



Back in Business

National's plan to
save livelihoods
and unleash our
economy

2021

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Foreword



Hon Judith Collins
Leader of the Opposition

Over the past 18 months, New Zealand's economy has been hammered by Covid-19. Businesses in our largest city have suffered more than 18 weeks of lockdown. The closure of the border slashed \$20 billion from our economy almost overnight with the loss of international tourists and students. Our agriculture sector lost access to seasonal workers and businesses were cut off from skilled migration. Our domestic tourism, hospitality, accommodation and events sectors have all been hit hard by regular restrictions on travel, distancing requirements and capacity limits.

As is too often the case, the economic damage has not been evenly felt.

Small businesses and those that cannot adapt as quickly to contactless operation, such as hairdressers, physiotherapists, gyms, and cafes, have borne the brunt. Many of these businesses are owned by women. Many are family businesses, especially among our ethnic communities. Many of these businesses will now fail, through no fault of their own.

The unemployment rate for women is around half a percentage point higher than for men. The gap in underutilisation – which includes those employed but not working as much as they want – is even higher, with around 13% of women falling into this category compared to 8.3% of men.

According to a recent report from Westpac (Mahi tahi tātou, kaha ake tātou), Covid has exacerbated hardship for Māori, with Māori-owned businesses in sectors like tourism hit disproportionately. Ngāi Tahu, for example, were forced to close 10 of their 11 tourism businesses, while Waikato-Tainui suffered an estimated \$11 million in losses. The unemployment rate for both Māori and Pacific peoples as of June (the latest available) is 7.8%, almost double the rate for the country as a whole.

Pacific people and businesses, both here and in our Pacific Island neighbours, have been hit hard by Covid restrictions, including being cut off from international travel. There are approximately 1,500 Pacific employers, and 500 Pacific not-for-profit organisations in New Zealand, mostly centred in South Auckland, employing over 160,000 Pacific people. We need to act to ensure these businesses survive and thrive.

Some of the economic damage has been masked by massive government borrowing and spending. In just 18 months New Zealand has doubled its debt. When public health restrictions are impacting people's livelihoods, it is right the Government borrows to support the businesses impacted. But when our debt is rising so rapidly, it's more important than ever that spending is well directed and not wasted.

New Zealand is shifting to a new period in our Covid response. We are no longer pursuing the elimination strategy. We need to focus on getting our vaccination rates up, suppressing cases and treating the sick.

We also need a new economic strategy. The Government cannot just continue to borrow while locking down our economy and hoping for the best.

We've been down the path before of big governments that borrow big and tax bigger. That's not what New Zealand needs. We need to back business. Business is really just people. People with an idea, some capital, and the confidence, talent, drive, and courage to take a risk. People who back themselves. They need a government that backs them too.

Our economic team has developed this comprehensive plan that will save livelihoods and unleash our economy. I strongly urge the Government to adopt it immediately so New Zealanders can back our businesses to succeed. It's what I would do. It's what National would do.



Hon Judith Collins

Leader of the Opposition





Andrew Bayly
Shadow Treasurer (Revenue)

This plan is focussed on what National believes the Government should be implementing immediately given the economic impact of Covid and the need for businesses to reopen.

Some businesses, particularly in the export economy, have been able to do well despite Covid. That's a tribute to our hardworking farmers, business owners and their staff, and we hope this can continue, ever mindful that some are in cyclical commodity-based sectors.

But many others have been decimated by multiple lockdowns, either forced to stay closed or otherwise constrained in their ability to operate despite in many cases it being safe for them to do so.

Reopening the economy to allow businesses to trade is the best way to ensure their survival. We need to back our businesses to get back on their feet. We need to help Kiwis regain the confidence to take a punt, to start a business, to work hard, and employ others.

Since the initial Covid outbreak, around 80,000 New Zealanders have been pushed onto welfare. There are now more than 190,000 working age Kiwis on the JobSeeker benefit. That's about one in every nine. Many of these people are in our most vulnerable communities, precisely those we should be keeping in employment to support their whānau.

In the two months before the latest outbreak, more than 11,000 businesses closed their doors for good. Without urgent action, this lockdown will see many more businesses and their workers go the same way. This can be avoided with the right plan and National has it.

National believes the Government's priority in the short term should be:

- Protect viable businesses from closing as a result of the lockdown. There is light at the end of the Covid tunnel so it's imperative we don't fall at the last hurdle and allow otherwise viable businesses to fail from lack of support in the next few weeks.
- Provide a clear pathway to moving away from hugely damaging lockdowns toward a strategy of vigorous suppression of the virus, and safe, vaccinated workplaces with a culture of regular testing. This will mean greater freedom for businesses to operate and will let us safely reopen our internal and external borders.

Longer term the Government will need to focus on removing obstacles to doing business, providing incentives to invest in new technology and skills, and investing to make our economy more competitive and productive. We should be fast-tracking overseas investment of capital (including around \$2 billion of investor migrant applications languishing on Immigration New Zealand waiting lists), while ensuring New Zealand can benefit from the skills and talent of returning Kiwis and new New Zealanders alike.

This economic plan follows the release of Opening Up: National's plan to tackle COVID-19, end lockdowns and reopen to the world in late September. National believes that getting vaccination rates up and filling in the gaps in our Covid defences is a vital first step to saving jobs and businesses. Placing the country in and out of lockdown and limiting the flow of people to and from our shores is not a credible long term strategy.

Our economic approach involves two phases:

- Phase 1 – Immediate support. This includes a raft of initiatives that National would implement to provide immediate support to struggling businesses, offer smarter rules for managing lockdowns, and make it easier for businesses to operate.
- Phase 2 – Evolve our approach. National believes the business sector should play a much bigger role in our Covid response. As we head towards our 85–90% vaccination milestone, business needs a clear plan for moving away from blanket restrictions to a more sophisticated model based on trust and technology.

New Zealand faces some broader economic challenges over the long-term, such as our low productivity growth, declining educational achievement, persistently higher Māori and Pacific unemployment, and a growing infrastructure deficit. In time, National will set out detailed plans to address these problems and more.

But this document is about the here and now.

It's about the emerging crisis in business confidence and the need to address it.

It's about backing our hospitality businesses, our tourism sector, our retailers, our building trades, our farmers and growers.

It's about making sure that once we're through this pandemic and safely reconnected to the world, we have an economy left that can seize the opportunities of a post-Covid world. Above all, it's about acting now before it's too late.



Hon Michael Woodhouse
National Party Spokesperson for Finance

The current Government inherited a very strong fiscal position created by governments of various stripes over the last 25 years. But our economy now faces real risk. On the surface things might feel good, but in reality New Zealand is using the credit card just to pay for groceries, and a number of warning lights are starting to flash red.

Right now we are borrowing on average about \$110 million every day.

