



# METTLE

ISSUE EIGHTEEN

**METTLE, a collection of stories and interviews with influential New Zealand business leaders, curated by MinterEllisonRuddWatts.**



### **Welcome to issue 18 of Mettle.**

**At MinterEllisonRuddWatts, we seek to be inquisitive and incisive and to understand a full range of views, as we consider that informed debates contributes to a positive course forwards.**

**Mettle aims to apply all of these attributes equally. In seeking to inform your thinking by sharing the views and insights of New Zealand's leaders from a broad range of organisations, we never shy away from examining the tough questions as we look for practical ways to propel our country forward.**

**In this issue, we look into the challenges and uncertainties that confront us economically, asking people for their views on topics as varied as the potential for insolvency and how to avoid it, how to leapfrog the competition in a recession, and how the levers of policy might be pulled to support economic growth.**

**I hope you enjoy the views and ideas revealed in this issue of Mettle. By looking with clarity at the issues we face, asking critical questions, and then sharing insights, we seek in this publication and as a firm to help you to chart your own success.**

**Sarah Sinclair, Chair, MinterEllisonRuddWatts**



#### WHEN THE GOING GETS TOUGH, THE TOUGH GET GOING.

In this issue we look towards the gathering economic clouds. We ask some of the brightest minds to comment on New Zealand's current circumstances, uncovering what they see as the challenges that lie on the path ahead, and identifying the opportunities that should help us to advance successfully.

We asked some of New Zealand's senior investment banking leaders to identify how businesses might use a recession to progress company strategies and achieve greater success. Silvana Schenone and Sam Ricketts, Managing Directors and Co-Heads of Investment Banking at Jarden, UBS Country Head Chris Simcock, Craigs Investment Bank CEO Brett Shepherd, and Andrew Barclay, CEO of Goldman Sachs NZ, each offer their insights in this regard.

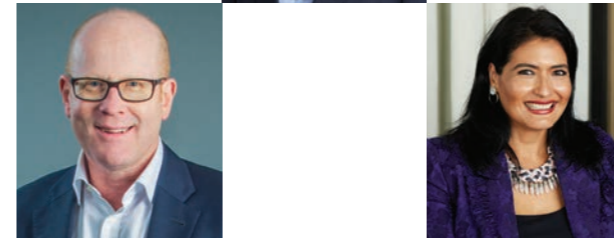
Two of New Zealand's most experienced corporate restructuring and business advisory practitioners, Brendon Gibson of Calibre Partners and Kare Johnston of McGrathNicol, guide us through the common warning signs business leaders should pay attention to if their business is under financial pressure, as well as the steps they recommend to avoid insolvency.

As we head towards the 2023 General Election in October, we ask Roger Partridge, Chair of The New Zealand Initiative, Simon Bridges, CEO of the Auckland Business Chamber, Josie Pagani, Executive Director of the Council for International Development, and Richard Wagstaff, President of the NZCTU to put forward the policies they would like to see from the next government.

Karen Silk, Assistant Governor of the Reserve Bank of New Zealand, also shares her leadership journey and how she views the decisions she is making to influence better outcomes for our country.

We hope this issue of Mettle provokes valuable thought.

Mark Forman, Partner – Corporate and Commercial



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A person in athletic wear is captured in the middle of a kettlebell swing. The person's legs are bent, and their arms are extended, holding a kettlebell. A cloud of dust or powder is kicked up around the person's hands, creating a dramatic, high-contrast scene. The lighting is focused on the person's legs and the kettlebell, while the background is dark and out of focus. The overall mood is one of intense physical effort and focus.

# LEAPFROGGING IN TOUGH TIMES

“You never want a serious crisis to go to waste.” This quote, which is often misappropriated to Winston Churchill, was in fact uttered in 2008 by the current United States ambassador to Japan, Rahm Emanuel, to a Wall Street Journal forum, when he was Chief of Staff to former US President Barack Obama.

Although we are thankfully nowhere near the dark days of 2008, the question of what opportunities exist for businesses to leapfrog their competition in recessionary times is nonetheless relevant in an undeniably challenging economic environment. Mettle asks six leaders of investment advisory firms how businesses should use a recession to advance their strategies and achieve greater success.

Most New Zealand companies are currently in good shape, but they still need to focus on the road ahead, says Brett Shepherd, Investment Banking CEO of Craigs Investment Partners.

“We are in a relatively unique environment of low unemployment and high inflation, which means that businesses will continue to primarily focus on two things. Firstly, they will ensure they have the right capital structure, and they will continue to improve their operational efficiency. Primarily, management teams will be focusing on operational efficiency. It’s about driving businesses harder, better, smarter, finding better ways to reduce logistics and third-party costs.

“At Craigs Investment Partners, our advice in the current environment centres on how we can help them access capital, both debt, equity and hybrids, what’s available both locally and globally as well as M&A opportunities that may arise to give them a relative advantage both in vertical or horizontal integration or consolidation. The debt capital market is very active, very strong, so the ability for corporates to access retail or wholesale debt is also very strong, which gives them greater flexibility and means they are not as dependent upon core bank debt.”

Chris Simcock, Country Head for UBS New Zealand since 2017, says that capital management also dominates conversations that UBS is having with clients, and particularly in light of three things.



**“Companies are taking a very close look at their capital structure, ensuring they have the financial flexibility to manage the current environment.”**

Chris Simcock, UBS



**“You need to ensure that you’re lean and agile, yet still taking into account what will happen next – resourcing your business to be resilient but also able to take advantage of opportunities.”**

Silvana Schenone, Jarden

“One, more uncertainty around the economic outlook and how that impacts on company revenues; two, cost inflation within businesses and how that is being managed; and three, the rapid change in the interest rate environment, which is likely to put pressure on some balance sheets. Companies are taking a very close look at their capital structure, ensuring they have the financial flexibility to manage the current environment.”

