-alone NZ media company after being spun off from APN News & Media through the issue of shares to its existing shareholders.

Boggs says the changing cultural mix of New Zealand is testing socio-economic practices and boundaries.

But though the customs and traditions of various cultures are different, New Zealand has the opportunity to take the best from each.

"Businesses must take the opportunity to embrace new cultures and ways of doing things to ensure a harmonious business and social environment".

Chinese languages are now the second most commonly spoken in Auckland after English, with the 2013 Census recording 99,744 Chinese speakers, making up 7.7 per cent of Aucklanders who were old enough to speak.

NZME has formed a joint venture with the owners of the *Chinese Herald* to publish a Chinese language news website called chinesenzherald.co.nz.

It will publish translated versions of stories from the *NZ Herald*.

Boggs' third point is the need to develop and promote New Zealand on the global stage as a supportive business environment, with strong talent pools, and as a stable economic and social environment for global businesses (who invest and pay tax).

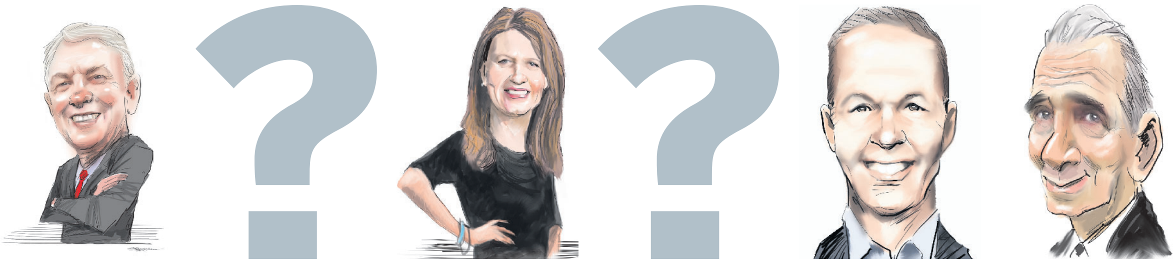
He says this is important because globalisation is increasing and New Zealand continues to be a nation of SMEs.

Michael Boggs' Top Three

- Top three business priorities
  – Scaling for survival and then growth
  – New business and revenue model opportunities
  – Investing in and developing talent
- **Most likely to keep me awake at night?**
  – Achieving top-line revenue growth
  – Meeting customer expectations
  – Digital disruption

Who has the best attributes to be Mayor of Auckland?

When chief executives consider the candidates vying to lead Auckland, political experience seems to win out, as **Tim McCready** explains



Phil Goff 43%

Don't know 22%

Vic Crone 19%

Other: 16%

Mark Thomas 2%

John Palino 0%

A sense of inevitability

Experienced national politician Phil Goff is rated by 43 per cent of respondents to the *Herald*'s Mood of the Boardroom survey as having the best attributes to be the next Mayor of Auckland.

Survey responses indicate there is a sense of inevitability in the senior business community that Goff will take the title of mayor come the October 8 election.

Goff has, by far, more name recognition than any other candidate, and has been in the public eye since he entered Parliament 35 years ago as a Labour MP, rising to party leader before being trounced by John Key at the 2011 election.

His campaign has focused on using his experience in central Government to solve Auckland's housing affordability problems and public transport.

Westpac NZ boss David McLean had qualms about Goff's plans to bring back trams saying that was genius for Melbourne — but Melbourne was designed for it. He questioned whether Auckland streets were wide enough: "It would take a huge change to put them back."

Goff's connectivity to Wellington — he is a former Foreign Affairs and Defence Minister — was consistently noted among CEOs as a capability that will help things get done. "Collaboration with government agencies will be critical to ensure government support", says Hawkins Group CEO Geoff Hunt.

But with support at just 43 per cent of survey respondents, he still has to build broad credibility with senior business.

The chief executive of a major bank says although Goff is far from perfect, he's "the best of the lot".

"He's got plenty of substance but little flair — he'll do a great and competent job and Auckland will progress."

Vic Crone is ranked second by CEOs, with 19 per cent support. Crone is the centre-right front-runner; she has the backing of several National Party MPs, and her corporate experience, including senior leadership roles with Telecom, Chorus, and Xero, provides a clear point of difference from Goff. Former National candidate Mark Thomas comes in third with just over 2 per cent.

Not one of the more than 100 survey respondents thinks businessman John Palino has the best attributes to become mayor. Palino was a mayoral candidate in the 2013 election coming second to Len Brown.

Cooper and Company chief executive Matthew Cockram says Crone and Thomas have robust and thought-through policy platforms that deserve a better airing.

But Cockram says Goff is "by default" the best politician of them all — "hopefully some of what they have suggested and pushed for will be picked up and developed by Goff."

An energy company boss expressed dismay that the mayor and councillors hold such a vital role in creating and sustaining a successful economy, and yet on the whole fail to attract quality leadership.

Perhaps most surprisingly at this late stage of the campaign, 22 per cent of CEOs have indicated they don't yet know who they will vote for — though some of this can be explained by respondents feeling uninspired by the candidates, and concern that no one has the depth of skill required.

A further 16 per cent suggested other candidates should have emerged with one nominating Auckland Chamber of Commerce CEO Michael Barnett, who has previously been flagged as a potential mayoral candidate.

Another business respondent jokingly nominated former New York mayor Michael Bloomberg, who earlier shied away from contesting the US presidential election as an independent candidate this year.

Top 5 priorities for next mayor

Chief executives overwhelmingly want the next Mayor of Auckland to improve public transport in the increasingly congested city.

Among their other top priorities for the mayoral agenda are getting large infrastructure projects funded; bringing Auckland Council spending under control; improving how council works alongside the government and implementing the Unitary Plan.

The New Zealand Council for Infrastructure Development says Auckland's transport system is at a tipping point. Significant progress has been made since the mid-2000s, with record levels of investment. The completed western ring route, rail electrification, City Rail Link and other projects will make a difference, but in order to meet the needs of a further one million people by 2050, Auckland must accelerate progress.

NZCID chief executive Stephen Selwood says that Auckland's current transport problems will be much worse unless we make a step change in investment into transport infrastructure. "Density must be strongly targeted around rail and bus way corridors, and future urban areas will need to be concentrated where new transport capacity can be provided with urgency. Additional funding through road user charging will be fundamental to achieving the level of investment required."

"Are we spending enough? How can we finance the infrastructure we need?" questioned a company chair. "I would support the sale of local assets on the basis that money was used for infrastructure — the spend needed in Auckland is massive."

Mayoral candidate Phil Goff's own policy planks — city infrastructure bonds, expanding the Government's $1 billion infrastructure fund, and public private partnerships to fund growth — obviously resonated with chief executives' belief that rates and debt cannot be the only funding source for transport and infrastructure. There are also clear concerns that morning and afternoon gridlock in Auckland on main arterials are increasing to the point where it is significantly impacting on productivity.

ICBC (NZ) chairman Don Brash says there isn't a problem with the adequacy of electricity or water infrastructure, but "roading in Auckland is seriously deficient — or, perhaps more accurately, is being inefficiently used because it is not being appropriately priced.

"There is also a huge need to improve our transport infrastructure and selling, for example, shares in the port would both provide funds for that purpose and improve the efficiency of the port (witness the Port of Tauranga).

"Why Auckland Council continues to own a minority stake in the airport also defies understanding — it is a purely commercial business, and the council should sell out now while the price is very high."

Auckland Council is also seen by some as severely bloated with too many staff — and as a consequence those staff find myriad ways of obstructing development with pointless regulations and endless delays.

For her part, mayoral candidate Vic Crone sees public private partnerships and other investment tools as the way forward for Auckland's infrastructure. She also wants to see the port moved to make better use of waterfront land.

Several of those surveyed — including Precinct Properties chairman, Craig Stobo — agree the best use of Port of Auckland's land is for residential and commercial use, and not for shipping. "The next Mayor needs to lead the shift of the harbour port to an inland port serviced by other harbour ports," says Stobo.

A consensus is unlikely in the short-term. Port of Tauranga chief

continued on D11

The big issues

86% Improving public transport

68% PPPs/bonds to fund large infrastructure

62% Bring council spending under control

59% Improve how Council works with Government

49% Implementing Unitary Plan

39% Sell council assets to fund new infrastructure

37% Shifting port

29% Reduce council staff numbers

19% Homelessness

12% International partnerships

11% Reducing rates

Praise for Len's legacy

Outgoing major Len Brown has been largely praised by CEOs for bringing together an amalgamated Auckland, passing the Auckland Unitary Plan, pushing rail to the forefront of a solution for Auckland's transport, and persevering with the City Rail Link in the face of central government opposition.

● The CEO of an Auckland Central law firm says "a big tick to Brown for persevering with the Rail Loop project in the face of central government opposition and playing a big role in getting it under way. That will be his legacy."

● "Despite his shortcomings, he has been a force in helping to bring together Auckland," says Joanna Perry, non-executive director for several large New Zealand businesses. "We are way better off with the amalgamated Auckland than we were before."

● The CEO of a telecommunications company says "to give him credit, he targeted the trains and he got the commitment needed to get going." Despite these accolades, more than 57 per cent of CEOs surveyed think Len Brown has performed below average for Auckland, and 63 per cent feel he has performed below average for business.

● "Len has presided over a council which has helped drive the price of housing well below the reach of most New Zealanders who don't already own property," says ICBC NZ's Don Brash. "He has committed the city to an exorbitantly expensive piece of underground railway which does almost nothing to ease serious traffic congestion."

● "Len Brown lost all credibility when it was revealed that he was not as he had portrayed himself. He should have stepped down immediately," says a chair of several major New Zealand companies. "It has been self-interest which has kept him in the role for the past three years."

● A real estate CEO summed up the general consensus that it is time for a change: "Aside from Len's publicised incident, he has been a good mayor who took over the Super City concept and brought it together. But now is the time for a new mayor to start, and to deliver major changes required for Auckland."

– Tim McCready

> He targeted the trains and he got the commitment needed to get going.
>
> Telecomms CEO

Priorities for next mayor

continued from D10

executive Mark Cairns says it is simply unrealistic to move the port in the medium term.

"If ports simply priced and invested to achieve a cost of capital return, then a natural hierarchy of ports (international container hub, regional feeder, regional bulk) will emerge quite quickly.

"Ports are multi-million (often billion) dollar long-run infrastructure assets, not regional Economic Development Agency playthings."

There is mounting concern among CEOs that without significant improvement in Auckland's infrastructure — along with improving housing affordability — the city will lose staff to other centres around New Zealand where the cost of living and lifestyle are becoming more attractive.

● 4 per cent of CEOs indicated they have had to increase salaries and offset the higher cost of living in Auckland in order to attract and retain talent;

● 39 per cent have found it difficult to find staff willing to relocate to Auckland, and 17 per cent have already considered relocating some of their operations away from Auckland.