The Labour Government's attempt to justify the most recent fiscal forecast as prudent, along with its willingness to borrow to fund costly new initiatives on top of that required for our response to Covid, threatens to undermine that inheritance.

In its most recent statement on our long-term fiscal position, He Tirohanga Mokopuna 2021, the Treasury warned starkly that "net debt is likely to be on an unsustainable trajectory if expenditure and revenue follow historical trends". That's Treasury speak for "stop the wasteful spending."

Borrowing to respond to the significant economic impact of Covid-19 lockdowns on businesses and their staff was the right thing to do. But the Government has cynically used Covid-19 as an opportunity to abandon any semblance of fiscal responsibility.

The Covid-19 Response and Recovery Fund has been used for all sorts of projects which can in no measure be considered to have anything to do with Covid, including the Three Waters reforms, cameras on fishing boats and a baseline funding increase for the (non-commercial) Radio New Zealand.

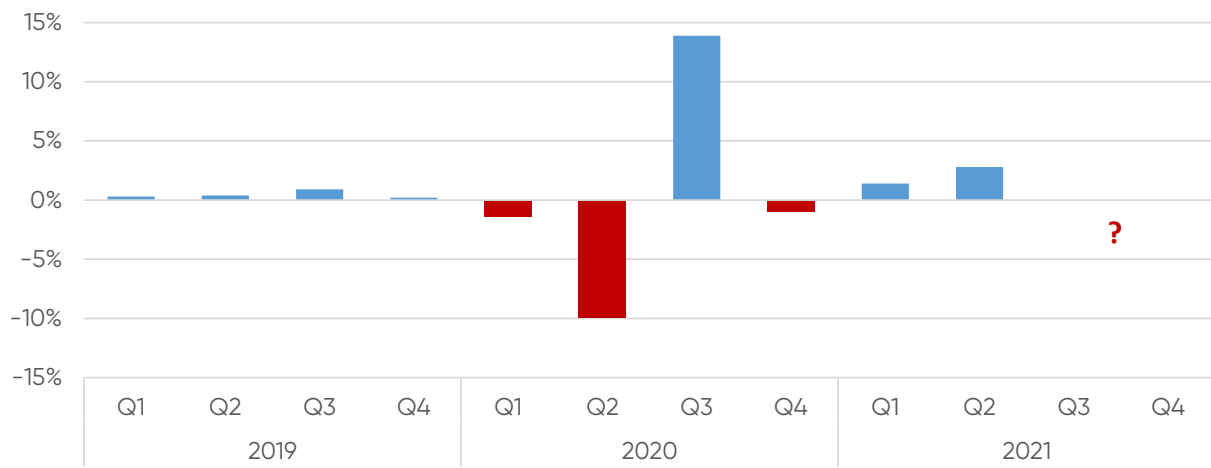
At a time when the Government is borrowing so much on taxpayer's behalf, there needs to be greater scrutiny than ever on where that money is being spent. Yet the Government has not published any reports on its additional spending since the Budget, over six months ago. National is calling on the Government to adopt the following fiscal responsibility rules, and to stick to them:

1. Reconfirm a commitment to the 15-25% range for debt-to-GDP, and be clear about how and when this is likely to be achieved (subject to the normal caveats). This is, after all, what the law requires.
2. Ensure Covid-19 response funding is used only for direct Covid response measures.
3. Commit to no use of in-between Budget processes to implement non-Covid spending initiatives.
4. Guarantee greater transparency and timeliness of spending reports outside of the Budget.
5. Bank any unexpected gains in tax revenue or reduced expenditures to the operating balance, so debt is reduced faster.

State of the economy

The global economy bounced back remarkably well from the initial shock of Covid-19 as businesses adapted, and monetary and fiscal stimulus was deployed. New Zealand was no exception, with a strong bounce back in Q3 following a deep, lockdown-induced contraction in Q2. We don't yet have data for the quarter just ended (Q3, 2021) or the current one (Q4), but it's safe to say the economy is now shrinking once again, as our major city experiences an extended lockdown.

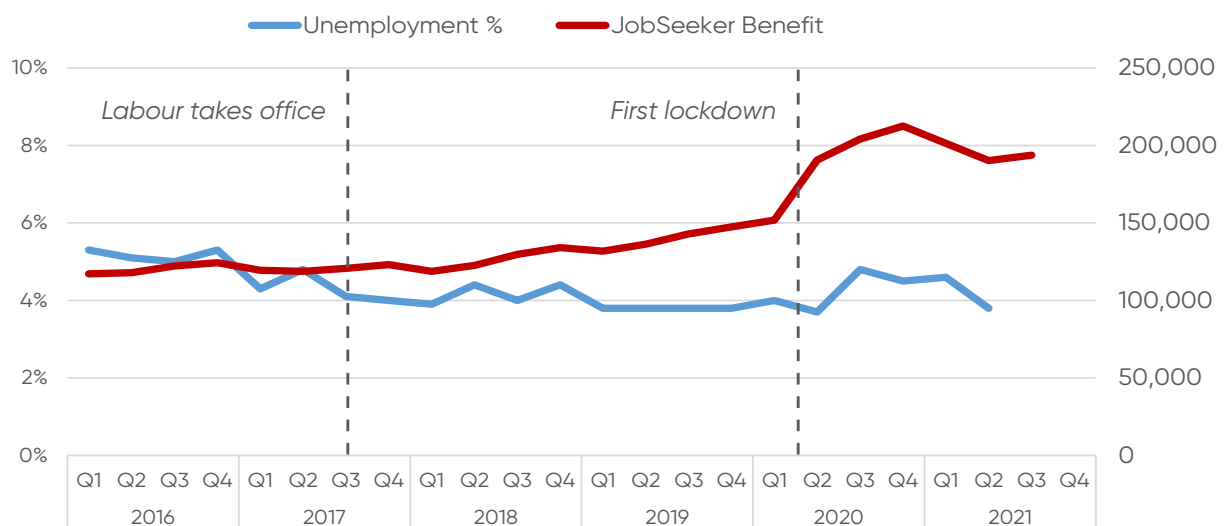
Figure 1: Quarterly GDP growth (%)



Source: Stats NZ

Some labour market indicators, like the survey-based unemployment rate, had almost recovered to pre-Covid levels before the latest lockdown. A far more concerning metric, though, is the number of New Zealanders receiving the JobSeeker benefit (193,632), which was still well above its pre-pandemic level prior to this outbreak. Overall benefit numbers are also way up, with around 360,000 New Zealanders, or one in nine working-age adults, now reliant on the state for support.