#### LOOKING BACKWARDS CAN HELP TO LEAPFROG AHEAD

Sam Ricketts, Managing Director, Co-Head of Investment Banking at Jarden New Zealand, says that the last true economic downturn in the context of capital management was in 2008.

“Those that raised capital early in 2008 got the best outcome for their shareholders. Therefore, companies are now taking proactive measures to ensure their capital position is strong and their cost base reflects the current environment.”

This means, says Silvana Schenone, also Managing Director, Co-Head of Investment Banking at Jarden New Zealand, that a feature of these capital management discussions between Jarden and its clients is the need to streamline the cost base to ensure businesses are efficient.



“We are saying to clients that at this point in the cycle you need to ensure that you’re lean and agile, yet still taking into account what will happen next – resourcing your business to be resilient but also able to take advantage of opportunities.”

We have seen professional services and technology firms trim their headcount, applying the realistic approach that is needed. Some people are reluctant to raise capital now, as it is not ideal timing, but the environment may get worse, so if they need it to ensure their balance sheet is healthy, they should not wait.”

This is why all of our interviewees are advising their clients to look ahead six to 12 months. Says Shepherd: “We are asking how long they think this will continue and what actions they should be taking now to protect the business if a downturn continues. Capital raising will not get easier, therefore consideration should be given to whether now is the time to act.”

#### HOW LONG WILL THIS TOUGHER ECONOMIC ENVIRONMENT LAST?

“I think we are like this for another 12 months,” says Shepherd.

“The Reserve Bank Governor has increased the OCR to 5.5% and indicated he does not see this decreasing until the end of 2024. Inflation continues and labour cost pressures will not abate. So, this will hinder real GDP growth.”

Andrew Barclay, Managing Director and Chief Executive at Goldman Sachs New Zealand, says that he expects New Zealand’s growth to remain ‘low but positive’ over 2023 and 2024.

“The magnitude of the downturn will be moderate, but the duration could be protracted. Core inflation will be more stubborn than the market currently anticipates and hence interest rates will remain higher for longer. The likelihood however is that we are still in the first half of this cycle. On the present inflation trajectory this may permit a more accommodative monetary policy by late 2024 or early 2025 followed by some improvement in GDP.”

**“The technology transition is continuing at pace, so it’s important not to hold back investment too much as you could risk standing still whilst others surpass you.”**

Justin Queale, Goldman Sachs

Simcock takes a similar view, saying that there is “no doubt that inflation is persistent. We are seeing the top end of the rate hikes cycle, but in a tight labour market and some continuing supply chain problems, the Government is trying to stimulate the economy, so inflation will be reasonably difficult to bring back down to within the target range. Although we are seeing a change in the slope of rate hikes, we think the macro environment will be challenging through this year and next, with some sort of normalisation towards the end of next year and into 2025.”

For this reason, Simcock says that M&A activity has been subdued over recent times.

“We are seeing some M&A activity for sure, but not to the levels of the last 24 months. The debt markets are more challenging now; raising debt at an attractive price creates a big hurdle. However, on the other hand companies are being forced to sell, or are taking advantage of an environment in which there is logic for consolidation, or if their competitors are challenged.”

#### WHAT SORT OF OPPORTUNITIES SHOULD BUSINESSES BE ALERT TO DURING THIS PERIOD?

Justin Queale, Head of Investment Banking at Goldman Sachs New Zealand, says that many New Zealand businesses are entering this period of tougher economic conditions from a position of strength, so this may well present a unique period to capitalise on.

“We suggest using this period to consider options to invest capital into organic and inorganic growth options to position the business to be even stronger coming out of this period. The technology transition is continuing at pace, so it’s important not to hold back investment too much as you could risk standing still whilst others surpass you. Balance sheet flexibility, cashflow discipline and having access to various forms of supportive capital will be key enablers of any investment strategy.”

**“International investors are considering whether New Zealand is a market they want to invest in, and if so, if now is the right time.”**

Brett Shepherd, Craigs Investment Partners



Simcock says that volatility creates opportunities and activity.

“For example, look at the consolidation we are seeing in the US with JP Morgan and the mid-tier banks. That will continue to happen. The Australian markets are also more conducive to this activity now than they were six to 12 months ago. There is lots of large equity capital market activity taking place in Australia.”

“We are seeing some positive signs in the equity markets in Australia that will flow through to New Zealand, so that theme will play out here too as companies decide to access the market for growth capital, or for primary issuance IPOs.”

This means, says Shepherd, that companies should consider acquisitions here in New Zealand and overseas.

“Companies will keep looking at acquisition opportunities, both vertically within the supply chain, or horizontally with competing businesses. In addition to looking within New Zealand, companies will be looking across into Australia for opportunities. Historically the success rate for New Zealand companies making acquisitions in Australia has not been outstanding, but there are now a number of examples of New Zealand companies expanding their core business into Australia in a targeted way, and that has been very successful.”

In Ricketts' view, takeover activity will increase.

"We are seeing situations of this sort in Australia: there is a large weight of capital out there and some values are very subdued, particularly in the property and retirement sectors. Some other areas are also trading materially below NTA. Those types of industries are at risk potentially."

Shepherd adds that there is a significant amount of capital out there internationally looking for the right assets and opportunities, although there are some outstanding questions about New Zealand as an investment destination.