A media boss noted it has been difficult to attract staff even at the senior management level because of reduced quality of lifestyle that would be offered.

"While 'quality of lifestyle' can reflect access to amenities and communities, the biggest factor is ability to afford to provide a comparable property to live in for their family."

But Beca's Greg Lowe said Auckland tended to provide good career opportunities and the scale of the market seemed to attract people to work there. "Those who place higher value on lifestyle than career opportunity, that is, considerations such as lower housing/living costs, easier transport, perhaps phase of life such as young children) may choose other locations."

An exporter says salaries need to be higher and there are definite skill shortages in accounting and finance. "Perks like car parks are now gold."

Another suggested Auckland had potentially become too dominant in New Zealand and would encourage some businesses to move out of Auckland — "some form of government programme?"

An Opposition dream team?

Some CEOs see an alliance of Labour and the Greens, headed by rising stars, forming a viable government

Just one year out from the next general election and Opposition Leader Andrew Little is still failing to cut the mustard as far as chief executives are concerned.

Chief executive respondents to the *Herald*'s 2016 CEOs survey ranked Little's performance over the past year at 2.22/5 on a weighted average basis.

He just scraped into the Opposition "First 15", ranked at number 14 among the Opposition MPs and was superseded by nine of his colleagues including Labour MP David Shearer (2.72/5), a former party leader.

CEOs rated leading Opposition MPs' performance over the past year on a scale of 1-5 where 1 equals not impressive and 5 equals very impressive. Consistent with last year's Mood of the Boardroom survey, Labour's Jacinda Ardern tops the list of Opposition MPs, as rated by CEOs, closely followed by Green co-leader James Shaw.

"The Labour leadership is still unpersuasive," said a senior legal executive. "James Shaw has great credibility."

Both Ardern, who is Labour's small business spokesperson, and Shaw, who is the Green's economic spokesperson, have achieved significant cut-through with the senior business community over the past year. But if the 2016 ratings are not bad enough for Little, he was also outranked by three other major opposition party leaders: Shaw, who at 3.21/5 was ranked second on the list just below Ardern on 3.37/5; NZ First Leader Winston Peters (2.90/5) and Greens Co-Leader Mitiria Turei (2.37/5).

Little has struggled to make pace against Prime Minister John Key. He is well-regarded by some chief executives who dealt with him when he was a top union leader and engaged with major corporates on initiatives to drive productivity gains.

Unfortunately those qualities have yet to fully register in the cut-throat political world.

Chief executives commented that is is difficult to rate Opposition MPs as some politicians have little if any visibility.

This was reflected in the survey ratings where many chief executives were "unsure" about the performance of some Opposition MPs and opted not to score them.

For instance, while 90 per cent of CEOs awarded a performance ranking to Ardern — just 10 per cent were "unsure".

For Shaw the comparable "unsure" factor was 13 per cent.

CEOs also had the measure of other well-known MPs with just seven ticking the "unsure" box for King; Peters (6 per cent); Robertson (6 per cent); and Little (2 per cent).

But the "unsure" factor should be of concern to others who have yet to gain or enhance their traction with business: Twyford (20 per cent), Davis (27 per cent), Shearer (17 per cent), Parker (21 per cent), Hipkins (29 per cent), Genter (42 per cent), Turei (16 per cent), Clark (44 per cent) and Mark (21 per cent).

Given some of these — including Clark who is Labour's trade spokesperson — will be central to a future Labour-led government, it is important that they do enhance their visibility.

Labour has started holding soirees with the leading lights of the business community in both Auckland and at parliament in Wellington. But needs to do more.

"The Opposition and its MPs have struggled to get real traction in many respects as the Government looks to dominate the middle ground and leaves little opportunity for others to take a material foothold," said Deloitte CEO Thomas Pippos.

That said, while the majority of National's top MPs have had their performance scores wane in this year's survey, many senior Opposition MPs have seen theirs increase.

In a parallel universe (or perhaps another six years), an alliance headed by Ardern and Shaw could hold the key to an Opposition dream team.

But until then, CEOs are split as to whether the recently announced Labour-Greens alliance will help the Opposition challenge the Government at the 2017 election.

- 30 per cent think the alliance will help — so long as a well-articulated vision and reasonable economic policy can be crafted. These are currently perceived as non-existent. Policies are still seen as "too unclear", with "no real alignment or direction".
- 40 per cent think the alliance will not help the Opposition — with those CEOs suggesting it will instead "push Labour further left" to the detriment of the party, and "be difficult to make work cohesively given the cast of characters".
- 31 per cent of CEOs are unsure: "It hasn't felt compelling yet — but this could arguably all change as we enter an election year."

Mainfreight managing director Don Braid said if Labour and the Greens together create reasonable economic policy "there is a chance they could challenge the Government".

KiwiRail's Peter Reidy noted the "vision needs to be very clear and well articulated".

Some CEOs were sceptical:

"It is difficult to see this working cohesively given the cast of characters and that the unions effectively run Labour" — exporting firm head.

"Labour cannot agree things internally anyway, let alone hold a coherent partnership with a third party which is getting frustrated by being in permanent opposition" — energy firm boss.

A media boss cautioned the election might throw a spanner in the plan: "While the alliance is pre-agreed on paper and announced, each party will still want to fight its own fight and 'win' as much as they can, potentially at the other's expense."

Labour's Jacinda Ardern (top) and the Greens' James Shaw are rating well with CEOs, but Andrew LIttle is under the half-way point.

The first XV: How they rate

Jacinda Ardern (Labour)	3.37/5
James Shaw (Greens Co-leader)	3.21/5
Annette King (Labour Deputy Leader)	3.10/5
Phil Twyford (Labour)	2.93/5
Winston Peters (NZ First Leader)	2.90/5
Kelvin Davis (Labour)	2.90/5
Grant Robertson (Labour)	2.86/5
David Shearer (Labour)	2.72/5
David Parker (Labour)	2.55/5
Chris Hipkins (Labour)	2.46/5
Julie Anne Genter (Greens)	2.42/5
Metiria Turei (Greens Co-Leader)	2.37/5
David Clark (Labour)	2.35/5
Andrew Little (Labour)	2.22/5
Ron Mark (NZ First Deputy Leader)	2.13/5

*CEOs rated leading Opposition MPs' performance over the past year on a scale of 1-5 where 1=not impressive and 5=very impressive

Backing for the PM's real estate advice

This year's Mood of the Boardroom survey showed that 84 per cent of CEOs agree that John Key's advice about starting on the property ladder by buying an apartment advice should be heeded by Aucklanders looking for a first home.

"The trend away from traditional property ownership to more apartment style living is inevitable in a growing city," says the boss of an Auckland law firm.

"Ultimately there will be a change in living style expectations for densely populated cities," says Greg Lowe, group chief executive at Beca.

"Apartments, terraced housing, common green areas and parks, rather than standalone housing from the start — this is the trend in Melbourne and Sydney and will be the case in Auckland eventually," he says.

"This does not mean living standards have to fall, but does mean we need to change the way we live."

A real estate agent boss thinks apartments are a good option for first home buyers — not just in the CBD.

"Apartments in the suburbs will provide a new source of housing supply for Aucklanders and the development of these projects should be encouraged as has been done internationally."

Joanna Perry, a full-time non-executive director, thinks New Zealand needs a shift in thinking over what the aspirations are. "Don't push past generations' expectations on the next generation," she says.

Another independent director says: "Most people, if they analyse it, need less space to live in than they currently occupy. The use of glass to enhance a sense of space is a strategy worth considering."

Though most CEOs agree that an increase in the number of apartments and a shift in the mindset of young first-home buyers will go some way to help a generation of New Zealanders who feel locked out of the market, others aren't so sure.

> Ultimately there will be a change in living style expectations for densely populated cities.
>
> Greg Lowe, Beca

They feel that the movement towards apartments is inevitable given the current climate, but not necessarily something that will help with housing affordability, and may not sustain the qualities that have traditionally made New Zealand a great place to live.

"The debate fails to address a fundamental issue of 'what kind of city do we want Auckland to become?'" says one CEO.

Mark Cairns, chief executive of the Port of Tauranga, says "while I might not agree that apartments are an ideal first home for a young family, I do think people have to buy within their means for their first house. That is unlikely to be in the suburbs close to the CBD."

The CEO of a global multi-national corporation feels "young Aucklanders will be forced into apartments due to poor tax treatment of investment earnings from property and the lack of duty/restrictions on foreign investment."

Stephen Selwood, chief executive of the New Zealand Council for Infrastructure Development, says though apartment living has it benefits, there are also considerable pitfalls, including excessive body corporate fees, body corporate rules and regulations, and noisy neighbours.

"My daughter was a convert to apartment living, but now she lives in one, she is not so sure."

Strahan Wallis, Managing Director at Porter Novelli, thinks that apartments have their advantages — so long as the price is right.

"Our first home was an apartment and we loved it," he says. "The only thing is, even apartments are a lot more expensive than they were back then."

Don Brash, chairman of ICBC New Zealand admits that Key is in a very difficult political situation regarding Auckland house prices.

"He dares not admit that prices need not just to stop rising, but to fall substantially. So he suggests silly 'solutions'. Even apartments in Auckland are now far too expensive for most young New Zealanders."

Will this be Winston's finest hour?

Perhaps the real winner of the opposition in the current climate is NZ First Leader Winston Peters, writes **Tim McCready**

There are striking similarities in the motivations behind the United Kingdom's vote to leave the European Union, the incredible rise of Donald Trump (and Bernie Sanders) against all odds, and what have consistently been Winston Peters' policies.

At the heart of the Brexit campaign — passionately supported by Nigel Farage's UKIP — the closest comparable UK political party to New Zealand First, was strong rhetoric around the "deterioration" of the United Kingdom and the unrecognisable, rapid change resulting from globalisation (and the mass migration that has come with it). Notably it was the lack of control felt by ordinary people over the direction of their country that most resonated.

The UK's financial markets rose sharply in the final stages of the referendum campaign, reflecting the confidence that "Remain" would prevail. But when the quiet majority rose against the prevailing voice, Donald Trump himself used the victory as his own platform, tweeting: "Just arrived in Scotland. Place is going wild over the vote. They took their country back, just like we will take America back. No games."

Trump ignored (or missed) the fact that the majority of Scotland backed a continued membership of the European Union.

Farage consistently and successfully directed his anger towards the "establishment", including politicians in Brussels and Westminster who had long ignored resentment toward closer political integration and immigration, particularly in traditionally working class areas.

Sound familiar? Earlier this year, marking 23 years of New Zealand First, Peters used both Trump and Brexit to boost his own platform.

"The rise of Donald Trump in the United States against all predictions and the chord Bernie Sanders struck with many Americans can be attributed to ordinary citizens stepping up to the mark and saying — we've had enough.