Figure 2: Unemployment rate (left axis) vs. JobSeeker benefit recipients (right axis)



Sources: Stats NZ, MSD

Economic snapshot¹

\$340B

Gross Domestic Product

↑ **\$17B** since Covid

\$102B

total Government debt

↑ **\$42B** since Covid

4.9%

annual inflation

↑ **2.4 pp** since Covid

192,612

on JobSeeker benefit

↑ **47,607** since Covid

3.8%

Unemployment rate

↑ **0.1 pp** since Covid

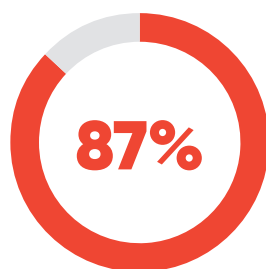
8.6%

Māori unemployment rate

↑ **0.4 pp** since Covid

11,696

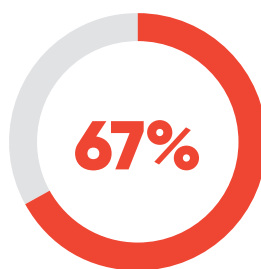
business closures in the two months **before** lockdown



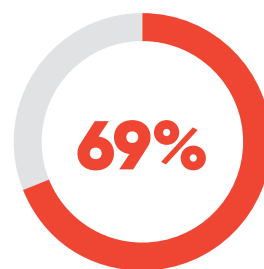
of retailers **need help to pay their rent** during lockdown



of retailers not sure they will **survive the next 12 months**



Auckland businesses think economy **will be worse next six months**



of retailers **unsatisfied with the Govt's Covid response**

¹ Sources: MSD, Treasury, Stats NZ, Companies Office, NZIER Quarterly Survey of Business Opinion, Retail NZ Retail Radar, Auckland Business Chamber Survey.

Principles to guide our response

A clear strategy and plan

Covid has required all of us to make sacrifices; children to miss school, businesses to stay shut, and families to isolate from loved ones. These measures have until recently had strong public support because they were part of a clear game plan to eliminate Covid. With elimination no longer the objective, it's unclear what the current game plan is. To maintain public buy-in, the Government needs to explain clearly what it is trying to achieve and what actions will get us there.

Fair compensation

Over the last 18 months, businesses have followed the rules and kept their doors shut to keep us all safe, even when many could have operated safely. Even at lower alert levels, many have faced restrictions on their ability to trade. The financial burden of following these public health measures has been high – for some businesses too high. It's only fair that where a business' ability to trade is harmed by public health restrictions, they receive fair compensation from the Government.

Trusting business to play their part

Businesses have played a huge role in our Covid response to date, and they have every incentive to do the right thing and continue to keep us safe. Businesses want to protect their staff, their customers, their brand, and the communities they operate in. Businesses have now had more than 18 months to understand and adapt to the risks of Covid. With elimination no longer the strategy, it's time for the Government to start working with the business community to keep us all safe.

From elimination to managing risk

At the beginning of the pandemic, lockdowns were the only option we had to slow the spread of Covid. But now we have a range of tools available to us, including vaccination, masks, rapid testing, contact tracing, and tracer apps. As we move away from elimination, we also need to move away from the blunt use of lockdowns to dealing with Covid whenever it pops up. We need to be more sophisticated in how we manage the risk of Covid, while allowing normal business activity to continue as much as possible. Ambiguous policy on vaccinations and testing in workplaces is helping no-one.

Focus on the job at hand

The first lockdown eliminated Covid and bought us time. The Government should have used the last 18 months to vaccinate at pace, expand our ICU capacity, and expand the tools we have to fight Covid. Instead, they squandered this opportunity and chose to use the time New Zealanders had bought them to advance a political agenda, including massive centralising transformations in health, education, workplace relations, and water. That choice made us sitting ducks for Delta. The Government must make responding to Covid its number one priority, and put its transformational dreams on hold.

Transparency

The Government was afforded a high degree of freedom to operate at the start of the pandemic. Political parties across parliament, along with the media, recognised these were unprecedented times and the need for speed trumped the need for typical levels of scrutiny. But that time has passed. Now, more than 18 months into the pandemic, it is imperative that oversight is restored. The Government has spent at least \$12 billion of the Covid Fund on projects that have nothing to do with Covid. Our economic response must shift urgently from slush funds and backroom deals for favoured sectors, to open and transparent spending decisions backed up with clear and defensible justifications.

National's economic plan at a glance

Phase 1 – Respond to the immediate economic impact of Covid

A.

Offer immediate support to save jobs and keep businesses afloat

1. Fix the wage subsidy
2. Implement rental support
3. Extend the loss carry-back scheme

B.

Provide clarity around public health rules for business

1. Give business legal certainty on vaccinations
2. Create smarter alert level rules
3. Fix alert level regional boundaries

C.

Reduce the burden on businesses and workers

1. Cut taxes for small businesses
2. Cut taxes for workers
3. Freeze costly new regulations
4. Create incentives for business investment
5. Deliver mental health support for small businesses

D.

Deliver targeted support to save highly affected industries

1. Distribute 'dine and discover' vouchers
2. Allow restaurants & bars to extend outdoor seating
3. Establish an insurance scheme for major events

Phase 2 – Evolve our approach to reduce the cost of public health restrictions

A. Set a clear strategy and a date for reopening

B. Explain what it means for business when we get there

C. Reopen the border and reconnect to the world

Phase 1 – Respond to the immediate economic impact of Covid

Now that our vaccination rollout has finally started to ramp up, there is some light at the end of the Covid tunnel. But Auckland is still suffering from an extended lockdown, and businesses in other parts of the country have been forced to operate under various restrictions and capacity limits.

After the difficult journey we've all been through over the last 18 months, it's crucial we don't fall over at the final hurdle by allowing otherwise viable businesses to fail. Many businesses that survived the first lockdown and multiple alert level changes (particularly in Auckland) may not survive this one. Owners have already used up their personal savings and squeezed every cost they can out of their business models.

According to Deloitte, calls from business owners seeking help have more than doubled during the current lockdown, reaching the highest levels the advisory firm has experienced since the start of the pandemic.

"I think what we will see is people hanging on until Christmas, and next year we will see the real hurt that is out there."²

- David Webb, Head of Restructuring, Deloitte

The next six to twelve months will be crucial for our economy and our future prosperity. After coming through one of the toughest economic periods in our history, we need to act to ensure our businesses don't just survive, but thrive. To prevent widespread business failure and save livelihoods, the Government should immediately adopt the following urgent actions.

A. Offer immediate support to save jobs and keep businesses afloat³

1. Fix the wage subsidy

The wage subsidy has been a valuable, albeit imperfect, tool for keeping people connected to their jobs through multiple lockdowns. Our public servants should be applauded for their efforts in quickly setting this programme up and getting money out the door to those who needed it at the start of the pandemic in March 2020. But now, more than 18 months later, it is clear there are still major deficiencies which the Government has failed to address:

- **Speed** – Five weeks after the current lockdown began, more than 37,000 businesses were still waiting to get paid the first round of subsidy.⁴ Delays may have been understandable for a brand new programme at the start of the pandemic. But the fact so many businesses are struggling to access support more than a year and a half on is unacceptable.