"The availability of capital is not a question. What international investors are all doing is both an absolute and relative decision. In absolute terms, they are considering whether New Zealand is a market they want to invest in, and if so, is now the right time. They are weighing up an investment in New Zealand against other global options.

That means taking into account the merits of New Zealand's relatively stable legislative framework, strong economy, and the ability to grow and invest capital, against ongoing concerns about a creeping unpredictability of government policies and the risks around OIO are still a considerable detraction for global investors."

In his view, New Zealand continues to be a great place for investment.

"Capital wants the opportunity to invest here, both into the public markets and private markets. I think New Zealand corporates are relatively well positioned to get through the turmoil of the next 12 months and come out looking strong."

#### TIME TO THINK LATERALLY

Outside-the-box thinking can lead to benefits, says Schenone.

"We are here to provide the context and thinking to see opportunities our clients might not see. For example, you don't need to own all your assets to control them. There may be ways to think beyond traditional ways, such as taking a portfolio approach to assets; there is no one-size-fits-all approach. For instance, Spark took an opportunity at a time in the market when people were paying high prices for assets. It sold 70% of its towers at an attractive valuation. My view is to look at your portfolio of assets and ask if there's a better way to utilise your capital, operate your business and ultimately secure good shareholders' returns."

Queale encourages businesses to think about how the worlds of sport and business collide with increased frequency.

"Some of the most important lessons we employ in business today were learned from competing in sports. Some clear parallels exist for what businesses can focus on in this environment. They include retaining talent which is as important in business as sport, especially in this market; focusing on mastering the basics is essential; thinking clearly under pressure, being calm and making good decisions in those challenging moments; balancing the need to execute week by week, with the longer term strategic objective of investing, innovating, growing and evolving to be stronger in the future. And humility in leadership keeps you well-grounded with the team around you – as highlighted by Keven Mealamu and senior All Blacks who set a standard with their cleaning of the changing rooms after All Blacks games."

Another area boards need to consider carefully in an international investment environment is the evolving ESG focus and reporting requirement, says Simcock.


"ESG continues to become a greater focus across boards and management. We have seen that trend happening across Europe, and some companies in New Zealand have been taking action for a while. In the conversations we are having, it is becoming more and more pertinent to company thinking, and not just about reporting against criteria. It is about how people are running their businesses, creating internal targets around carbon emissions. Looking at recent weather events, people are worried about how the climate will continue to disrupt their businesses. It is not a 'nice to have' any longer. Investors continue to expect ESG consideration and activity, and it will only increase. From an operational business perspective, it is not about feeling good about yourself. It is becoming clearer and clearer that businesses need to think about how they operate in the context of a changing climate, thinking about their supply chains and the future cost and availability of insurance, among a myriad of business decisions."

Therefore, says Ricketts, it is important for boards in New Zealand companies to think about the changing external environment, and to look beyond our shores.

"New Zealand is at the bottom of the world. Thinking can be a bit internal, but ultimately, we are affected by external factors. Boards need to take a global geopolitical and macroeconomic view of the factors that might impact their businesses: for example, what is the play in China and Taiwan, or regarding fuel security in New Zealand now we do not have a refinery? Are these discussions happening in the boardroom?"

Simcock says that this means everything comes back to the core settings that apply within individual businesses: "You have to ensure you have the appropriate settings in your business regarding capital structures, the right settings to enable you to manage through difficult economic backdrop, as well as the financial flexibility to take advantage of the opportunities that arise."

Barclay says that it's great being able to draw perspectives from the many experienced people within our global investment banking network who are all supporting companies around the world navigate these similar challenges we are facing. One area Goldman Sachs is encouraging clients to focus on is the risk management within their businesses, capital structures and any strategic transactions. Or, as he puts it: "One of our colleagues at Goldman famously said, 'If you don't invest in risk management, it doesn't matter what business you're in, it's a risky business.' I think that remains very good advice for the period we are entering."

Schenone agrees and adds in closing: "It is a cycle. The key is to find the right balance between the best position to weather the storm by being lean and agile, and also being well placed to face a new cycle. Have a good look at where you are spending. Maybe there are some non-vanilla solutions, some hybrid instruments that can help you raise funds in different ways. It is time to think outside the box." 

**"One of our colleagues at Goldman famously said, 'If you don't invest in risk management, it doesn't matter what business you're in, it's a risky business.' I think that remains very good advice for the period we are entering."**

Andrew Barclay, Goldman Sachs





# PUTTING UP THE INSOLVENCY UMBRELLA

## AS ECONOMIC CLOUDS GATHER

The economic clouds continue to darken alongside the incessant rainstorms outside, and people are paying closer attention to the forecasts to understand what to do to keep dry.

As interest rates continue to rise, and many commentators describe a challenging economic outlook amid an extending inflationary cycle, one only has to look at the recent company collapses in the construction sector to see the struggle that businesses are facing. Times are, and certainly will be, tough for a large number of people, and there are clearly sectors in distress.

In this gloomy environment, Mettle asked leaders in corporate restructuring and business advisory Brendon Gibson at Calibre Partners and Kare Johnstone at McGrathNicol, how to put up an economic and financial umbrella to ward off a climate of insolvency.



### ARE WE SEEING GENUINE STRESS ACROSS THE BUSINESS COMMUNITY?

“There has been a lot of media noise regarding a surge of insolvencies, but it’s not necessarily correct,” says Kare Johnstone, Partner at McGrathNicol.