"Others around the world think as New Zealand First does," he said. "The people of Britain decided they had put up with enough of being ignored or talked down to from Brussels. They were tired of being fobbed off about issues like immigration."

In stark contrast last week, Prime Minister John Key addressed the UN General Assembly, speaking out against creeping protectionism — "borders are closing to people and products, to investment, to ideas. Many states are turning inwards.

"The politics of fear and extremism are gaining ground ... We cannot turn inwards."

Though we cannot yet speak for the United States, the early signs are at least that the Brexit vote may well turn out to be a force for global free trade rather than protectionist interests.

There is a great opportunity for New Zealand and the UK to ally closely on this, but no outcome is guaranteed for either nation — particularly with Winston Peters on the march.

> Winston seems to be the obvious winner of the disenfranchised voter.
>
> Manufacturing CEO

In this year's survey, 40 per cent of CEO respondents thought New Zealand First would hold the balance of power following the next election; 14 per cent think he won't and 46 per cent aren't sure.

None of the respondents seem particularly thrilled with the prospect:

- "Winston seems to be the obvious winner of the disenfranchised voter. I never thought I would say it but I am glad we have MMP — it may prove to be a good moderator in this new political environment." — A manufacturing chief executive.
- "Watch out... Winston's coming!" — A chief executive of a government agency.
- "I would like to see Winston Peters prosecuted for treason." — A FMCG boss.

Peters aims to mobilise those one million "forgotten New Zealanders", and those that have become disillusioned with politicians.

He has positioned New Zealand First to be anti-political, anti-immigration, and anti-capitalism.

He has had his own successes this term at the expense of the Government: the failure of Key's flag referendum, and a landslide victory in last year's Northland by-election.

Farage has said that the British people conclusively fired a stone at their Goliath earlier this year. Perhaps, in 2017, Winston Peters will strike his.

Bull run may slow down

NZ market will still deliver sound returns, says Craigs' Frank Aldridge

Frank Aldridge is bullish on the outlook for the New Zealand sharemarket amid an ongoing low interest rate environment.

But the boss of sharebroker Craigs Investment Partners questioned whether local equities could keep up the gains they have delivered over the past 12 months.

The S&P/NZX 50 has jumped around 15 per cent in the year to date as low interest rates kept many stocks popular with investors seeking income through dividend payments.

"I'd hazard to say the gains that we've seen over the past 12 months won't be repeated over the next 12 months," Aldridge said.

Still, he said equities would continue to deliver "sound" returns as investors "continue to look for yield".

The reporting season was reasonably robust in terms of earnings and balance sheets for corporates. "While interest rates stay around the levels they are at, or possibly go even a little bit lower over the next six months, we still see markets – in particular the New Zealand market – remaining solid."

The New Zealand sharemarket's bull run is well into its seventh year, with the NZX 50 having soared close to 200 per cent since early 2009.

Kiwi shares, particularly the blue chip stocks that pay solid dividends, have been in vogue with investors around the world.

The NZX 50 is now trading at around 20 times earnings, well above its historical average.

Aldridge said elevated equity valuations heightened the risk of market volatility and investors needed to keep that in mind when constructing portfolios.

"It's really just about ensuring you review portfolios to make sure weightings in certain sectors or certain companies don't get too large or out of proportion if there is a shock or a market pull-back. And realistically there will be a market pull-back on the way through – that's the nature of the way things work."

Concerns about the outlook for US interest rates contributed to a spike in equity market volatility earlier this month.

"If interest rates start to increase down the track at a rate quicker than some expect, that poses some risk," Aldridge said. "But if things continue in a relatively sound fashion in New Zealand and offshore, I imagine [share prices] will stay around these levels and earnings will to some extent catch up."

Outside the sharemarket, he said rising house prices were a risk facing New Zealand.

"Generally speaking it is a concern but having said that it is a supply and demand issue," Aldridge said. "I don't think there's a silver bullet to solving it."

He said Craigs' business had performed strongly over the past few years of buoyant market conditions and the company had grown staff numbers by 25 per cent to around 415 employees since 2013.

"Certainly the company is [still] looking to grow and invest in people and technology," Aldridge said. "We'll probably be a little more cautious over the next one or two years just because of the amount of growth we've had in the last three years."

– Christopher Adams

Frank Aldridge's Top Three

- **Top business priorities for the next 12 months**
  – Technology capital expenditure and development
  – Adapting to continual regulatory change
  – Continuing organic growth
- **What's most likely to keep you awake at night?**
  – Improving operational efficiencies
  – Digital disruption
  – Regulatory challenges
- **Three innovations in the past year**
  – Expansion into Australia
  – Technology development
  – Product development

ANNA CURZON, XERO

Xero New Zealand managing director Anna Curzon says workplace diversity is a top issue facing the nation. "All of the current research indicates that promoting workplace diversity would lead to better business outcomes. It would give New Zealand a better competitive advantage if we can move at pace."

Curzon wants to see greater focus on education, especially in the STEM (science, technology, engineering and maths) subjects. She says this applies as much to retraining as it does to traditional education. Another concern is the lack of a national technology strategy. She says that now technology is the nation's third largest revenue earner, there's a need for a strategy to guide New Zealand into the future. She also wants this in place to help deal with disruption.

When it comes to dealing with housing pressures, Curzon would like to see more focus given to flexibility about where people work. She says: "Work is something people do, not a place they go. With technology such as Google Hangouts, Skype and so on, there's a massive opportunity for people to work outside the major metropolitan areas".

RICK EDE, UNITEC

Long-term sustainability of the health system is top of mind for Unitec Institute of Technology chief executive Rick Ede. He wants to see a move towards a more preventive health focus and away from investing in hospitals.

Ede is concerned about housing affordability, which he says is a proxy for inequality. His proposed fixes involve dealing with the supply while disincentivising off-shore investment in existing residential property.

He wants the Government to remove negative gearing incentives.

Disruptive technologies are on the way over the next five to 10 years which will challenge workforce skills.

Ede would like to see an increase in science, technology, engineering and maths at the school level while changing the nation's educational strategy to focus more on reskilling the workforce.

Fair share from Big Business

Global corporate tax avoidance has become a hot-button issue, as **Matt Nippert** reports

Concerns about corporate tax avoidance are no longer the concern of only Thomas Piketty-reading May Day protesters, with nearly three-quarters of New Zealand chief executives now saying multi-national companies do not pay their fair share of tax globally.

The results, from the *Herald's* Mood of the Boardroom survey, show two-thirds (65 per cent) of business leaders think the issue is a problem for the New Zealand tax base — with specific concerns flagged around digital businesses like Google, Facebook and Apple — and only 16 per cent think the Government is making progress in addressing the problem.

The issue has crept up the agenda over the past few years but gained national traction in March when a *Herald* investigation into tax avoidance by offshore companies found 20 large multi-national companies with combined revenues of $10b had paid just $1.8m in corporate income tax.

Lightweight companies reliant on intellectual property or digital operations — particularly the pharmaceutical and technology sectors — were found to be the most aggressive in shifting profits out New Zealand.

The issue remains a hot button internationally with Australia in May using its budget announcement to crack down on multi-national profit-shifting — effectively the transfer of profits to lower-tax jurisdictions — and implement a so-called "Google tax" on diverted profits. The scale of the issue was cast into sharp focus earlier this month when the European Union concluded Apple had used Ireland as a tax-free funnel for its international revenues, and slapped the iPhone maker with a retrospective $20b tax bill.

New Zealand bosses said public concerns were partly misplaced, and the aggressive tax planning of a few was tainting the reputation of all global-spamming corporates.

TAX TAKES

65%
of chief executives believe multi-national tax avoidance is an issue

88%
believe there is now a general mistrust across society that the rich don't pay their fair share.

64%
say the Government does not have the right tax setting to cope with challenges presented by multi-national tax planning


PANPA Asia Pacific Newspaper of the Year 2015

NZ Newspaper of the Year

The New Zealand Herald

Clash of the T20 titans

What we need to do to win

Super Sport

NZ v OZ

EXCLUSIVE: THE TAX GAP

20 multinational companies made…

$10 **billion** of sales to Kiwis, but paid just…

$1.8 **million** in income tax overall

HOW DID THEY DO IT?

Corporations insist NZ legal obligations are being met, writes Matt Nippert

● Full investigation in today's *The Business* ● Interactive graphic at insights.nzherald.co.nz

One boss of a New Zealand branch of a multi-national said: "It's an all-encompassing term and not reflective of the many multinationals that behave as good corporate citizens and fulfil their tax obligations."

Kim Campbell, chief executive of the Employers' and Manufacturers' Association, agreed the reputation of the multi-national sector was uneven: "It's a mixed bag and depends on the company and type of business."

These concerns, as well as rising disquiet about inequality, sees 88 per cent of chief executives believe there is now a general mistrust across society that the rich don't pay their fair share.

The chief executive of Deloitte NZ, Thomas Pippos, said the issue was possibly more one of perception rather than reality but was nonetheless critical: "This is a major issue that goes to the integrity of the tax system."

Sam Stubbs, chief executive of KiwiSaver start-up Simplicity said ignoring concerns was not an option.

"The concentration of wealth has an unintended impact of perpetuating an underclass in New Zealand.

"This is not the New Zealand way, and will bite us all eventually.

"The rich get richer, the poor get the picture — and the pitchforks," he said.

Though most — 64 per cent — of chief executives said the Government did not have the right tax setting to cope with the challenges presented by multi-national tax planning — some chief executives were willing to point the Inland Revenue Department in the right direction.

"Thin capitalisation rules and inter-company and offshore related-party transactions need to have much, much more scrutiny," one power company boss said.

> The concentration of wealth has an unintended impact of perpetuating an underclass in New Zealand. This is not the New Zealand way, and will bite us all eventually.
>
> Sam Stubbs, Simplicity

Capital gains tax by any other name

Thomas Pippos

New Zealand has an aversion to capital gains taxes. Or is it just the name?

Those who are offended can find any number of reasons, whether personal or principled, with the irony being that the badge seems more offensive than the concept.

Consistent with this, 72 per cent of respondents to the Mood of the Boardroom CEO survey believe that politicians have no appetite to engage on a capital gains tax and only 47 per cent believe not introducing one was a lost opportunity in terms of raising revenue and levelling the playing field.

By contrast however, the bright line rules are accepted by 71 per cent as a capital gains tax under a different name and 88 per cent believe they should have been introduced earlier; 86 per cent also think extending the rule from two to five years would have a noticeable dampening effect on property.

What's in a name here isn't new. Officials, followed by all politicians, have continued to erode the capital boundary by taxing capital gains over time, but always by another name.

In addition to the bright line rules, we currently have proposals to tax capital gains in employee share arrangements. Other traditional capital gains made by employees are already taxed.

Capital gains on financial instruments, derivatives, bonds etc. are taxed, including on an unrealised basis. So are (in effect) capital gains on portfolio shareholdings in global companies (excluding Australian). We also have older rules that tax capital gains in certain property transactions. None are called a "CGT".