² www.stuff.co.nz/business/126433022/lockdown-forces-more-small-businesses-than-ever-to-consider-calling-it-quits--here-is-what-you-should-consider

³ Total cash support for businesses will be capped so as not to exceed 100% of normal revenue

⁴ www.nzherald.co.nz/business/more-than-37000-businesses-still-waiting-for-first-round-of-august-wage-subsidy-payment/H2SFJSTE5URDF6JH3M2WKKPZY4/

- **Support** – The revenue loss criteria and payment rates for the wage subsidy were designed with a short, sharp lockdown in mind. They were not designed for the cumulative impact of multiple lockdowns, including the current one which has stretched over two months. The first lockdown resulted in almost 70,000 people being pushed onto the JobSeeker benefit. The current lockdown has already added at least 8,000 people to the welfare rolls. The level of support needs to adjust to reflect the current reality.
- **Coverage** – With the persistence of regional lockdowns, and the increased restrictions on businesses under Level 2, linking the wage subsidy to the alert level a business is operating in is no longer appropriate. A pub in Christchurch that can only serve seated patrons is still suffering, even if they are not at Level 3. Similarly, a tourism business in Queenstown at Level 1 will still find it difficult to stay afloat if Aucklanders are not allowed to travel.

The Finance Minister has explicitly ruled out extending the wage subsidy once Auckland reaches Delta Level 2. National strongly urges him to reconsider.

Actions:

- Pay the wage subsidy at Delta Level 2, so if any part of the country is at Level 2, any business in New Zealand that can demonstrate revenue loss as a result of those restrictions can access it.
- Reduce the revenue loss criteria to qualify for the wage subsidy from 40% to 30% once a business has been receiving it for eight weeks (back-dated to the start of the current Delta outbreak, so Auckland businesses qualify immediately).
- Increase wage subsidy payments from \$600 to \$800 per full-time employee and from \$359 to \$480 per part-time employee once a business has been receiving it for eight weeks (back-dated to the start of the current Delta outbreak, so Auckland businesses qualify immediately).
- Require the Ministry of Social Development (MSD) to process all wage subsidy applications within five working days, or payment is automatic (and the onus shifts to MSD to claw back incorrect payments at a later date).

2. Implement rental support

The wage subsidy and Covid resurgence payment have helped small businesses, but the issue of rent, the second largest cost most face, has not been satisfactorily addressed. The one-off Covid resurgence payment doesn't go far when you factor in significant costs like unexpected stock wastage, insurance, rates, and the fact payment is dependent on the number of FTEs a business has.

Under National's Rental Support Package, small businesses that have seen a 40% reduction in revenue under either Level 3 or 4 will be entitled to 50% of their assessable rent and associated building operating costs being paid by the Crown. This is on the proviso the landlord contributes a 25% discount for the duration of the period the Rental Support Payment is paid.

This would leave the just 25% of the rental costs to be paid by the tenant.

It is important that business owners and landlords have a clear process to reaching an outcome quickly. In order to ensure any rental disputes can be settled quickly, the Government will prioritise emergency arbitration services when requested by either the Tenant or Landlord.

"This Rental Support Policy would offer protection to small businesses, greatly lessening the likelihood of business closures, impacting jobs and communities for years to come"⁵

- Julie White, Chief Executive of Hospitality New Zealand says.

Action:

- Implement National's Rental Support Package to provide a simple, fair, and cost-effective way to help businesses cover their rent costs during Level 3 and above.

3. Extend the loss carry-back scheme

The Covid-19 temporary loss carry-back scheme allowed businesses that expected they would run losses for the 2020 or 2021 tax years to carry some or all of that loss back to the previous year to enable an immediate cash refund of tax previously paid. With businesses now facing significant additional financial strain from a lengthy lockdown, this scheme should be extended.

Any business that records a financial loss in the next two financial years should be able to offset that loss against tax paid for the past four years. This will provide an immediate cash injection to enable these otherwise viable businesses to survive until our economy is up and running and we are able to reopen to the world

Actions:

- Extend the loss carry-back scheme for the next two financial years but exclude State Owned Enterprises and Mixed Ownership Model companies so that support is targeted to where it is most needed.
- Clarify the rules so companies that traditionally pay out profits as shareholder salaries (and so do not have taxable income) are able to take advantage of these provisions.

⁵ www.national.org.nz/bayly-urges-govt-to-adopt-rental-support-package

Hairdresser case study

The financial benefit of National's revised policies for Sheryl, a hairdresser based in Papakura, is significant.

Sheryl works in her business and employs two other full time hairdressers, plus one part time hairdresser. Even though her landlord has given her a 50% reduction in her rent, Sheryl is currently losing nearly \$2,800 every week. In the 21 weeks that Sheryl has not been able to operate her salon since the start of the pandemic, she has lost nearly half her revenue and incurred a \$67,000 loss, despite the Government's support.

Under National's rental support package, and enhanced wage subsidy from week nine, Sheryl will be better off by \$1,510 per week.

Should she make a loss this financial year, she will also be able to deduct that loss against her previous four years of profits as a result of the extension to the loss carry back scheme.

Alternatively, if her business has a profit of less than \$70,000, she will pay tax at the much lower rate of 17.5% on her profits for the next two years (discussed in Section C below).

This support will enable her to rebuild cash in her business, hold on to her staff, and keep her doors open until we are able to reopen our economy.



B. Provide clarity around public health rules for business

1. Give business legal clarity on vaccinations

Businesses want certainty around their rights and responsibilities when it comes to Covid-19 and vaccination. The Government has offered vague assurances that our existing employment laws are sufficient, but some legal experts disagree.⁶

⁶ www.nzherald.co.nz/business/covid-19-delta-outbreak-no-jab-no-job-experts-question-legality-of-potential-workplace-policy/IDZUFXXHCKBW437WH7LYGABER4/

Employers have obligations under the Health and Safety at Work Act to take all reasonably practicable steps to ensure the health and safety of workers and people coming into the work environment. For some businesses, this will mean only vaccinated employees are able to be in the workplace.

Businesses need certainty that in trying to keep their staff and customers safe, they are not opening themselves up to costly legal action. The Government needs to provide legal certainty, not ambiguous assertions that will be meaningless in a court of law.

Actions:

- Provide legal certainty to businesses (through legislation if necessary) that, after undertaking a risk assessment, a business has the ability to require their workforce to be vaccinated without the risk of claim of personal grievance or constructive dismissal.
- Provide legal certainty to businesses that, if they identify it as a risk to their staff or other customers and choose to, businesses may make proof of vaccination a requirement of entry to their premises without the risk of legal action.