“When we look at liquidation appointments, we are 20% up on the quarter on a year-on-year basis, but we are about 30% down on pre-pandemic appointment levels.

“Generally, though, as with many things, we see a lag between what happens overseas and in New Zealand. If we look offshore, the UK is at a 13-year high for insolvency appointments and the US expects a 40% increase this year. Higher inflation and interest rates that are likely to double, or more than double, for many people as they come off fixed rate periods will put people and businesses under pressure, so we can expect trouble ahead.”

As company leaders consider the extent of that trouble on their customer demand, margins and costs, Calibre Partners Brendon Gibson says that some people haven’t been through an inflationary or interest rate cycle like we are seeing now.

“We’re going through quite a different paradigm. History shows us that when you are facing rising costs, while revenue is not rising, the cost of debt and the ability to pivot becomes narrower as time goes on. If you continue on the path, it becomes cumulative; if you sit there for six months and it continues, you can’t buy back that time. Then cashflow becomes the critical point, as does managing liquidity while making changes to your business or trying to weather a storm. That might involve as much as saying ‘we are going to hunker down’.

**“In the current environment, the breadth of scenario analysis you might need to do is different.”**

Brendon Gibson, Calibre Partners

“In the current environment, the breadth of scenario analysis you might need to do is different. If you are borrowing money at 9% compared to 3% your optionality is narrowed because the cost of debt and the availability of liquidity can get quite expensive, which then factors into your options and their costs. So be realistic and recognise what you are facing. My common theme is if you had been more realistic nine months earlier, your options today might be different now.”

Being realistic is a key point, says Gibson.

“This means asking yourselves: could a particular scenario happen? Planning for more pressure and what it means is necessary because monetary policy is pretty well set.

“Asset values might also come under pressure. This impacts when you need to source capital from the markets, or source liquidity from financiers. Having debates about that is necessary; no one can say they’re 100% right but being open to different ideas about how it might play out for your business is important.”



Agreeing with this analysis, Johnstone adds that the situation is going to be different for each business, although she says there is one consistent theme.

“The deeper a business owner has their head in the sand and is in denial, the harder it is to turn a business around. We find if a business owner is in denial, is not being open to professional advice from experts who operate and specialise in assisting businesses in distress, then their business continues to decline further, and might reach a point of no return, running out of time and money. So, we say ‘get your head out of the sand, recognise if your plans are not going to work. Put your hand up and say, ‘hey I need some help.’”

### WHAT ARE COMMON WARNING SIGNS PEOPLE SHOULD LOOK FOR?

Gibson points to three key factors.

“Firstly, what is the nature of your business? Is your risk around one customer or supplier? If so, then you need focus on that. Then look at sales, margins, debtor days or stock turn – these are key metrics. If they start to move in the wrong direction, you need to be alert. If you are running your business well, you will have timely, relevant information with dashboards to show trends. It’s about noticing these trends and saying ‘ok, we see it, and it is likely to continue like this, we should try to address it. How are we going to do that?’

“Information is key, that is understanding the parts of your business where you can see trends and using that information. Timely information is really important. Even small businesses should have key information available for a board or senior management to look at.”

Often the issue exists around the table rather than on a dashboard, says Johnstone.

“I hate to say it, but pretty much every company we are involved with that does collapse, management and governance are an issue; and a lack of robust financial information, and the monitoring of progress and performance are two more.

**“For financiers, another issue is understanding what the position is regarding the IRD and taxes. Insolvency can sometimes be preferable, depending on what assets are behind the business.”**

Kare Johnstone, McGrathNicol

“Also, for financiers, another issue is understanding what the position is regarding the IRD and taxes. Insolvency can sometimes be preferable, depending on what assets are behind the business. Financiers are asking the question ‘what is your current tax status?’ but actually look at tax statements. If the company has entered into a repayment scheme, they may consider that tax to be current and that repayment scheme may relate to taxes that have been outstanding for the last 12-24 months.”

Johnstone adds that warning signs can also come from a financier’s point of view.

“If there are temporary overdraft excesses, financiers should investigate if the facility should in fact be a term loan and why those temporary excesses are being required. Particularly as overdrafts by nature should be used to assist businesses with seasonal cashflow cycles rather than a more fixed term loan.”

Working capital is also something to monitor closely in the present climate, Johnstone adds.

“A lot of businesses think they understand their working capital requirements, but in these particularly challenging times it is vital to ensure you are on top of your working capital and understand the key drivers to your working capital. There are many components to a business’s working capital cycle, including such things as purchasing strategy, budgeting and forecasting, creditor, debtor and inventory cycles and supply chain. Often we see debtors on balance sheets that should have been written off some time ago, or over stated inventory due to ageing, which distorts the balance sheet and financial position of the company.”

Arrangements with your suppliers and customers are also worth looking at and regularly reviewing.

“Is there an opportunity to renegotiate terms with your key suppliers? Or what about your customers; when did you last perform a profitability analysis by business unit or SKU or product type. We often look at profitability on a customer-by-customer basis, or by product, to understand whether that product offering is profitable. If not, we can work alongside companies to renegotiate those customer contracts.”

Another area that Johnstone says McGrathNicol sees some appointments is around shareholder disputes.



**“Deal with it and get involved; it is far better to do that than to let insolvency happen to you”**

Brendon Gibson, Calibre Partners

“Over the past 5 years we have seen more disputes between shareholders, often the founder and the funder. Sometimes the best way to resolve these disputes is by a formal appointment, appointing an administrator, receiver, or liquidator to run a full sale process to get the best price out of it and to enable the business to continue as a going concern. Succession issues are also increasing where businesses thought they had a decent succession plan in place, often quite late into the game, at a time when an owner wants to step down or retire, they find out that the son or daughter doesn't want to take over the business.”