Does this mean that taxing property (even under a different name) will address Auckland's challenges?

No. It would raise revenue, reduce the net gains investors derive, possibly dampen some of the heat in the market and broaden the tax base. But only 53 per cent believe that it will reduce the attractiveness of property investment and 46 per cent believe it would negatively impact prices.

Somewhat interestingly, any such measures are likely to also increase the percentage of income tax paid by the highest earning 10 per cent from the currently reported 45 per cent; recognising that income and wealth disparity also play a part in these statistics.

Equalising the taxation treatment across asset classes is one thing, but taxes can also discourage forms of investment. Stamp duty is one example. Survey respondents generally exhibited tissue rejection to that with only 43 per cent thinking a stamp duty is a viable option and 29 per cent wishing it was introduced earlier. What did find favour was banning foreign ownership (68 per cent and ring fencing losses (71 per cent).

Irrespective of the rules, Inland Revenue came in for a bit of a hammering as only 13 per cent felt that they are suitably policing the boundaries. Possibly related to this, of those that had a view, 93 per cent felt that people thought that their property gains were simply not taxable.

Overall, there is an overwhelming sentiment of unfinished business for property tax settings viewed through an Auckland lens.

Outside tax, reflecting the extent of concern exhibited by Auckland-based leaders, 85 per cent thought both Christchurch and Wellington should be encouraged to develop further and faster as global cities to be more attractive as destinations of capital and labour — a sentiment that has not to date been articulated or pursued by politicians. The sense is the score would definitely be higher than if you went back five years.

This may be because Auckland is now already a global city, but more likely, the lack of regional parochialism is a function of the challenges growth has brought Auckland that no one senses will abate any time soon.

Back to Auckland and migration from Asia: 33 per cent didn't feel that expectations of tax and other compliance norms were being challenged; slightly fewer felt that they were, with the majority (39 per cent) feeling it was probably more perception than reality. But perception becomes reality and this is certainly something Inland Revenue are looking to be more visible on. Possibly more alarming in terms of outcomes, the two overwhelming tax rate themes were around research and development (R&D) and the taxation of multinationals. Of those who favoured change, over 90 per cent looked for greater assistance with R&D and more tax paid by multinationals. The R&D sentiment is not surprising, looking to encourage innovation in a digitally disrupted and connected world.

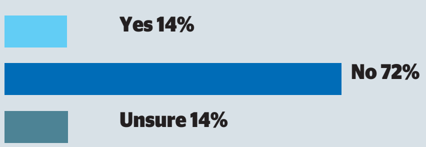
The multi-national sentiment is considerably more concerning and surprising. Though there will always be cases of concern, the perception among respondents is that the issue is more widespread and impacts much further.

Food for thought, but there is certainly unrest around these issues that someone will capitalise on during the election year. Though there aren't any easy answers, there are any number of largely ineffective but populous initiatives that will no doubt come to the fore.

● *Thomas Pippos is chief executive of Deloitte New Zealand*

> Overall, there is an overwhelming sentiment of unfinished business for property tax settings viewed through an Auckland lens.
>
> Thomas Pippos

Do you sense any political will to re-engage on a capital gains tax, given the bright line test effectively taxes capital gains on certain residential property sales?



Targeted tax solution to aid R&D

CEOs have creative ideas for accelerating research and development, writes **James Penn**. But at the heart of their comments a single theme recurs: tax incentives.

A third of CEO respondents to a question on what more should be done to accelerate New Zealand's research and development (R&D) efforts and attract capital to early stage companies referred to the need for more favourable tax treatment.

One energy sector chief executive suggested that improved tax treatment needed to be targeted at longer term research studies — "especially technology pilots".

New Zealand's tax settings have become more favourable in recent times for those involved in research. Since April 2015, companies have been able to "cash out" losses in R&D, providing some relief for cash-short start ups. Previously, it was only possible to carry these losses forward to apply against future profits and reduce the subsequent tax burden.

But the chief executives of New Zealand's largest companies believe more can be done. When asked which tax settings need attention in the near term, R&D incentives is the clear front-runner, with over 70 per cent of survey respondents nominating this measure.

Stuart Broadhurst of Fisher & Paykel Appliances, calls for "tax relief on capitalised product development, and accelerated tax depreciation over the effective life on new assets".

It is argued that allowing accelerated depreciation would encourage more companies to invest in capital assets, as more of the upfront purchase price could be deducted from taxable profits.

A recent delegation of business leaders to Israel, led by Spark CEO Simon Moutter, offered some useful ideas about how to grow capital access for our innovation ecosystem.

A report from the delegation said that among notable characteristics in Israel there was a culture of entrepreneurship and a national bias for commercialisation.

"Their school students aspire to building a startup from a young age, research incentives support the commercialisation of IP, and they have institutionalised commercialisation," the report said.

Some chief executives support Moutter's own push for big NZ corporates to assist fledgling companies. NZME chief executive Michael Boggs suggested New Zealand CEOs should encourage their businesses to invest and partner with early stage companies supplying physical and human capital to aid in the development of these companies. "Recent evidence suggested this has started," he adds.

Changing the rules around KiwiSaver is another popular suggestion. Here, the recommendations were more varied. One legal executive called on the Government to mandate that KiwiSaver adopts a default whole-of-life approach, "so a disproportionate part of KiwiSaver funds are not in low-returning bonds".

Others look forward to a time when KiwiSaver accounts can be segmented and placed with different providers for different forms of investment.

"Allowing people to have more than one KiwiSaver provider will open up innovation in the market, potentially leading to specialisation, causing more of the savings to flow to growth versus being captured in bank schemes," said one finance sector executive.

Once the pool of capital invested in KiwiSaver reaches a certain scale, it will be possible to have separate fund managers for each investment segment.

That could mean different managers for each of a KiwiSaver's domestic debt, domestic equity, and offshore investment segments — as opposed to the current structure where a single firm will manage all the segments themselves.

It is also thought that a movement towards this model — often seen in Australia via "self-managed super funds" — would increase competitive pressure on each provider, leading to fewer "vanilla" portfolios. This could lead to more funds flowing into innovative, R&D heavy companies and sectors of the economy.

Sam Stubbs, managing director of non-profit KiwiSaver plan Simplicity, says we are on the verge of "a financial renaissance for R&D-based companies."

However, that relies on more transparency in the KiwiSaver system.

"Transparency means fund managers won't be able to hide behind quasi index investing, which actively discourages risk-taking," he says.

He points to the United States as an example, where increased investment fund transparency has forced mainstream players to be more active in their fund management.

"That means more risk, and more R&D-heavy, early-stage investing.

"This can only be exacerbated by low interest rates, where fund managers need to find a way to justifiably maintain a high-fee environment," says Stubbs.

"They need to take more risks, to make more money, to justify their fees."

Also of importance to encouraging R&D in New Zealand is thinking globally, according to many of the respondents. One company already doing that is Vector, which has partnered with a United States-based energy technology accelerator (aptly named Excelerator) to bring their portfolio companies' clean energy technologies to New Zealand shores.

Vector has also formed a strong relationship with Tesla.

Vector's Simon Mackenzie notes that the importance of attracting capital to fund R&D and accelerating innovation should not be limited to early stage companies.

"Businesses, whether new or mature, need to develop and innovate to adapt to the rapidly changing business environment,"

Among other comments:

● "There should be a campaign to persuade more multinational companies to invest in R&D in New Zealand, form strong relationships with technology companies offshore and raise the profile of New Zealand's innovation capability, both domestically and internationally."

● "The issue isn't capital but the factors required to globalise ideas. This requires collaboration. New Zealanders aren't actually that collaborative — we like working in our own garages, even if we know the same thing is being done in a garage across the road."

● "New Zealand companies need to have aspirations to launch globally and that may mean locating business offshore to access larger economies and likely investors."

What keeps CEOs awake at night

47% Sourcing skilled staff

45% Achieving top-line revenue growth

41% Disruption

37% Customer expectations

29% Competitive pressures

27% Regulatory challenges

16% Operational efficiencies

15% Culture change

14% Managing profit expectations

3% Health and safety concerns

2% Cash flow management

2% CEO-Board relationship

1% M&A threat

NEW IN THE ZOO

Seventy-five per cent of CEOs say their companies' innovation will lead to significant new revenue opportunities over the next year.
Here is a selection:

Stuart Broadhurst, Fisher & Paykel Appliances
1. New dishwashing platform for the Chinese market.
2. Direct drive motor for air conditioning.
3. Cost competitive integrated refrigeration platform.

Anna Curzon, Xero
Our development cadence is phenomenal, with over 1200 product updates and features delivered in the last year, including eGST filing capability, new report templates, and moves into artificial intelligence and machine learning.

Greg Lowe, Beca
1. A new global structure that transcends borders and creates closer global teamwork.
2. Technology and automation that makes it easier for people in different countries to work together.
3. Technology that improves customer service.

Chris Gudgeon, Kiwi Property
1. Digital way-finding for carparking.
2. EV charging stations for electric vehicles.
3. First to market on global fashion brands.

Brett O'Riley, Ateed
1. Tech Week.
2. GridAKL.
3. AR/VR Garage.

Ross Buckley, KPMG
1. Acquired the NZ Innovation Council.
2. Set up Small Business Advisory.
3. Set up a digital team.

Peter Reidy, KiwiRail
1. DAS (Loco fuel advisory system) — saved over 4 million litres of fuel in 18 months.
2. E-protect — Loco safety systems to reduce risk of train moving through a work party on the track.
3. Roadbridging — new mobile trailer systems to load ferries.

Simon Moutter, Spark NZ
1. Launched new transport industry and marketing services big data analytics capability of a type never seen before in New Zealand — via our big data start-up company, Qrious.
2. Proof of concept implemented for the Connected Farm, using internet of things and low-power networking.
3. Partnered with the Waikato DHB to bring their ground-breaking virtual health service to market.

Bring on the electric cars, say CEOs

The country's CEOs are highlighting electric cars as the easiest and quickest way to help reduce carbon emissions.

"We need to make use of our mainly renewables-based electricity supply and move more rapidly to electric vehicles," says Geoff Hunt of Hawkins Group.

"I have been delighted to observe the rapid evolution generated by the market responding to this need (a low-carbon future), particularly with motor vehicles and power walls. It is incredibly exciting," says Matthew Cockram of private investment firm, Cooper and Company.

Forty-nine per cent of chief executive respondents to the *Herald's* survey say New Zealand is not doing enough to transition to a low-carbon future.

Some suggested the issue could really only be tackled at the global level and that political games were getting in the way of action.

"We should boldly embrace electric vehicles as a priority," says a media boss. An energy chairman talks of the need "to electrify the transportation fleet."