2. Create smarter alert level rules

The South Island has been under Alert Level 2 or higher restrictions for more than two months, despite not having a single Covid case in almost a year. The Government says the reason for these Level 2 restrictions is to slow the spread of Covid in the event that it was to appear in the South Island.

But there are smarter ways to slow the spread of undetected Covid.

A vaccinated population means a lower risk of uncontrolled transmission. Parts of the country with high vaccination rates and no Covid should not be at Level 2.

Vaccinated people pose far less risk of creating a super-spreader event. Businesses where all staff and customers are vaccinated should be able to operate normally when in Level 2. This will reduce the economic damage of Level 2 restrictions on sectors such as hospitality, retail and tourism.

It will also provide businesses with a strong incentive to help get their own staff vaccinated. We've already seen businesses getting creative, offering bonus payments or extra leave to get a job, and this is something we should further encourage.

Actions:

- Take any area with at least a 70% full vaccination rate and no Covid in the community (e.g. Dunedin) down to Level 1 immediately.

- Allow businesses where all staff are fully vaccinated to operate as normal under Level 2 if they choose to.
- Allow businesses, if they choose, to operate under Level 2 with no capacity constraints provided all customers show proof of vaccination upon entry.

3. Fix alert level regional boundaries

It's ridiculous that more than 18 months into this pandemic, the rules around crossing regional lockdown boundaries are still causing so much confusion and cost for business. Different rules for different regions at the same alert level is part of this confusion. The need for consistent and clear rules is essential.

It makes no sense that construction businesses working on critical infrastructure in Auckland, who were allowed to go back to work at Level 3, were not able to bring staff living ten minutes south over the border.⁷

We need a sensible regime that balances keeping Covid-19 cases low with the need for goods and people to move around our country. The tools and technologies to improve our internal borders exist, we just need to deploy them, along with some common sense.

Action:

- Allow fully vaccinated staff who work for any business to cross regional lockdown boundaries upon completion of a rapid antigen test at the border, or evidence of a negative daily test.

C. Reduce the burden on businesses and workers

1. Cut taxes for small businesses

After an extended lockdown, New Zealand's small businesses need all the help they can get. With less working capital and limited ability to access credit, most are suffering and many won't survive. If we want these businesses to still be around when we eventually reopen to the world, we need to do everything we can to reduce their costs.

There are around 163,000 small businesses in New Zealand that employ nineteen or fewer people. That's close to 30% of all businesses.⁸ National believes that for the next 24 months, we should make the burden on these small businesses, which are the lifeblood of our economy, a little lighter.

Helping ease the burden on small businesses so they can survive is critical to helping address some of the disparate impacts that the Covid economic shock has had on Pacific peoples and Māori in particular. Around 6% of all businesses in New Zealand are Māori-owned, and

⁷ www.newstalkzb.co.nz/news/covid-19/covid-19-delta-outbreak-border-restrictions-hurting-building-and-construction-companies/

⁸ www.stats.govt.nz/information-releases/new-zealand-business-demography-statistics-at-february-2020

the vast majority of these are small and medium sized enterprises. Māori-owned businesses employ 43% Māori on average, about three times the rate as for non-Māori businesses.

We are proposing a short-term cut to the company tax rate for businesses with 19 or fewer staff and a maximum taxable income of \$70,000 (businesses that exceed this threshold will pay tax at the standard rate). For a business earning at the top of that income threshold, this would result in a total tax saving of \$14,700 over two years.

It is time that changes were made to New Zealand's corporate tax settings to promote smaller and start-up businesses in a similar way to many offshore jurisdictions. A lower rate of income tax for small but profitable New Zealand companies will increase the available cash in those New Zealand companies, enabling them to reinvest back into the New Zealand economy.

- David Johnson, Partner – Head of Tax, New Zealand, DLA Piper

We also need to make sure that businesses who are struggling to pay their tax obligations are given a chance to recover as the economy re-opens. Keeping these businesses going in the short term will pay off in the long run, so Inland Revenue should offer generous terms to help get our small business sector through.

Actions:

- Introduce a temporary 17.5% tax rate for small businesses (fewer than 19 employees and a maximum taxable income of \$70,000) for the next two financial years.
- Allow businesses that have suffered a significant loss of revenue for the current financial year to stretch their tax obligations over the coming 24 months without penalty.

2. Cut taxes for workers

One of the best ways we can back our businesses is to let Kiwis keep more of the money they earn. We need to back the workers of New Zealand – the men and women who get up and go to work each day to provide for themselves and their families.

After a challenging 18 months, New Zealanders need a boost. As we come out of the current lockdown, our small businesses and our economy will need a boost too. The fairest and most efficient way to do that is through the tax system, by putting more of New Zealanders' own money back in their pockets.

By increasing the amount of money Kiwis can earn before higher tax rates kick in, we can provide a tax cut to every worker in this country. For those on lower incomes in particular, this will flow into increased spending in our local businesses. It will mean more Kiwis will be able to afford a holiday, take their partner out to a restaurant, or buy their kids something nice for Christmas.

Action:

- Increase the upper threshold for paying the 10.5% income tax rate from \$14,000 to \$17,000 dollars for the next two years, providing a tax cut for every worker in New Zealand.

3. Freeze costly new regulations

With business closure rates rising, and the economic pain of an extended lockdown set to bite over the coming months, the Government needs to recognise that now is not the time to be raising costs on business.

Labour needs to understand that every new regulation it imposes is effectively another tax on business and farmers that makes it harder for them to survive. And behind every business that closes are hard-working New Zealanders who deserve a Government focused on reducing cost and burden, not imposing more.

Over the past 18 months, the Government has doubled sick leave entitlements, introduced a tax on utes and other essential work vehicles, created an extra public holiday, and announced sweeping changes to our labour laws designed to bring back the bad old days of militant unionism.

While the Government may believe every regulation it passes to be well-intentioned, the cumulative impact will be business closures and job losses, which are bad for everyone. The Government is still intending to introduce draconian retrograde policies like its so-called Fair Pay Agreements, which will further impact businesses and their staff at a time when certainty is so important.

Action:

- Introduce a two-year moratorium on any changes to regulations or legislation that adds to the cost of business, including proposed changes to employment law or unemployment insurance.

4. Create incentives for business investment

While GDP growth after last year's recession was stronger than feared, it was largely driven by huge amounts of Government spending plus a rebound effect from delayed consumption during the lockdown. Neither of these sources of growth are sustainable.

If we want serious economic growth for New Zealand over the long term, we need to seriously incentivise business investment in the short term. Encouraging businesses to invest will generate immediate economic activity right now while expanding the overall productive capacity of our economy to sustain future growth. By allowing businesses to immediately expense investments in new productive assets, we will create a strong incentive for businesses around New Zealand to invest in our future.

Action:

- Lift the threshold for businesses to immediately expense investments in new productive assets (plant, equipment, machinery, hardware, and software) from \$5,000 to \$150,000 per asset for the next two years, and reinstate the asset write-off threshold at \$5,000.