#### IF YOUR BUSINESS IS UNDER FINANCIAL PRESSURE, WHAT STEPS SHOULD YOU TAKE?

“If anyone is in any form of financial distress, they should reach out to someone for professional guidance,” says Johnstone.

“Financiers don't like surprises; it is always best to forewarn your financiers rather than give them a shock when they receive financial information and become aware that there's a covenant breach. If that is the case, come forward with a plan and timetable to get the business back into profitability and meeting covenants, which may involve engaging an independent adviser to help navigate the process.

**“Financiers don't like surprises; it is always best to forewarn your financiers rather than give them a shock when they receive financial information and become aware that there's a covenant breach.”**

Kare Johnstone, McGrathNicol

“Relationships with your key stakeholders are really critical, and it is important to maintain these relationships, especially in times of distress. You need to understand whether your accountant or lawyer has the expertise to help a business in distress, because it is a unique skillset. A restructuring adviser is not there to take over the role of the accountant; we're very results-driven and work to get the business out of crisis and to turn it around.”

Gibson is in complete agreement.

“The business' accountant is an important person to go to. If a professional accountant recognises that a brief is outside their sphere, they should say ‘we should go and talk to someone else to discuss what our options are, get the consultancy or restructuring tools to manage the situation.’”

However, Gibson is also clear that you shouldn't rely totally on the consultants or financiers to be the architect of the solution. Owners, directors and management are needed to be part of the solution.

“For anything that involves going to an external stakeholder, you should have a plan, a document that enables a discussion about a solution – not a list of problems. You need a clear plan that talks about the issues the business faces, the options available and a ‘we'd like your support on how to structure it' request.

“In a difficult cycle, you must manage your stakeholders, whether they are boards, staff, banks, creditors, customers, or suppliers. You need to consider them all carefully, because they will behave differently compared to a buoyant business cycle. It is about looking at your customers and suppliers and considering how they are impacted.

“People are a very important part of managing through difficult times. Everyone likes to be open, but in challenging times you can't always be completely open. However, you have to be professional and honest with people, and be prepared to have the hard conversations.”

#### FINAL GUIDANCE?

“My message would be ‘don't be afraid,’ says Gibson.

“Deal with it and get involved; it is far better to do that than to let insolvency happen to you. You won't always have control of the situation, but you'll have far more input the earlier you face into it. And there are good people out there with solutions, so don't be afraid to ask someone for advice.”

The final word goes to Johnstone.

“Cash is king. Make sure you have sufficient cash, provisions, and resources for times of stress. The reality is that when you go through distress it hits the P&L first, balance sheet and then cash. By the time it filters down that process and hits cash you have very limited options. It's important to always have a plan. What's your plan for these inflationary times?” <sup>M</sup>

## Comment from MinterEllisonRuddWatts

One thing to keep in mind is that it is usually only the restructuring deals that end in formal insolvency processes (like receivership, voluntary administration and liquidation) that make the press. What you don't hear about are the many successful restructuring deals that utilise the expertise of insolvency practitioners and specialist lawyers who deal with distress on a daily basis. Those deals are more common than you think and often result in distressed businesses being “turned around” through confidential consensual restructuring processes.

The key to success usually comes down to early engagement of the experts.



# ON THE HUSTINGS

## AHEAD OF THE GENERAL ELECTION

The early months in the run-up to a General Election can often feature a period of shadow boxing during which few of the main campaigning parties are willing to put forward their core policies, for fear of them being pinched – or, worse, improved – by their opponents.

With a few months to go until Kiwis go to the polls on 14 October, Mettle has given four exceptional leaders who hold a range of views across the political spectrum – Roger Partridge, Josie Pagani, Richard Wagstaff and Simon Bridges – the chance to step up to the hustings and take a different approach. In particular, we'd like to know what policies they would like to see as part of the election debate.

We asked each leader the same question: *What policies would you like to see ahead of the General Election in October?*



## ROGER PARTRIDGE

A Senior Fellow, Chair and a co-founder of The New Zealand Initiative, Roger Partridge was also a senior lawyer and chair of his firm for many years. He is also a chartered member of the Institute of Directors, a member of the University of Auckland Business School advisory board, a member of the editorial board of the New Zealand Law Review and a member of the Mont Pelerin Society.

These are the core policies I'd like to see promoted at the election:

### BEAT INFLATION

This is the most immediate challenge the country faces. I would like to see politicians commit to narrowing the Reserve Bank's policy targets so that its sole monetary policy focus is price stability, and narrowing the inflation target to zero to two per cent from zero to three per cent. That would be a clear signal that an incoming government is serious about price stability, which is the key to solving the cost-of-living crisis. It's also likely to make the Reserve Bank's job easier, as there is a good deal of academic research suggesting it is easier for central banks to control inflation when markets believe they are committed to that goal.

### EDUCATION REFORM

**“Our most important long-term challenge is education. We won't have a highly productive, high-wage workforce unless we have a well-educated workforce.”**

Roger Partridge, The New Zealand Initiative

Our most important long-term challenge is education. We won't have a highly productive, high-wage workforce unless we have a well-educated workforce. Something is rotten at the core of New Zealand's school system, with a large proportion – close to 40% – of school leavers with NCEA level 2 functionally illiterate and innumerate.

I'd like to see politicians commit to fundamental education reform, sorting out our flawed NCEA assessment system, re-introducing school choice, and ensuring education policy is evidence-based.