Mercury chief executive Fraser Whineray says New Zealand is one of just a few countries in the world that can reasonably consider moving to a total renewable energy rather than a renewable electricity target. "The renewable electricity target will be met as soon as Tiwai goes, and therefore that policy objective is 'in the bag'.

"Enhancing renewable energy is where we need to now focus, since it is a genuine competitive advantage for the country. There are two significant choices for reducing emissions — the cow or the car.

"With renewable electricity at the equivalent of 30 cents a litre, switching to an electric car (or e-bike) is the fastest way to reduce emissions."

Mainfreight's Don Braid says transitioning to electric cars is a prime example of lazy feet in this area.

Transport Minister Simon Bridges is pushing for more electric cars on our roads. He believes New Zealand is "the most electric vehicle-ready country in the world" because of its significant renewable electricity sources, motorists' relatively short travel distances, and the high proportion of off-street parking.

An electric car plugged in on the streets of Oslo, Norway.

New Zealand motorists drive an average of around 33km a day, much less than the usual range for an electric vehicle (EV), and 85 per cent of drivers park off-street, so they have ready access to a power source.

At present, the only Government policy designed to increase the use of plug-in cars is an exemption on road user charges. Other countries, such as Norway, Germany and Denmark, already provide incentives to buy electric cars.

Expanding the EV fleet here is seen by the Government as an option for quickly reducing New Zealand's carbon footprint. Around 20 per cent of New Zealand's carbon emissions come from transport, and 60 per cent of all transport energy consumption come from light passenger vehicles.

The Government is aiming to double the number of electric vehicles on the roads to 64,000 by 2021, and is working to buy electric vehicles in bulk across the government and private sector.

Government agencies are being asked to support the development and roll-out of public charging stations, as well as information and guidance. An electric vehicle leadership group with local business and central government has been established to review tax depreciation rates and calculations to ensure electric vehicles are not unfairly disadvantaged.

Several suggested the Government should offer tax incentives or major subsidies to encourage early adoption of electric vehicles and/or solar power.

A number highlighted the need to also target agricultural emissions, which are a major contributor to carbon emissions in New Zealand — and to address water quality issues.

A chemical group boss suggested New Zealand should issue a biofuel mandate similar to that in place in Europe (the Renewable Energy Directive), pointing out that this country is endowed with many renewable resources that could be used to generate renewable liquid fuels.

But there was a clear sense that little would happen without setting firm targets such as 100 per cent of electricity generation from renewables by 2030.

Or introducing a biofuel mandate.

— James Penn

A private role in innovation

Simon Moutter has been floating the idea of a corporate growth co-investment platform. He talks to **Liam Dann**

After leading the New Zealand Innovation mission to Israel in June, Spark NZ chief executive Simon Moutter is fired up and focused on putting corporate muscle into accelerating our fledgling tech sector.

That's not to say Spark itself will be getting into the Venture Capital business. But Moutter has been road-testing the idea of a corporate growth co-investment platform with the aim of scaling up capital, capability and capacity. This will boost and accelerate New Zealand innovation and the growth of commercialisation resulting in greater returns.

In other words, he's looking at whether the private sector might be able to add real value to the local innovation space with a fund that could attract wider investment interest from local and international players.

"My conclusion is that the Government is broadly doing its bit. When you compare the numbers and programmes through Callaghan and NZVIF and the CRIs and the universities, the Government is the dominant contributor to innovation sector in New Zealand," he says.

Big corporates are "probably the bigger missing piece of the puzzle".

There is certainly a lower appetite for risk among local investors and a bias towards yield stocks. Many of the big local corporates are domestically focused, mature, bricks and mortar kind of businesses, Moutter says.

"In Israel we didn't see a difference in the level of innovation, we saw a difference around the appetite to commercialise innovation.

> I'm a committed New Zealander. My children are all here and I want them to have a bright future.
>
> Simon Moutter

"So are Israelis more innovative than Kiwis? No I don't think so. Are Israelis more inclined to invest harder? Definitely."

He will be road-testing a proposal with other NZ corporates over the next few months.

Approaches will be made in confidence — and he will be looking for indications of willingness to explore the co-investment platform concept, subject to other corporates also participating.

Moutter is still scoping out how such a model might operate, and what the co-investment opportunities and benefits would be.

"That's involved getting feedback from the experts — we are keen to ensure a corporate growth model works well with existing eco-system players and programmes," he says.

"It's not just a do-gooder thing. We're a large company in a small country so the long-term economic success of the country is quite important. I'm a committed New Zealander. My children are all here and I want them to have a bright future.

"I think we have to view the 21st century and the digital tech century in same way as the 20th century was the industrial century."

He points out that the world's five largest listed companies are now all tech stocks. Ten years ago only Microsoft featured.

Moutter's Top Three

- **Top three issues facing the nation**
  - Long-term competitiveness in a digital world
  - Concerns over inequality
  - Regional development
- **Solutions:**
  - Up the ante on digital education, innovation and commercialisation.
  - Make bigger choices as a nation to ensure wider participation in the community
  - Make bigger choices to shift the emphasis away from Auckland as the engine of growth
- **Top 3 business priorities next 12 months**
  - Deliver exceptional customer service
  - Digitise the service interface
  - Drive revenue momentum in growth areas

"There is compelling evidence worldwide that strong investment in these early-stage tech businesses, done well, is very accretive."

New Zealand has generally been good at the angel investment stage. There is a vibrant tech start-up scene but companies struggle to scale up quickly. But venture capital can be hard to attract. International VC funds are typically looking to invest in multiple companies and on a scale where New Zealand has struggled to attract their attention.

A new growth fund could offer the kind of vehicle required to attract international and local investment from big funds.

"If you think about the mum and dad investors," says Moutter, "then the wrong answer is to be stock-picking.

The right answer is to say the institutions managing our KiwiSaver and Super funds should be starting to put a modest percentage of the portfolio into earlier stage technology . . . giving New Zealanders exposure without putting them into the territory of picking individual stocks."

So far the feedback has been very positive, he says.

"There is a belief increased corporate investment into technology businesses could boost the outcomes of the system and enable corporate participants to access growth sectors, increasing their innovation exposure and shareholder returns while also helping New Zealand grow."

It is still early days, he says. But watch this space.

Utilities must stay light on their feet

No industry is going to be immune from disruption says Vector's Simon Mackenzie

Utility companies have traditionally been all about heavy steel, hardwood, concrete and copper but Vector chief executive Simon Mackenzie says they now have to get light on their feet.

The stakes are high for his company, which has an enterprise value of about $5 billion.

With massive assets underground and overhead, like other infrastructure companies, Vector is fighting to avoid having them stranded by disruption.

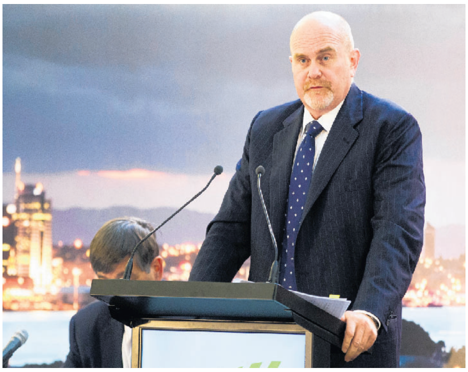
The energy market is changing so rapidly that everyone is struggling to see what's around the corner.

"It would be fair to say I don't think anyone can say they are up with the speed of change. With the complexity of the change it's important how you navigate it to make sense of it," Mackenzie says.

He's been in the top job at the Auckland-based company for the past eight years and says the entire industry has to become more nimble.

"We are seeing the impact of technology in a number of ways, reducing electricity volumes but a lack of technological change from suppliers of traditional infrastructure asset types."

Makers of big kit such as transformers still build them to handle huge capacity and for long lives. "We think that's an issue for big producers and they need to change their models significantly. Rather than building a transformer for 40 years and a large chunk of capacity, we would rather have it for a shorter life and then add incremental capacity," Mackenzie says.



Simon Mackenzie's Top Three

Top issues facing the nation
- Auckland growth and housing affordability
- The social divide
- New Zealand's environmental/sustainability profile

Top business priorities
- Leading innovation and growth
- Health and safety
- Tackling incumbent lobby groups

"When you've got a world where volumes are falling and technology is driving that down, we don't necessarily want to put high cost assets into the ground that have long lives.

That whole infrastructure build has to change. To be blunt, there's still a lot of people around the energy industry who still aren't buying it," Mackenzie says

Regulators also have to change their approach as control of energy systems could now be hosted anywhere in the world. Systems could be controlled by cloud-based platforms based in China or California.

"In a number of ways that can break down the regularity frameworks that have been put in place, with foundations being control and information.

"As soon as the control of information could come from offshore that breaks down and consumers are able to put their own things in their own homes," Mackenzie says.

"That's not a criticism of the regulatory environment but we're seeing it in financial markets and infrastructure that the regime has to change.

"It's a bit like Uber — their whole environment is hosted offshore and they come here and offer a service customers love, but regulating that environment becomes very difficult," he says.

"No industry is going to be immune from that sort of disruption."

Electricity volumes per customer have dropped about 12 per cent during the past eight years but the number of new connections has made up for this.

Vector has about 545,000 residential and business customers and on the face of it the biggest potential threat to the $160 million revenue it delivers is a mass move off the grid. That hasn't happened, but Vector is getting into that area, offering solar energy services and battery technology as part of its collaboration with United States electric car company, Tesla.

Though the level of solar in the market is low now and has had a negligible impact on network investment, Mackenzie says this will grow, particularly in rural areas when it can be used with batteries.

"I think there will be a lot more moving of energy in and out, not just in a single direction, and we'll see more solutions like peer-to-peer trading."

Banks of batteries, capable of meeting peak load consumption for 500 households, will soon be trialled in Glen Innes, Auckland.

These will be charged up at times during the day when power is cheaper and help meet morning and evening peaks through existing infrastructure, rather than digging up roads and installing cables and building new substations.

Vector is also installing electric vehicle chargers throughout its network area and is deploying what has been seen previously as disruptive technology — drones — to inspect its network.

Control of of energy by customers is growing rapidly and Vector's rollout of smart meters in New Zealand will be largely complete in 2017. In the 2016 financial year, smart meters rollout rose about 18 per cent to a total of 1.1 million. It aims to target Australia, where it is expanding, for future growth of the meters.

It also has interest in an an alternative energy think tank in Hawaii with a seat on the board of Energy Excelerator, set up to tackle the state's oil dependency and now attracting interest and investment from Silicon Valley venture capital funds.

Let's use the CRL model

The cost-sharing agreement to bring rail to Auckland is an idea model for future infrastructure projects, says Kevin Jaffe of Simpson Grierson

The joint funding agreement between central government and the council for the City Rail Link (CRL) is an ideal business model for Auckland to get on and complete its infrastructure projects, says Kevin Jaffe, chairman of law firm Simpson Grierson.