Improving productivity in the kiwifruit industry

Investment in technology is one of the keys to improving productivity throughout the economy.

Punchbowl, a successful kiwifruit grower and packaging supplier, has recently developed a solution to help with labour shortages in the industry with the release of the Niverplast SpeediPlast processing machine which automatically places carton poly liners into kiwifruit boxes to maintain fruit quality.

This machine requires one part time person to operate compared to a traditional carton preparation line which requires as many as five staff. This reduces the need to find operators during the critical picking and packing season.

Under current rules, at a cost of around \$200,000, it would take 19 years to fully depreciate an investment in this productivity-enhancing machine.

Under National's proposal, the purchaser could immediately write-off the cost of the investment against its business profits up to a value of \$150,000.

That purchaser would benefit from paying \$26,250 less in tax in the first year, a cash saving which represents a strong incentive to make the investment.



5. Deliver mental health support for small businesses

Owning a small business can be tough at the best of times, and even more so when faced with the impact of Covid, including lockdowns and alert level changes. The hours are often long and stressful and there are currently few support structures in place for owners.

There is a growing need for mental health support in small business with some reports of 31% of small business owners experiencing a mental health condition since starting or taking over their business.⁹

Being responsible for everything to do with the business, the lines between personal and work pressures become blurred or non-existent. Most large businesses have access to employee assistance programmes (EAPs), but the cost can put this out of reach for most small businesses.

⁹ www.stuff.co.nz/business/farming/110258703/mental-health-crisis-hits-small-business-owners

"It's at breaking point to be honest ... the messages that I've seen, the cries for help and it's just not knowing what's ahead."

- Jamie Freeman, Hospitality NZ (Auckland branch president)¹⁰

The Government should partner with the Business NZ Network, regional Chambers of Commerce and Economic Development Agencies, to deliver a programme through the Regional Business Partner Network grants scheme to support those small businesses where mental health has been identified as a concern, and to engage with small business to ensure they receive mental health support tailored to their needs.

Over half a million Kiwis own or work for a small business. If we want our small businesses to survive until we can open up our economy, we need to ensure they have access to not only financial support but also support for their mental health and wellbeing.

Action:

- Establish a Small Business Mental Health programme as part of the Regional Business Partner Network to ensure business owners and their employees have access to mental health support tailored to their needs.

D. Deliver targeted support to save highly affected industries

1. Distribute 'dine and discover' vouchers

Our hospitality, accommodation and tourism businesses have been some of the hardest hit by Covid-19 restrictions, with multiple lockdowns, capacity restrictions, social distancing requirements and the loss of international and domestic tourism.

Even under Level 2 restrictions that see businesses in many other sectors able return to normal, hospitality and tourism businesses are still faced with restrictions on the number of customers they can have on their premises or the way they are allowed to interact.

Many much-loved local institutions have already been forced to close their doors for good as a result of these restrictions. Those businesses aren't coming back, but it's not too late to save those that are still standing.

To provide a shot in the arm for these struggling sectors we should encourage Kiwis to get out and support their local businesses. The best way to do this is to provide 'dine and discover' vouchers worth a total of \$100 to every fully vaccinated adult New Zealand that can be redeemed at an eligible businesses over the next six months. This will have the added benefit of helping lift our vaccination rates so we can open up faster.

¹⁰ www.rnz.co.nz/news/political/451497/calls-for-govt-to-offer-additional-financial-mental-health-support-to-businesses

Action:

- Provide 'dine and discover' vouchers worth a total of \$100 voucher to every fully vaccinated adult (18+), which can be spent at any hospitality, accommodation, or tourism business in the country over the next six months.

2. Allow restaurants & bars to extend outdoor seating

The social distancing requirements and capacity limits that restaurants and bars around the country have faced under Level 2 restrictions have made it difficult for many to bring in enough revenue to keep their doors open.

Many towns and cities around the world have implemented temporary measures to extend outdoor seating during the pandemic to reduce risk and offset the social distancing requirements.

As we approach the summer months, New Zealand should embrace this concept. Allowing our restaurants and bars to temporarily expand their outdoor seating wherever safe and practical.

If this means overruling local council bylaws or other restrictions, then so be it. Parliament has passed legislation in the past to enable bars to stay open and serve drinks during the Rugby World Cup.

This is another common sense proposal that will help get our hospitality industry back on its feet.



Action:

- Let hospitality businesses extend outdoor seating into public spaces wherever safe and practical for the next six months (overriding council bylaws if these are an impediment).

3. Establish an insurance scheme for major events

The events industry has suffered significantly from the sudden imposition of lockdowns, and the lack of forward guidance about when alert level changes will be made.

If an event has to be cancelled, the organisers will refund all of the ticket revenue, but they are left to cover the significant overhead, not to mention pay suppliers who have already provided their services.

The events industry is in a precarious position with the current alert levels dictating how and when their businesses can operate. The Government can, as you know, enforce a lock down within 12 hours which is terminal for an event and their suppliers.

National proposes the establishment of a \$50 million insurance scheme for major events. The Government will pay the upfront premium cost to enable such a scheme to be established. As event organisers take up this insurance, they will rebate the Government their share of the premium.

Action:

- Establish a \$50 million insurance scheme to allow major events to be planned with confidence that lockdowns won't result in significant financial losses for organisers, customers or suppliers.



Phase 2 – Evolve our approach to reduce the cost of public health restrictions

The first phase of National's Economic Plan is focused on steps to offset the immediate economic impact of our current public health restrictions. It's about getting additional support to the businesses and sectors that need it right now to keep them running and minimise job losses. It's also about compensating businesses fairly for the important role they are playing in keeping us all safe.

Providing urgent support is vital, and we urge the Government to do so with haste. But beyond that, the best thing we can do to help businesses survive the next twelve months is to reduce the need for support in the first place.

That means doing whatever it takes to avoid lockdowns and shifting to a smarter, more targeted approach to managing the risks of Covid-19. Just as vaccination allows us to shift from blanket restrictions to individuals managing their own risks, the shift from elimination to vigorous suppression that National has advocated for will allow the Government to start trusting and enabling businesses to manage their own Covid risks.

A. Set a clear strategy and date for reopening

More than a million people in New Zealand are still in lockdown, but it is no longer clear what our strategy is or what we are trying to achieve with our current restrictions.

After keeping Auckland in Level 4 lockdown for five weeks the Government made the decision to shift to Level 3 despite double digit cases, a number of which remained unlinked. Now, after several more weeks in Level 3, case numbers are higher than they were under Level 4. Yet the Government has ruled out any shift back up the alert levels.

Meanwhile, people in the South Island are still in Level 2 despite having no Covid in their community for almost a year.

Clearly, the elimination strategy is no longer being pursued. What is not clear is what strategy has replaced it, nor what objective the Government is hoping to achieve with current restrictions.