### HOUSING AFFORDABILITY

Unaffordable housing is a key cause of poverty. It also hampers labour market flexibility and productivity growth by locking workers out of the country's biggest jobs markets. You can't buy an affordable house if sections are not affordable, so I'd like to see politicians commit to pro-growth planning reform that respects the rights of property owners while committing to change the way local government is funded so that it faces similar incentives to central government to facilitate growth.

### RESTORING IMMIGRATION SETTINGS TO PRE-PANDEMIC LEVELS

Immigration settings are a big contributor to the cost-of-living crisis, with labour shortages to supply constraints. Immigration policy is one of Government's biggest levers for improving output and it needs to be pulled urgently. I'd like to see our next government commit to restoring immigration settings to their pre-pandemic levels, and to commit resources to resuscitating New Zealand's tarnished brand as a destination for talented migrants.

### ONE CORE MESSAGE FOR CAMPAIGNING PARTIES

The status quo cannot continue. We are witnessing an unravelling in the quality of public services, including law and order, education, and the health system – and an erosion of quality in our public services. Fundamental changes are needed to restore New Zealanders' prosperity and enable the country to achieve its potential.



**“We need to bring creative tension back into the policy debate.”**

Josie Pagani, Council for International Development

## JOSIE PAGANI

Josie Pagani has been the Executive Director of the Council for International Development for the last 6 years. Working across aid, politics, trade and media, Josie has also worked as a political adviser to governments, ministers and Prime Ministers in New Zealand and internationally. She is also involved in progressive networks and think tanks in the UK and globally, and is the Chair of Fairtrade Australia and New Zealand.

The most important thing I'd say is reform the public sector; the mechanisms in and around government to enable debate. Without that, you don't have good policy.

There is such a culture of conformity in politics. We need to bring creative tension back into the policy debate, and that starts with a culture change in our risk-averse political parties. I listened when Rob Campbell talked about the political culture in Wellington looking inwards towards power rather than outwards towards people, communities and business: a focus on not embarrassing ministers rather than debating uncomfortable policy options.

### CREATE MORE PARLIAMENTARY COMMISSIONS

If you look at where the most robust challenging advice has come from in terms of policy, it is from the commissions such as for the environment and productivity, or the Auditor General. All are independent bodies answerable to Parliament,

not ministers. They are free to come up with politically uncomfortable recommendations. For example, Simon Upton has talked about a policy of 'barcode funding'; if funding is dedicated to climate change for example, then we should apply a barcode to follow it, and that way we can hold decision-makers accountable for spending in the right places.

### BEEFING UP THE SELECT COMMITTEES

We should elevate Select Committees to make them a status career choice for politicians, so people come into Parliament determined to be a legislator, not necessarily get into Cabinet. Make it a privilege to be a Chair of a Select Committee for a long time, like they do in the US system. James Shaw would probably have been more effective as a legislator, chairing the Environment Select Committee for 10 years, than on the fringes of Cabinet.

### WE NEED AN INFRASTRUCTURE BANK

I don't think we have the right models for infrastructure right now; I'd like to see a policy for an infrastructure bank that will fund the capital cost of projects.

I'd also like to see a political party with a muscular industrial plan. We have been asleep at the wheel, witnessing the de-industrialisation of New Zealand. The unintended consequences of a ban on oil and gas are the potential exit of steel, aluminium and timber. If we want trade policy that focuses on our ability to amplify our digital financial services for example, where is the plan? You can't just get rid of high-paying working-class jobs in the old industries and expect new jobs and sectors to emerge without a plan we can all see.

### POLICIES AROUND REGIONAL DEVELOPMENT

Some things that have been done in the past in creating centres of excellence around fish or food are worth emulating. Quick wins could include moving part of a design school from one of the universities to the east coast, for example Hawkes Bay. If Rocket Lab can set up a space station in the Mahia Peninsula, surely we can do better on the east coast and in the north with forestry.

### ONE CORE MESSAGE FOR CAMPAIGNING PARTIES

Take some risks and make ourselves uncomfortable. We should be prepared to have difficult conversations across the political spectrum based on evidence and what works and what doesn't. Start listening to the heretics, because they have a point'. The difficult conversations they are making us have are important.



## RICHARD WAGSTAFF

Richard Wagstaff was elected President of the New Zealand Council of Trade Unions (NZCTU) in 2015. Beginning work as a full-time paid union official in 1988, he has also served as National Secretary of the New Zealand Public Service Association. He is currently a member of the International Labour Organisation Governing Body and a co-chair of the New Zealand Tripartite Future of Work Group.

A number of policies that profoundly affect working people are at risk with a change of Government. These policies are what we will be fighting for.

### FAIR PAY AGREEMENTS

Our biggest priority is transforming the entire employment relations framework. We are achieving this by embedding Fair Pay Agreements (FPA), which will stop the race to the bottom for wages and conditions. FPAs will also help develop a much more sophisticated approach to industry policy through the advancement of industry transformation plans.

**“We also want to keep the ball rolling with pay equity and pay transparency, not just for women but disadvantaged groups.”**

Richard Wagstaff, NZCTU

We also want to keep the ball rolling with pay equity and pay transparency, not just for women but all disadvantaged groups. We are keen to see further progress on contractor reform.

Good employment policy, health and safety, training and development are all good business practices, and are an investment in our future.

We are all in this together, and working people deserve a Government that shares those values.

### TAX REFORM

New Zealand’s tax system needs to be re-examined to ensure everyone is paying their fair share. Recent reports from IRD shows our current system is not working. Taxes are crucial for developing better infrastructure, and safeguarding people’s access to schools and hospitals. We are very keen for a government that implements evidence-based policy, and can deliver a tax system that benefits everyone.