The Government and Auckland Council are sharing the costs of building the city centre rail link, and Jaffe says the speed at which the deal was put together gives a lot of confidence to industry players when they see certainty around what is being planned.

The CRL arrangement, he says, has shown the government can play a key role in Auckland's development by providing direction and commitment.

"The difficulty of leaving it with local government is the process and time it takes to complete a project — do we sell assets or do the rates go up? The outcome is that everyone sits on their hands, and one of the things that Auckland can't do is sit on its hands," he says. "The Government has provided the impetus. It has used the right levers to directly or indirectly drive change. The actions around housing supply, the Unitary Plan concept and the City Rail Link are all initiatives that have benefited by the central and local governments working together.

"If it's inclusive and there is clear direction, then local government makes sensible decisions. It helps people avoid the failing of falling back into the bureaucratic process. The CRL is a good template for how people can work together on other infrastructure need."

Kevin Jaffe's Top Three

Top issues facing the nation
- Coping with growth in Auckland — "Housing supply and infrastructure solutions are key"
- Regional Growth — "Are they being left behind creating a gulf?"
- Uncertainty in 2017 with the general election — "Business will inevitably slow down"

Top business priorities for the next 12 months:
- New business opportunities
- Cost management
- Cyber security

What's likely to keep me awake at night:
- Sourcing and retailing skilled staff
- Achieving top-line revenue growth
- Meeting customer expectations

Many of Auckland's infrastructure projects are massive and "if funding is not committed then there will be caution in the marketplace. The best message to the market is that there is a coordinated approach between central and local government."

Jaffe says living in Auckland at present has become more complex.

"The city can be quite gridlocked at times, and it has a cultural diversity that can bring some strains. But people have to live here — it's where the growth, opportunities and jobs are.

"There is talk of steering immigration to the regions but if the jobs are not there, are people going to stay? Auckland and Christchurch have good growth; Wellington is tough and reliant on Government spending, and there is a regional gulf in economic growth.

"Take Taranaki, for instance . . . it has had a double whammy with oil and gas and dairy, though dairy might come back.

"We are seeing people pushing into the Waikato and Bay of Plenty and the triangle (with Auckland) which will have some economic flow on. Maori are putting in a lot of investment in the Waikato economy."

Jaffe says the water contamination problem in Havelock North is a reminder of how fragile environmental issues can be in New Zealand.

"That might get an increased focus — the problem came pretty much out of the blue."

In his own profession, Jaffe sees a demand for more skills through digital disruption. "There is a lot of automated technology coming that will require different skills for interpreting and dealing with information."

But retaining skilled staff may have just become a little easier. Jaffe says the Brexit vote in Britain has slowed lawyers from going over "because the indications are that law firms have pulled up the ladder for recruitment".

The fallout of globalisation

Michael Barnett — celebrating 25 years as chief executive of the Auckland Chamber of Commerce — reckons the "fallout from globalisation" will be the single factor with he greatest impact on business over the next five years. He says infrastructure build, housing and immigration are the biggest issues facing the nation.

On infrastructure, he says the country needs to accelerate the pace of decision-making, be prepared to do things differently and adopt a different view of debt.

Barnett warns Immigration New Zealand needs to stop thinking they know best. "The system is being rorted — we are getting the numbers but not the talent.

"For over five years we have been celebrating a strong economy but the barriers to optimising the benefits of the good times such as skills, talent, immigration and infrastructure build have not been adjusted quickly enough for us to get the benefits we could have."

He says achieving top-line revenue growth, meeting customer expectations and regulatory challenges are the work issues most likely to keep him awake at night.

He is celebrating 25 years as chief executive of the Chamber of Commerce; the chamber has invested in a new building and will need to fit it out and establish a new home.

That's one of his top three business priorities for the next 12 months along with retiring debt and acquiring new income streams.

As a CEO, he believes it is important to take a stand on some public/political issues.

He agrees the Government's current economic programme is good for business but would like to see more targeted programmes and initiatives.

Hacking a serious business

Cybersecurity is one of the biggest concerns for CEOs, writes **James Penn**

The concerns of New Zealand's leading chief executives vary but if there is anything close to a consensus, it is that cybersecurity is major one.

On a scale of one (equalling no concern) to 10 (extreme concern) respondents to the Mood of the Boardroom survey rated cybersecurity 7.16/10 out of a list of 16 international factors. To underline the scale of their concern, almost twice as many chief executives rated cybersecurity at 9/10 or 10/10 as they didthe next most concerning issue – the outcome of the November 8 US presidential election.

Scott Bartlett, CEO of Kordia, the Government's broadcast and telecommunications network operator, believes we need to get serious about the threat posed by cybersecurity vulnerabilities.

"As a country, we are immature when it comes to understanding and coping with the risks associated with cybersecurity," he said.

He ranks it as one of the top three issues facing the nation.

Though acknowledgement of the risks may not be as widespread as it could be, it is certainly at the forefront of the minds of many New Zealand business leaders.

"Seeing that our technology is robust from cyber attacks is a key priority," said Cathy Quinn, chair of Minter Ellison Rudd Watts. "Failure to successfully manage this risk has the potential to fundamentally threaten the viability of our business.

"Cybersecurity is something we take seriously and we are grateful for the quality of the team we have who are focused on preventing attacks and responding to cyber threats."

Facilitating that response can sometimes mean internal and external frustrations, such as when email might be blocked because it appears suspicious to firewalls.

But that's a cost Quinn sees as well worth bearing: "We trust, though, that our people and clients will accept the occasional frustration given that the objective is to protect confidential client and business information."

When asked for their business priorities for the year ahead, many other executives also pointed to addressing cybersecurity risks.

A retail sector CEO identified "enhancing the risk environments across the business, especially cyber risk," as a major focus.

Z Energy CEO Mike Bennetts ranked risk management as a key priority – two examples of the diversity of risks on his radar were cyber security and climate change.

The fact that cybersecurity now ranks alongside what have long been seen as the world's greatest challenges is telling. A real estate director said, "Both terrorism and cybersecurity are always cause for concern of the highest level, as we do not know when and where it will next hit."

In light of the increasing acknowledgement of the risk, there are opportunities for the businesses that help address it. Kordia acquired Aura Information Security, a leading cybersecurity company, for just over $10m in late 2015.

Bartlett sees addressing cybersecurity threats as a potential selling point for New Zealand.

"We are small enough to make our little country a stand-out example of how to get it right," he said. "If we can, our cyber-safe brand will be as important as, and more credible than, 100% Pure New Zealand."

According to a report cited in the Government's *National Plan to Address Cybercrime*, released in 2015, the annual cost of cybercrime to the global economy has been estimated at US$400 billion.

Notable examples of cyber attacks in recent times include the 2015 server breach of VTech, a children's toy manufacturer, and Anthem, a health insurance company.

The former resulted in the theft of 4.8 million parents' records, and over 6.8 million children's records. The hack on Anthem saw almost 80 million personal health records exposed.

After Sony was the victim of a well-publicised hack in 2014, thought to be linked to North Korea, the company had to put aside US$15m in the following quarter alone to beef up its cybersecurity systems. Some estimates suggested the true cost of the hack may have been closer to US$100m.

With fallout like that, it's little wonder that New Zealand's CEOs are beginning to take note.

Yahoo's headquarters in Sunnyvale, California. Last week the company disclosed that hackers stole sensitive information from at least 500 million accounts.

Picture / AP

As a country, we are immature when it comes to understand and coping with the risks associated with cybersecurity.

Scott Bartlett, Kordia

The exchange rate effect

Easing of US dollar seen as a critical factor for exporters reports **James Penn**

A 9500 TEU Maersk container ship of the kind that will visit Port of Tauranga from next week. Picture / AP

It all comes down to the exchange rate. That's the message coming from a significant number of exporters responding to the CEOs survey.

About a half of those CEOs identified the exchange rate as the single biggest factor that would assist their business to remain competitive internationally.

The NZ dollar closed at US72.46c on September 24, a level not seen since May 2015. Apart from a sustained dip in May, the NZ dollar has been getting steadily stronger against the US greenback since January.

At the close of play on September 24, the New Zealand dollar was fetching A95.03c, and exporters are wary of the impact of the strengthening dollar in the year ahead. Refining NZ chief executive Sjoerd Post nominated the "easing of the strength of the US dollar" as critical to exporters.

EMA chief executive Kim Campbell — whose organisation represents 14,500 companies — said New Zealand's currency needs to become "more competitive".

For some CEOs, the worry is not so much the strength of the NZ dollar but its volatility, and those hoping for stability may be disappointed by the uncertainty around the US Federal Funds rate.

Markets are predicting an increase before the end of the year, even if signs of that increase occurring within the near future have cooled.

A potential US interest rate hike combined with uncertainty brought about by the presidential election could see the US dollar weaken further. That would increase the price of New Zealand exports, reducing competitiveness.

Those exporting to Australia are facing similar challenges, with the NZ dollar fetching A88.58c at this year's lowest point (March 15). Since then, the New Zealand-Australian rate has been relatively volatile, but the overall trend has been an upwards one.

Orion Health chairman Andrew Ferrier told shareholders at the annual meeting the company's forecast for revenue growth of more than 20 per cent in the year ending March 31, 2017, wouldn't be met because the NZ dollar had appreciated against a number of currencies, meaning Orion will get less when sales are converted back into local currency.

That currency movement also weighed on Orion's cash position.

Another message from the exporters was the importance of strengthening channels into key growth markets. The CEO of one New Zealand meat exporter highlighted improving market access as the most important factor — "especially through the removal of non tariff barriers in to China, Indonesia and elsewhere in Asia".

Mark Cairns, chief executive of Port of Tauranga, agrees. "Given our punishing distance from export markets, ensuring we have the most efficient and lowest-cost supply chain is crucial," he said. The port company has been working with Coda, its joint venture company, to reduce the number of one-way truck and train journeys within New Zealand and to make greater use of empty containers — "rather than carting fresh air around the country," Cairns explains.

"Successful execution of this strategy has seen our container volumes grow 12 per cent over the past year, compared with global cellular growth of 0.8 per cent," said Cairns.

Supply chain efficiency has also been increased by aggregating enough cargo to make it attractive for larger ships to call into Tauranga, with the first 9500 TEU (20-foot equivalent) ship arriving on October 4.

Along with the economic advantage of such efficiencies, there are also "significant environmental benefits associated with the larger ships generating a 31 per cent reduction in CO2 emissions, which will be salient in meeting our Paris Accord commitments," Cairns said.

Efficiencies at the other end are important for exporters, too. One brewer highlighted the single biggest factor to maintaining export competitiveness was creating "further export and trade partnerships with key markets".

Small and medium enterprises (SMEs) from BusinessNZ and the EMA's membership also nominated a lower exchange rate and other factors, such as exporter competitiveness from New Zealand, implementation of the TPP agreement, financial support for research and development, and having monetary, fiscal and trade policy at a government level interlinked.