If the Government is simply trying to buy itself time to catch-up on vaccinations or finally expand our ICU capacity, it should say so. If the goal is to 'flatten the curve', the Government must tell New Zealand and explain how that changes our tactics.

New Zealanders currently under lockdown, along with the rest of the country, need to know under what conditions restrictions will be lifted, what vaccination milestones they need to achieve, what rules businesses will be operating under and when they can expect these to change. And they need to know today.

In Opening Up: National's plan to tackle COVID-19, end lockdowns and reopen to the world, we proposed a vaccination milestone of 70-75% of over 12s to put an end to severe, nationwide lockdowns. We also proposed a vaccination milestone of 85-90%, along with DHB and age-based milestones, at which we can start to reopen our economy to the world.

At current vaccination rates, this should be easily achievable in the next month. We are calling on the Government to adopt these milestones, or commit to reopening our economy by the start of December at the latest.

Action:

- Commit to ending lockdowns, reopening our economy, and reconnecting to the world when we hit 85-90% vaccination (along with DHB and age-based milestones), or on 1st December, whichever comes earlier.

B. Explain what it means for business when we get there

1. Smarter public health rules

New Zealand's vaccination rates are increasing. That means when we lockdown an entire region, a large proportion of the people being asked to stay at home actually pose very little risk to public health.

Under a zero-tolerance elimination strategy, where the objective is to stamp out every chain of transmission as quickly as possible, it may make sense for as many people as possible to remain at home during a lockdown. Under a vigorous suppression strategy, with a high rate of vaccination among the wider population, there is little justification for requiring fully vaccinated people to isolate.

Until we reach our vaccination milestones, we need smarter lockdown rules that focus on the actual risks of transmission. That means a more permissive approach for people who are fully vaccinated. It also means trusting and enabling businesses to start to manage their own Covid risks.



Actions:

- Under Level 3 lockdown, allow fully vaccinated people to go to work, attend events, use gyms, or visit restaurants and bars showing proof of vaccination upon entry.
- Provide all businesses operating under these conditions with sufficient rapid antigen saliva tests free of charge to conduct regular twice-weekly tests of all staff.

2. Abolish regional boundaries

The economic cost of preventing travel within the country has been particularly hard on our regions. With Auckland in an extended lockdown, businesses in places like Rotorua, Napier and Queenstown have been cut off from the only remaining source of domestic tourism.

Already struggling supply chains have ground to a halt, delaying much needed building projects and causing extreme disruption to businesses up and down the country.

As our vaccination rates improve, we need to shift to a more sophisticated approach that reflects our new objective of vigorous suppression. That means no more restrictions on travel in and out of areas affected by public health measures, and greater freedom of movement for both people and goods around the country.

Actions:

- At the 70–75% vaccination milestone, all fully vaccinated people who have undertaken a rapid antigen test at the border, or can provide evidence of a negative daily test, will be allowed to cross any regional lockdown boundary.
- At the 85–90% vaccination milestone, all regional restrictions on travel will be abolished.

3. Lockdowns become a last resort

When elimination of Covid-19 was our objective, and vaccinations were not available, lockdowns were the only tool we had at our disposal. Now that elimination is no longer viable, we need to adjust our public health response accordingly.

Heavy restrictions on people interacting with one another or on normal business activity should only be used where absolutely necessary to slow the spread of Covid or buy time for pockets of low vaccination to be addressed.

Once vaccination rates reach 85–90%, we should move away from our reliance on lockdowns to control the spread of Covid and instead utilise the range of less economically damaging tools that are now available to us, including rapid testing, masking, surveillance testing, contact tracing, home isolation, tracer apps, and social distancing. Lockdowns should become a measure of absolute last resort.

Actions:

- At 85–90% move away from lockdowns in favour of less economically damaging public health measures like rapid testing, masking, surveillance testing, contact tracing, home isolation, tracer apps, and social distancing
- Make the use of lockdowns a last resort to protect our health system if other tools have failed to suppress an outbreak.

C. Reopen the border and reconnect to the world

1. Implement a traffic light travel system

Extreme border restrictions make sense under a zero-tolerance elimination strategy, where just one case slipping through undetected can lead to several weeks of lockdown at the cost of multiple billions of dollars to the economy.

But once we achieve a high rate of vaccination and elimination is no longer the goal, the airtight border strategy is no longer appropriate. One case arriving through the border switches from being a high impact, billion dollar event, to a comparatively marginal added risk in the context of 10–50 recorded community cases in any given day.

National has proposed a traffic light system for international travel once we achieve an 85–90% vaccination milestone. This would see travellers from medium risk (orange) countries needing to self-isolate rather than go through MIQ, while travellers from low risk (green) countries would bypass isolation requirements altogether. Both would be subject to pre-departure tests and rapid antigen testing on arrival.

Actions:

- Implement a traffic light system for travel to New Zealand once we achieve an 85–90% vaccination milestone.
- Allow fully vaccinated travellers with a negative pre-departure test arriving from low risk countries to enter New Zealand without needing to isolate.
- Allow fully vaccinated travellers with a negative pre-departure test arriving from medium risk countries to enter New Zealand and isolate at home for seven days.

2. Resume business travel, tourism and international education

The economic costs of our closed border have been immense. While many industries have been able to adapt to working remotely remarkably quickly, not everyone has had the option. Some industries, such as international education and tourism, have been almost entirely cut off from their main source of revenue for the past year and a half.

In the year to March 2020, international students spent \$4.2 billion in New Zealand and supported an estimated 50,000 jobs.¹¹ Overseas tourism was an even larger earner for New Zealand, generating \$17.5 billion in export receipts, or around \$50 million a day.

Before the pandemic, there were more than 230 Māori tourism businesses around the country employing over 11,000 people. The majority of these businesses were in either accommodation and food services, or the arts and recreation, both areas that have suffered immensely from the loss of international travellers.

Many iwi have invested heavily in tourism, but according to Westpac NZ, Ngāi Tahu have been forced to close 10 of their 11 tourism businesses, while Waikato-Tainui suffered an estimated \$11m in losses.¹²

"Tourism businesses can have a large impact on earnings and employment within communities, for example in Rotorua or Kaikōura, where they may be the lifeblood of those areas,"

- Peter Dolan, Stats NZ Business Statistics Senior Manager

Other industries have also suffered. The decision by Amazon to relocate filming for the Lord of the Rings, the most expensive television show in history, from New Zealand to the UK was prompted in large part by the inability to bring production crew into the country.

More generally, the inability for businesses to send staff overseas – to close deals, open new markets and connect with suppliers – will increasingly see New Zealand lose out on business as other countries around the world open up.