If you look around the world, you will see countries that we like to compare ourselves to have more progressive tax policies. Countries with these policies benefit from much higher productivity, better wages, and larger, more successful businesses.

### AFFORDABLE WATER REFORM

New Zealand cannot function without water infrastructure, an area in desperate need of reform. We need a government that understands that it needs to play an active role in guaranteeing reliable infrastructure. Opposition to this common sense and necessary policy is deeply unimaginative – access to water should never be used as a political football.

Good business, social and cultural practice, and good government are all part of the same stable. We’re moving forward as a nation, maturing in understanding Te Tiriti, our relationship with tangata whenua, and how to advance as a nation in a way that is consistent with our obligations to our people. We need to build on this progress, not take a giant step backwards.

### ONE CORE MESSAGE FOR CAMPAIGNING PARTIES

Let’s keep up the momentum towards a fairer and just New Zealand.

## SIMON BRIDGES

Simon Bridges is the CEO of the Auckland Business Chamber, a role he took up in July 2022. A lawyer turned MP for Tauranga, Simon held a raft of senior responsibilities in New Zealand politics, including as Leader of the National Party and the Opposition.

I feel that our politicians should take some risks and give us a sense of their plans. Personally, I’d like to see some radicalism, but I won’t hold my breath.

The main things I’d like to see are significant plans around ensuring we keep up in the global battle for talent.

### A HIGHER WAGE AND MORE PRODUCTIVE ECONOMY

We are increasingly unflattered when we look across at our big ‘cousin’. It is a bigger, stronger economy. It has more interesting and dynamic cities. It has a higher standard of living and higher wages. The gap is growing. It is a very significant problem for New Zealand that our best and brightest, and more widely, our truck drivers and mechanics, are leaving.

I want to see politicians and parties that will address this significant long-term issue for New Zealand, giving us a clear sense of how they will create a higher wage and more productive economy.

### AVOID A CAPITAL GAINS TAX

Chris Hipkins is smart and seasoned, and he is serious about winning. If you’re all those things, you won’t do it. The problem with trying to hit wealth is that the properly wealthy will look after themselves.

It saddens me that the centre-right won’t re-examine the 39c in the dollar tax rate, because I think those settings do make a difference in the attractiveness of a country. When you look at Ireland, you see that really low tax regimes gee up an economy. New Zealand needs something like that.

### WE NEED AN OPTIMISTIC RESET

We need something to reset and get us back in an optimistic and confident frame of mind. There is room for some creativity, some out-of-the-box thinking that we are not getting at the moment. The Prime Minister is reading the room right with his no frills, ‘back to basics’ language, but we also need to create some of the excitement, momentum and confidence that SMEs desperately need at the moment.

**“We need something to reset and get us back in an optimistic and confident frame of mind.”**

Simon Bridges, Auckland Business Chamber

### NEW ZEALAND NEEDS AUCKLAND TO SUCCEED

This is very simplistic, but I have in my head a couple of things that Auckland requires: on one side there is the crime piece, anti-social behaviour, the need for policing and deterrence. We need creative thinking on that. And secondly, infrastructure is vital: the truth is that Aucklanders want a bit of efficiency, to get somewhere for certain in not too long a time period.

I am a fan of a second harbour crossing. I can’t make my mind up about Auckland Light Rail, but there is a whole bunch of other things that could improve the efficiency of the transport network that we need to think about.

Auckland is a great city but it needs to get its mojo back. I always talk about three issues: One is we need more people throughout the city and in the CBD. There have been some good signs, but if we want a safer, more vibrant and dynamic place that young people want to be in then we need international tourists, students and workers back. Business has a role to play in that as well.

Auckland can also be the Australasian hub we can be proud of around screen, digital technologies and other creative endeavours. There is no reason why our screen sector couldn’t be a \$3 billion per year sector, or the gaming sector for that matter.

Finally, in recent years we have perhaps dropped the ball around big events for the city. Questions about Eden Park and a downtown stadium, they are really important; they need good strategies. I am sick of seeing all the good things in Melbourne and Sydney. Auckland needs some of that.

### ONE CORE MESSAGE FOR CAMPAIGNING PARTIES

New Zealand is worth fighting for. We can’t be complacent about where things are at. We are in a global battle, and we need to fight for our place. 🇳🇿



# ALL THINGS MONEY

**WITH KAREN SILK, RESERVE BANK OF NEW ZEALAND,  
TE PŪTEA MATUA**

In January 2022, the Reserve Bank of New Zealand (RBNZ) announced the appointment of Karen Silk as the Assistant Governor / General Manager of Economics, Financial Markets and Banking. The role, which she took up in May 2022, means that Silk is one of eight Executive Team members at the Reserve Bank, plus a member of the Monetary Policy Committee.

A highly respected leader across retail and wholesale banking, wealth management, financial market infrastructure and payment systems, Silk has also brought considerable experience in climate change and risk management to her role. Her passion for building sustainable business with both economic and social outcomes led to her appointments as Chair of the joint Sustainable Business Council and Business NZ Climate Leadership Initiative in 2015, and Co-Chair of the NZ Sustainable Finance Forum in 2019.

Mettle spoke to Silk about the road she has travelled to this point, and what she sees as her key priorities in her current role.