A SME boss said New Zealand Trade and Enterprise and the Ministry of Foreign Affairs and Trade needed to provide close support "so that our trading partners actually follow free trade agreements. An FTA has no meaning unless our trading partner follows it." He suggested New Zealand should reject the rules of the Basel convention as "we're an island nation and don't share borders with other countries".

Another SME chief said it was harder to find qualified engineers with manufacturing experience.

"We are also seeing a shortage of factory labour — people are finding it difficult to afford to live in Auckland (because of the cost of housing) and the labour pool is becoming smaller."

Productivity the answer, not rising house prices

How do we do the difficult work that adds value to the economy, asks the EMA's Kim Campbell

New Zealand may be enjoying a strong economic spurt but there needs to be a bigger push into increasing productivity especially in the technology sector, warns Kim Campbell, chief executive of the Employers and Manufacturers Association (EMA).

"If you look at the New Zealand economy at one level, the headline numbers look good . . . driven by a shortage in the housing market and a new head of steam in infrastructure development where we have under-spent during the last 30 years.

"People are building stuff, we have quite a strong dollar and this has given a sense that we are better off. But if you look at output per individual and capital invested per person, then these indicators haven't grown in the last 40 years," says Campbell.

"Most the growth has come in services — education, tourism and some consultancy — but overall we have not invested in new plant and equipment. We have not moved quickly enough in productive sectors such as high-tech."

Campbell says as soon as a new high-tech company gets to any size, it gets bought up and disappears. "The way we do incubation here is a dead cert that the company won't stay here. It may have invested through Callaghan Innovation but who benefits when it grows — Silicon Valley."

He says the government's Business Growth Agenda has some fine elements but it hasn't accomplished what was intended. The research and development spend has gone down, and there needs to be some intervention "if we want to look long term.

"We are reaching the upper limits of what we can pull off the land (in the primary sector) and we can't extract minerals or water. What's left? A highly urbanised nation.

"So how do we re-calibrate the economy and do the difficult work that adds value — like Sweden and Denmark have done with clean energy and high-tech manufacturing and Ireland in attracting the likes of Apple?

> We have not invested in new plant and equipment. We have not moved quickly enough in productive sectors such as high-tech.
>
> Kim Campbell

Kim Campbell's Top Three

- **Top three business priorities for the next 12 months**:
  - — Fix the Resources Management Act and related planning systems
  - — Continue to find ways to do more high-value activities
  - — Continue to seek solutions to Auckland's infrastructure issues
- **What's likely to keep me awake at night**:
  - — Sourcing and retaining skilled staff
  - — Digital disruption
  - — Regulatory challenges

"The type of intervention I'm talking about is incentives such as lowering the corporate tax rate and employing lots of very highly skilled and paid people in high-tech companies. It has to be something to make it interesting for people to work here," Campbell says.

"We have to make sure that people are better educated and we have to invest in productive businesses to keep them here and do the difficult stuff — rather than just building factories, houses and roads."

Campbell is worried about New Zealand's high level of household debt in the world — "it has grown at a rapid rate and it's going to end badly for some."

He also believes planning systems and laws should be freed up so people can invest freely and have some certainty in doing that.

"We have created institutions — such as the Overseas Investment Office, Electricity Authority, Resource Management Act, Local Government Act — which are inefficient and slow to respond. We (the EMA) are at the interface where public policy hits the road and we hate to see waste. We tolerate far too much community engagement and consultation."

Campbell is an advocate for councils such as Auckland recycling its assets to fund new infrastructure. "When a city is short of capital to develop roads, which provide fundamental productivity, and it invests in the airport and seaport, I see a complete disconnect."

He backs other funding devices such as public private partnerships and city bonds for targeted financing. "If the council issues a bond with a coupon rate of 3.5 per cent and the money goes towards fixing the potholes I drive over, then I couldn't get my cheque out fast enough."

BIG ISSUES

What CEOs think are the nation's priorities

- Turn the conversation on population growth, immigration and tourism into an opportunity to capture rather than a problem to solve.
— investment banker
- Infrastructure for tourism. We need to take a THC approach and build public-private partnerships to ensure we get the right long-term tourist assets in a structured way. More high-end golf courses and lodges are great but other assets are equally vital for sustained tourism growth.
— retail trade chief executive
- Lack of national ports strategy and the consequent impact on infrastructure planning.
— Brett O'Riley, Ateed
- Global volatility
— Stuart Broadhurst, Fisher and Paykel Appliances
- The education system is not producing the right mix of skills to meet current and future workplace needs.
— Geoff Hunt, Hawkins Group
- Economic growth — the Government has a solid plan in place around this and is doing well when compared to other nations. We should continue on and be aggressive about it.
— Strahan Wallis, Porter Novelli
- Social inequality and the reaction to it. Focus needed on parenting, jobs and family support.
— Rod Campbell, Tutanekai Investments.

It's time to redraft the RMA law

New legislation needs to safeguard both the environment and infrastructure says BusinessNZ's Kirk Hope

More infrastructure needs to be developed in regional New Zealand to keep pace with demand, says the chief executive of BusinessNZ, Kirk Hope.

He says, for instance, there are population bulges in parts of the north that are becoming satellites of Auckland city and lack proper transport infrastructure.

"You have infrastructure based on a household rating base of 20,000 in Queenstown, yet one and a half million tourists flow through there in a year. We need basic infrastructure development to more easily move this number of people around."

Hope says the infrastructure must be built not just for New Zealanders but for additional capacity. The infrastructure spending could be debt funded — money has never been cheaper — and building for the future means communities won't suffer from growth pressures.

"There is no lack of desire from the government to play its part in developing appropriate infrastructure but the challenges of the Resource Management Act (RMA) is robbing the communities of the opportunities for productivity and growth."

Hope says the RMA is "a convoluted piece of legislation" with time consuming and costly processes and "we should start again and draft a completely new law.

"We need a set of planning and environmental laws that enable communities to feel comfortable their local environment is not put at risk but they (laws) don't impede the development of infrastructure for community growth."

Hope also believes the education, and immigration, system should be aligned with business growth to overcome any skills deficit.

"We have to ensure that the children coming out of the school system are work ready, are employable and have the capacity to engage at a higher level. They need to understand how technology can drive productivity for business."

Kirk Hope's Top Three

- **Top business priorities for the next 12 months**:
  - — Grow the business
  - — Communicate the link between strong communities and strong business
  - — Cement key client relationships
- **What's likely to keep me awake at night**:
  - — Achieving top-line revenue growth
  - — Meeting customer expectations
  - — Improving operational efficiencies

He says New Zealand businesses should be investing more in knowledge-based capital. "One of the competitive advantages New Zealand could have, given its place in the world, is to be a world class "weightless" exporter of services.

"One of our big challenges is that businesses lack scale. Any service that is provided digitally can be driven with scale — a basic example is Xero. We could, for example, provide cheap legal templates for businesses and these could be exported as a service globally rather than provided to a local base."

Hope says there should be more collaboration and networking to match up investors and companies willing to accelerate research and development (R&D) and create innovative products and services.

"We tend to operate in silos and matching investors with companies they would like to invest in is only happening on a sporadic basis.

"We also have one of the lowest R&D spend and there needs to be a mechanism to free up more capital for businesses.

"Businesses themselves need to take more responsibility in accessing capital.

"They need to think about how to drive their business forward; do they have the skills to do that; and what markets do they want to be in? This is all part of the productivity mix," says Hope.

MOOD OF THE BOARDROOM 2016

Time to refresh growth agenda?

CEOs question whether the Business Growth Agenda will be successful in the long term

The Government's Business Growth Agenda has produced short term results but some CEOs are questioning whether it will be successful in the long term.

The CEOs suspect the Government may have an eye on retaining power (next year) rather than promoting sustainable economic measures.

Joanna Perry of JMGP Ltd says there is some good co-ordination but too much of it is "bitsy" and not big enough to have a big hit. "The National-led Government is still too politically focused on staying in power rather than always thinking about the best thing for the economy in the long run."

Hawkins CEO Geoff Hunt says "My concern is that there doesn't appear to be thinking which will produce an enduring improvement during the next 10-20 years".

The Government appears more focused on near-term tactics to retain popularity in the lead-up to the general election, according to a media boss.

EMA CEO Kim Campbell says the agenda has many excellent elements, "but much of the execution is too slow. It is difficult to get investors to respond when there is so much low hanging fruit in domestic real estate."

An investment banker believes the agenda is "a really good piece of work", while a public sector boss says it is now operating on version four and a fifth version is being designed — "but it works".

The agenda, launched in 2012, is a series of microeconomic initiatives that will build a more productive and competitive economy and assist business to succeed. The agenda has a

Joanna Perry

high-level goal of increasing the ratio of exports to GDP from 28 per cent in 2014 to 40 per cent by 2025.

The agenda has six main work streams to drive productivity and growth:

● Building innovation work stream to grow New Zealand's economy by encouraging and enabling investment in research and development, and lifting the value of public investments in science and research.

● Increase exports by businesses, which is necessary to lift New Zealand's economic growth and living standards.

● Building infrastructure to provide the physical platform that will support sustained economic growth.

● Making better use of New Zealand's abundant natural resources, so we can continue to grow our economy and look after our environment.

● Ensuring New Zealand has high-performing capital markets that support investment, growth.

● Improving the safety of the workforce and building sustained economic growth through a skilled and responsive labour market.

The agenda was refreshed last year with the release of the *Towards 2025* report. The six initiatives, outlined above, remained but were joined by three important cross-cutting themes — Maori economic development, regional economic development and regulation.

New priorities were: an ambitious free trade strategy to minimise barriers for New Zealand exporters; developing the world's most efficient, cost-effective border management system to support trade and people flows; growing New Zealand Trade and Enterprise's portfolio of export-active companies; growing international education; increasing the value to New Zealand from tourism; and developing and growing New Zealand's international marketing brand.

An exporter says that just as in business, investment needs to be made in country economic innovation — this requires upfront input and committing to resource.

"It requires thinking ahead. Failure to address the environmental issues, especially water and the deep rooted problems around this, is akin to selling off the family silver to keep the profits and cash up — or reporting a good profit because you have dropped your research and development spend.

"This is not politically easy given the multiple demands on government funds, but current trajectory will have deep, and hard to recover from, outcomes."

An energy sector CEO says the distortion to the Auckland property market is akin to a cancer on the economy, with far-reaching social, economic and environmental issues. "And the oncologists can't agree on the solution whilst the patient just gets worse."

Craig Stobo, chairman of Precinct Properties, says it is really important for businesses with long investment horizons that the Government's macro settings are relatively stable and predictable. "Increased uncertainty creates costs for businesses and ultimately communities. National's steady hand on the tiller is valuable," he says.

How do you rate the Government's current economic management?