¹¹ www.stats.govt.nz/information-releases/tourism-satellite-account-year-ended-march-2020, and www.enz.govt.nz/assets/Factsheet-International-Education-in-New-Zealand.pdf

¹² www.westpac.co.nz/assets/About-us/sponsorship/The-Maori-economy-obstacles-and-opportunities-Westpac-NZ-Oct-2021.pdf

Actions:

- Allow international tourists from low and medium risk countries to enter New Zealand under the traffic light system protocols.
- Allow international students from low and medium risk countries to enter New Zealand under the traffic light system protocols.
- Allow business travel to resume under the traffic light system protocols.

3. Lift the RSE cap to support the agricultural sector and the Pacific

The Recognised Seasonal Employer (RSE) scheme allows the horticulture and viticulture industries to recruit workers from overseas for seasonal work when there are not enough New Zealand workers.

Severe restrictions on the number of RSE workers who could enter New Zealand as a result of Covid restrictions has meant substantial losses for some of our key export industries. It has also had a significant negative impact on the many communities across the Pacific who rely on remittances sent back from family members working in our fields.

The reopening of our border under a traffic light travel system means we can once again get this win-win scheme running at full speed. And to make up for lost time, National is proposing a temporary increase in the RSE cap to support our Pacific neighbours while helping our agriculture and horticulture sectors.

Action:

- Increase the cap on the number of workers who can come to New Zealand under the RSE scheme from 14,400 to 19,400 for the next two years.

4. Restore access to skilled and investor migrants

When New Zealand closed its border to non-citizens and permanent residents in March 2020, it was the only option available to the Government given Covid-19 was spreading rapidly and deaths were mounting overseas.

Losing access to skilled migrants overnight was a significant shock to our economy, but one that businesses accepted as a necessary short term cost to keep us safe. Unfortunately, through either incompetence or xenophobia, the Labour Government compounded this short-term disruption by failing to make any significant changes to enable desperately-needed skilled migrants to enter New Zealand.

The Government ignored the pleas of businesses, our healthcare sector, our primary industries, and the migrant community themselves, some of whom have now been separated from parents, partners and children for 18 months or longer. The Government's approach was not only callous, but economically harmful, as we know that skilled migration contributes to both increased productivity and higher wages.¹³

¹³ www.nber.org/digest/mar10/effect-immigration-productivity-evidence-us-states, <https://www.mbie.govt.nz/dmsdocument/2852-impact-immigration-labour-market-outcomes-pdf>

Perhaps most shockingly, not a single new ICU bed has been added to our public hospitals in the last 18 months because of the Government's stubborn opposition to bringing in specialist ICU nurses through our MIQ system. The Government has not implemented any policies to specifically target specialist ICU staff, or set aside any priority space in MIQ to fast track them into New Zealand.

The reopening of our border under a traffic light travel system will allow New Zealand to once again gain access to the best and brightest from overseas.

The Government has short-sightedly closed all pathways to residence until August 2022. Without a pathway to residence it will be impossible to attract highly skilled migrants looking for certainty about their future in the country they chose to move to. We must reopen pathways to residence immediately to be able to compete in the global market for the talent we need.

In addition, there is over \$2 billion worth of investor migrant applications sitting in the Immigration New Zealand system while New Zealand businesses are crying out for investment. The Government should amend the investment criteria immediately to give preference to investing in venture and private equity funds, or directly in businesses, to help to grow our start-ups and expand existing businesses.

Actions:

- Restore access to the immigration system for overseas applicants from low and medium risk countries.
- Urgently bring in the health care workers we need, including ICU nurses, to build resilience into our health system.
- Reinstate the Work to Residency pathway with a guarantee of processing their residence applications within six months.
- Restore the current Skilled Migrant Category (SMC) residency process, immediately restarting selections from the Expression of Interest (EOI) pool to give those arriving the ability to apply for residence with a guarantee of processing their residence applications within nine months.
- Instruct Immigration New Zealand to prioritise applications for work visa categories (Essential Skills, Work to Residency, Working Holiday) as well as variation of conditions for existing work visas, and reallocate resources to ensure processing times for these critical visas are cut in half.
- Allow split migrant families to apply for the 2021 Residence Visa in the priority intake in December 2021 to stop them leaving New Zealand.
- Instruct Immigration New Zealand to process the more than \$2 billion currently on the Investor Visa application waitlist.

Cost estimates

| Policy | Indicative cost (NZD million) |
|--|---|
| Reduce wage subsidy revenue loss criteria to 30% after eight weeks | \$20 – \$30 per week |
| Increase the wage subsidy after eight weeks | \$70 – \$80 per week |
| Continue wage subsidy at Delta Level 2 | \$70 – \$80 per week |
| Implement rental support | \$100 – \$180 per week |
| Extend loss carry-back scheme | ~\$100 per year |
| Implement small business tax rate of 17.5% | \$750 – \$800 per year |
| Lift the 10.5% income tax threshold to \$17,000 | ~\$560 per year |
| Allow instant new plant & equipment write-off up to \$150,000 and reinstate asset write-off threshold at \$5,000 | \$350–\$400 per year for five years (fiscally neutral in the long term) |
| Implement Small Business Mental Health programme | \$10 per year |
| Provide 'dine and discover' vouchers for hospitality, accommodation and tourism | ~\$170 one off |
| Contract event insurance scheme | ~\$5 upfront (repaid by participants) |

Notes:

Some of the proposals contained in this economic plan can be costed with reasonable certainty, for example the mental health programme. For these policies, we have provided an indicative estimate of the total cost.

For other policies, such as increasing wage subsidy support, the cost is dependent on unknown variables such as future alert level settings or revenue impacts. For these policies, we have provided an indicative estimate of the weekly cost.

Contributors



Hon Judith Collins
Leader of the Opposition
National Party
Spokesperson for
Technology, Artificial
Intelligence, Space, and
Pacific Peoples



Andrew Bayly
Shadow Treasurer, National
Party Spokesperson for
Revenue, Infrastructure and
Statistics



Hon Michael Woodhouse
National Party Spokesperson
for Finance



Hon Louise Upston
National Party Spokesperson
for Regional Economic
Development, Social
Development & Employment



Hon Todd McClay
National Party Spokesperson
for Economic Development,
Small Business, Tourism



Chris Bishop
National Party Spokesperson
for COVID-19 Response



Hon David Bennett
National Party Spokesperson
for Horticulture



Barbara Kuriger
National Party Spokesperson
for Agriculture



Hon Gerry Brownlee
Associate National Party
Spokesperson for Finance



Matt Doocey
National Party Spokesperson
for Mental Health



Harete Hipango
National Party
Spokesperson for Māori
Development, Māori Tourism



Erica Stanford
National Party Spokesperson
for Immigration



Christopher Luxon
National Party Spokesperson
for Research, Science &
Manufacturing



Simon Watts
Associate National Party
Spokesperson for Revenue



 **National**

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Leader of the Opposition, Parliament Buildings, Wellington.