**“It’s time to start giving back, and I believe you need to do that in the place that you love. For me that’s New Zealand.”**

Karen Silk, RBNZ

I was born and raised in Whanganui. Along with my three siblings, I benefited from being part of a large and close extended family. My grandmother raised 10 children through the Great Depression and a world war, showing great strength and courage. Growing up, we were taught to respect that strength, along with her values of fairness and equity. Each of these have played a part in my career and continue to resonate strongly with me today.

After completing my secondary schooling at Whanganui High School I attended Canterbury University, where I met my husband David and completed a Bachelor of Commerce.

#### **BECOMING A BANKER WAS NEVER A BURNING AMBITION**

I joined Westpac’s graduate programme after I tagged along with a friend to their recruitment presentation. The pitch was good, a large organisation with many and varied career paths – it all sounded good to someone who didn’t have a firm view on what they wanted to do.

**“You had to be strong and courageous to work in there, particularly if you were a woman, and that suited my character.”**

Karen Silk, RBNZ

That changed when I joined the financial markets team. Here was a business that had pace and energy and in many respects was breaking new ground in the late eighties; it really captured my interest. You had to be strong and courageous to work in there, particularly if you were a woman, and that suited my character.

Success there led to roles working across most facets of institutional banking over the next 15 years, initially at Westpac, then Credit Agricole Indosuez, before returning to Westpac again. During that period my two amazing children were born, and like all parents David and I juggled the challenges of building careers while caring for them, supported by family.

#### **MOVING TO AUSTRALIA**

A diversion from institutional banking to set up Westpac’s Agribusiness unit in the early 2000s was followed by a move to Westpac in Australia. Spending some time at Westpac Group was always on the agenda, and over the next 6 years I led their Corporate and Institutional Property teams, through the GFC, before becoming Global Head of Debt for Westpac Institutional Bank.

Experience gained in the mid-1990s on corporate workouts in New Zealand proved extremely useful in my initial years, with many Australian bankers having never experienced a significant downturn – at the time Australia had not experienced a recession in over 17 years! During the latter period, I gained exposure to larger and more complex markets, leading teams in not only Australia and New Zealand but also Singapore, the US, and UK. It was also in this period that I had my first taste of the emerging field of sustainable finance, something that would prove invaluable a few years on.

#### MOVING BACK TO NEW ZEALAND

New Zealand has always held a strong pull for me, so when the opportunity arose to lead the Institutional team at Westpac back in New Zealand, it was time for the family to move home. I recall Gail Kelly, Westpac Group CEO at the time, asking me why I was doing it. My response was, “it’s time to start giving back, and I believe you need to do that in the place that you love. For me that’s New Zealand”. She couldn’t argue with that.

Over the next few years my institutional remit at Westpac expanded to include business banking, Westpac Insurance and BT Funds Management. In 2018, I pivoted to leading the newly created Experience Hub, a multi-functional unit responsible for the design and delivery of products and services for Westpac customers. Data, technology, CX/UX design and agile operating methods became my world, and once again transformation was a key component of my role.

In 2020, the Sustainable Finance Forum’s 2030 Roadmap for Action was released – a plan for a more equitable, sustainable and inclusive financial system in Aotearoa New Zealand. As Co-Chair of the Forum, I’d had the privilege of working collaboratively with more than 200 stakeholders over 2.5 years to develop a set of recommendations that we believed would support a shift in the mindset of market participants, and create the conditions for greater recognition of environmental and societal impacts in financing and investment activity.

Whilst there were sceptics and challengers to this work at the time, we know that pool is shrinking. This programme of work and the gradual implementation of its recommendations is now supporting New Zealand’s reputation and aligning us with other international markets who are rapidly embracing similar recommendations. I’m immensely proud of the work we delivered and the role it has played in the development of sustainable finance and investment in New Zealand.

#### MOVING TO THE RBNZ

After 30+ years of working in the private sector, I was approached to join the RBNZ. Again, this wasn’t something I had contemplated before but I was attracted to applying what I had learnt over the years to matters that have significant influence and impact across not only the financial system but the New Zealand economy as a whole. For me this was taking giving back to a whole new level.

There is no doubt that I have landed in the role at a time when New Zealand is facing some significant challenges, and there is immense pressure to help navigate the economy back to a more sustainable footing following the advent and effects of responding to Covid-19. As Assistant Governor, Economics, Financial Markets and Banking, my focus is on all things money. Its form, how it flows through the economy and the way it influences the economic wellbeing and prosperity for all in New Zealand. This role, the people I work with and those that I lead, are all deeply committed and highly cognisant of the importance and impact of what they do. I have no doubts about their level of commitment, nor their strong desire to do their best to get the outcomes we are all seeking.

I’m often asked how different this role is to prior ones, and my answer is in many ways it’s not. I’m still considering many of the same economic and organisational issues that I have had to consider through my whole time in banking. The lens, however, that I’m asked to apply today is different. Previously my assessment was premised on the impacts to a single organisation or to those stakeholders directly engaged with that organisation. Today I’m often required to consider impacts and make decisions that will have impacts across the whole economy and those within it. The consequences of the decisions are invariably greater and so the time taken to make them often needs to be longer and definitely well considered. When you are sitting on the other side of the fence that’s not always so easy to understand, I definitely have a greater appreciation now!

Trust is the foundation of great relationships. If you want to influence outcomes then you need to build that. Some of the best leaders I have worked with were great at being able to place themselves in others’ shoes, see issues from others’ perspectives, and develop greater trust by doing so.

I have a pretty unique opportunity to do that in this role, having worked on both sides of the fence. If I can influence better outcomes by using that experience and facilitating a greater appreciation of the many stakeholders perspectives, then I will have gone a long way to doing my job. 