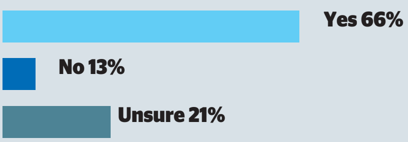
44%
Good for business —

48%
Good — but needs more targeted programmes

7%
Not good — needs substantial change

2%
Not sure

Does the National-led Government have a co-ordinated plan of action focused on raising New Zealand's economic performance?



Staying in power

"The Government gives every impression of being primarily focused on staying in power, and has taken no steps to accelerate economic growth.

"After promising to make the FDI regime more welcoming, they reviewed the regime and made it even more restrictive (now one of the most restrictive in the developed world, according to the OECD).

"They cut the corporate tax rate slightly but adjusted the depreciation rates to leave the total revenue from the tax essentially unchanged.

"Their moves to sell out of commercial businesses have been timid at best.

"Their attempt to reform the RMA was slow to get under way and is now a poor shadow of what is needed.

"Only now are they looking at the possibility of making the GMO regime slightly less restrictive."

— Don Brash, Chairman, ICBC (NZ)

Loans scheme

Labour's plan to partially wipe student loans for people taking hard-to-fill public service jobs in regional New Zealand gets the thumbs-down from CEOs.

In August, Andrew Little floated the idea while speaking to Victoria University student radio station Salient FM. He said the policy details were yet to be established but the idea was for taxpayers to pick up some of the student loan if people worked in a job outside the main cities.

Peter Reidy

Almost 60 per cent of business leaders surveyed say they do not support the policy, with only 20 per cent saying they agree with the idea.

Peter Reidy from KiwiRail agrees with Little on one aspect of the policy. He says "regions are struggling to attract talent".

A leading banker says it's not a bad idea but worries that it might not be practical.

A number of CEOs commented that the scheme should not be restricted to the public service. Matthew Cockram, CEO of Cooper and Company, questions: "Why only public service jobs?".

Mainfreight's Don Braid says New Zealand doesn't need any more public servants. One concern is that the jobs created this way may not be real jobs.

He says: "Academic attempts at social engineering will not work. Never have, never will. Takes more than trying to bribe people to work in underpopulated, atrophying areas."

Another CEO worries that young people will take the job, reduce their debt and just move on.

Reforming the RMA

Eight years and three election victories have not been enough for National to push through reform of the Resource Management Act. While the Government can count on the Act Party's vote, neither of its other two Parliamentary partners, United Future and the Maori Party, are willing to overturn the core of the RMA.

While the RMA is not top of mind for every business leader, there are industries and sectors which see it as a major impediment to progress.

About half of CEO respondents to this year's survey would like to see the RMA scrapped. They want Government to start again from scratch with new resource management legislation. This represents a shift in opinion from last year when just 30 per cent of bosses wanted to tear up and replace the existing RMA.

Two out of five CEOs would prefer government to continue seeking minor changes that can get enough support from Parliament. Only 3 per cent are willing to give up and accept the status quo.

It's not just the Act's tendency to prioritise environmental concerns over development needs. Nor is it the ability for objectors to step in and block development. Business leaders find dealing with the RMA is overly complex with the legislation running to more than 800 pages. There is also concern about the way the RMA governs the plan setting process for local councils and again, that this leads to complexity.

More than four out of five business leaders want central government to exercise more control and direction over the way councils handle the RMA.

Another concern in the boardroom is the business differential which means companies pay higher council rates than householders. BusinessNZ says companies pay more than 40 per cent of all rates in New Zealand, a disproportionate share of the total. Almost half the CEOs surveyed are against business differential rates while almost 30 percent are in favour.

The idea that councils can compete with the private sector is more controversial with almost two out of three CEOs saying there should not be any competition. Just one boss in five is happy with councils competing.

— Bill Bennett

What the CEOs say should be done

Substantial reform of the Resource Management Act is currently difficult to achieve in Parliament. What is more useful?

57%
Continue seeking minor changes to the RMA that will gain enough Parliamentary votes

34%
Start again and draft new resource management law

2%
Give up and accept the RMA as it is

SJOERD POST, REFINING NZ

Refining NZ chief executive Sjoerd Post says managing high exchange rates and building a winning culture are his top business priorities for the next 12 months. The former vice-president of Shell said he was slightly less optimistic on the general business situation in his industry compared to a year ago, with motivating key reports and competitive pressures among issues most likely to keep him awake at night. With a company of more than 500 staff, Post said innovation was a priority. "Our staff innovate continuously in order to improve our manufacturing processes, be it energy efficiency savings, increased flexibility, throughput or profitability." To tackle the issues of immigration and Auckland growth, he said the country needed to "set a more selective bar in terms of entry criteria", which would therefore have a knock on effect for the country's largest city.

SAM STUBBS, SIMPLICITY

Simplicity managing director Sam Stubbs says New Zealand's reliance on commodity exports is the main issue facing the nation. He would like to see that fixed with more investment in research and development as well as greater regulatory stability. He is concerned about the consolidation of a permanent underclass in New Zealand. He sees education as the only way to break the cycle. He also wants a tax system that continues to encourage investment in low-return housing stock. While Stubbs is uncertain about the need for the Government to do more about Auckland house price inflation, he says the only way to quench the demand is by increasing supply. "Commodity cycles are broken by increased supply more often than by dampening demand". Stubbs left Tower Investment to launch Simplicity, a not-for-profit KiwiSaver fund that aims to disrupt the market with passive fund management.

CEOs are investing in people

Staff and customers are still at the forefront of executives' minds

When surveying business leaders from across almost every industry, priorities vary. But the common thread in each executive's list of their top three business priorities for the next 12 months is the importance of personnel.

For some, that means "culture change to improve performance". For others, "attracting, and investing in, talent". And for many, it is simply a matter of retaining the staff they already have.

The "people priority" is reflected in broader business conditions in other parts of the Mood of the Boardroom survey, with 60 CEOs sharing their broader investment intentions on the back of what 54 per cent of respondents say is an improved corporate outlook.

Among 19 domestic factors considered to have an impact on business confidence, skills and labour shortages ranked fourth. When CEOs were asked which of three issues were most likely to keep them up at night, "sourcing and retaining skilled staff" was selected by almost 50 per cent.

Despite the rapid digitalisation of the economy, it is evident that people — whether it is staff or customers — are still at the forefront of executives' minds.

> When CEOs were asked which of three issues were most likely to keep them up at night, "sourcing and retaining skilled staff" was selected by almost 50 per cent.

A legal firm boss said, "We are a services business: we have no material investments other than in our people."

Information technology vendors can expect a busy year with about one in five CEOs listing IT in their investment intentions. Hawkins Group CEO Geoff Hunt says his investment plans include staff development, recruitment and IT systems. The leader of a real estate business says his company will invest in information technology to cover areas where legislation affects the business, including anti-money laundering systems. A leader of a power company expects to spend money on "smarter systems".

"Radically change the customer experience through embracing digital," was the clear priority for one food and beverage CEO.

Spark NZ managing director Simon Moutter says he is investing in anticipation of growing demand for services. He says Spark will "continue to invest to meet rising demand for data and digital services".


Geoff Hunt


Mark Ratcliffe


Mark Cairns

Chorus, which operates in telecommunications at the wholesale level, says it will invest in increased capacity but, as chief executive Mark Ratcliffe points out, his company's capital expenditure is committed by the UFB contract with the Government over the medium term.

Some export-led industries underline the confidence.

Port of Tauranga chief executive Mark Cairns plans large-scale investment. He says: "We are at the conclusion of a $350 million capital expansion programme to make Port of Tauranga big ship-capable. The New Zealand Shippers Council estimates this will unlock more than $300 million in benefits to exporters and importers every year.

"The first 9500 TEU (20-foot equivalent container) ship is scheduled to make its sole Australasian call into Tauranga early next month, offering exporters an express direct route into North Asia."

Where are we investing?

> Just like someone holding off on a holiday due to concerns over job security, there is a time when you say bugger it, let's go. We need to invest and now is that time. Global uncertainty remains but is likely just the norm now.
> — tourism boss.

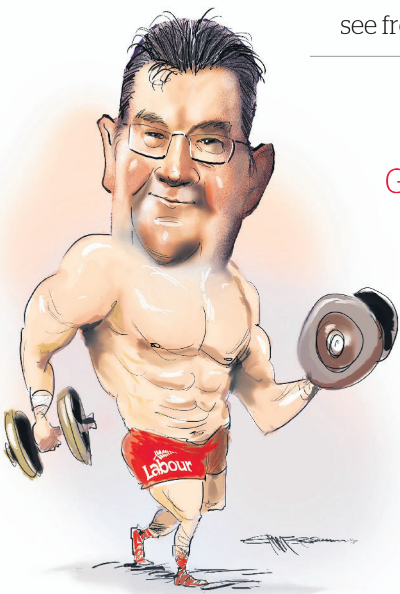
> Precinct Properties has committed to invest over $1b into property developments in Auckland and Wellington over the next three years. "Sorry about the disruption in Lower Queen St as we build Commercial Bay and the first section of the City Rail Loop."
> — Craig Stobo Precinct Properties

> The New Zealand conomy continues to perform well and provides increased opportunity in a competitive market. The Australian economy is improving but only slowly with no clear growth driver. Asia is mixed; Singapore and China are highly competitive and margins are reducing; rest of SEA is more buoyant, particularly the Mekong regions.
> — food sector boss

> With the MOM process now three years gone, the electricity industry outcomes have resulted in better renewability, better reliability and lower prices. I think it's safe to say the listing process didn't result in worse outcomes for consumers. It's safe to say they are in fact better.
> — Fraser Whineray, Mercury

A challenge from CEOs

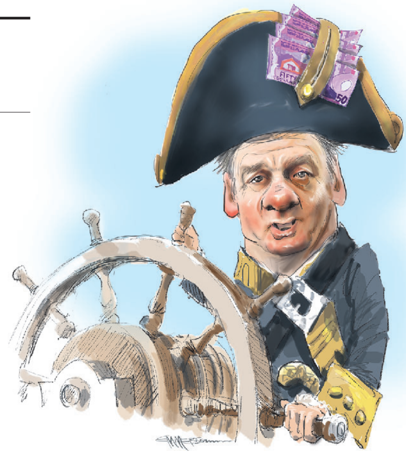
What business leaders want to see from English and Robertson



Grant Robertson

- Policies to constrain public expenditure
- Further discussion on the "Future of Work" project
- Promote the right skills delivered by education
- Identify weaknesses in National's economic policy
- Prioritise economic prosperity for all New Zealanders

(Read more on page 9)



Bill English

- Solve the Auckland housing crisis
- Get active on tax policy to solve housing unaffordability
- Develop a long-term economic plan
- Develop big thinking on New Zealand's economic future
- Get debt down
- Funding for education

(Read more on page 4)

"Vision without action is just a dream. Action without vision just passes the time. Vision with action can change the world."

Joel Barker