Rebuild New Zealand

31 July 2020

pwc

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PwC's special report *Rebuild New Zealand: June 2020* celebrated New Zealand's success in protecting public health from the global pandemic; but also addressed the longer term challenge of rebuilding our economy. We remain optimistic that New Zealand is well placed to see an economic recovery that is quicker and stronger than many other countries, in part because we have so far prevented the health crisis from hitting our shores. However, there is no doubting the enormous toll on our economy from the resulting suspension of business and the fact that the livelihoods of many have been drastically affected.

Although it is only seven weeks since the June 2020 report was published, much has happened, with the nation's mood having cycled through bouts of optimism and pessimism, depending on what is happening both domestically and internationally. There has also been considerable change on the political front, all less than two months out from a general election.

New Zealand is now in a somewhat paradoxical situation, having successfully contained the spread of COVID-19 domestically, with every prospect of retaining this treasured status so long as our borders remain closed and appropriately managed. On the other hand, continuing international isolation is likely to wreak havoc on the economy, not just for those sectors most directly affected such as tourism and international education.

Over time, all aspects of our economy and social environment will be impacted by New Zealand's continued isolation and by the dramatic, but as yet uncertain, impact of the virus on the global economy.

However, if we look to relax border restrictions, then there is an inevitable risk that COVID-19 will reenter the country. While there is growing optimism that a vaccine may be available sooner rather than later, careful consideration of our options and planning for alternative scenarios is needed as there are consequences and risks whichever path we take.

We propose that our ongoing response to COVID-19 cannot rely solely on border restrictions and the quarantining of all incoming arrivals. A range of other precautions, including using technology to assist both with managing isolation requirements and ongoing rapid testing and tracing need to be set up.

In this report, we update our views on several sectors most directly impacted by the economic situation and point to areas that we must focus on as a nation.

As part of this, we include stories of Kiwi businesses that have quickly adapted to a new operating environment, they shine an important light on how different enterprises are addressing the very real challenges across a range of fronts in these uncertain times.

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What has happened over the last seven weeks?

Rebuild New Zealand: June 2020 was released just as New Zealand moved to Alert Level 1, when the Prime Minister reported New Zealand no longer had any COVID-19 cases and the nation congratulated itself on a collective response to combating COVID-19.

We enjoyed that happy state for approximately two further weeks before the reality of living among a global pandemic became apparent, with the arrival of imported COVID-19 cases at our borders. Fortunately, only a trickle of such cases has occurred, all of which appear to have been picked up through the managed isolation (quarantine) now in place.

- As at 28 July, over 31,000 returning New Zealand citizens and permanent residents had passed through managed isolation. There have been 83 confirmed cases identified at managed isolation and quarantine facilities and 21 active cases contained within these facilities.
- In Australia there have been further serious outbreaks of COVID-19, especially in Victoria, which has reported more than 200 new cases each day for the 10 days to 28 July and now has more than 4,700 active cases. Many of these cases have stemmed from community transmission rather than being linked back to known sources or clusters. There are also concerning case numbers emerging in New South Wales.

Regardless of publicity over eight instances of people escaping from managed isolation in New Zealand, by and large there has been compliance, which ensured that the rest of the country has remained COVID-19 free.

On 29 July, the Government introduced legislation that will allow charging for managed isolation and quarantine facilities.

The Bill proposes to only charge New Zealanders who enter temporarily, or who leave New Zealand, after the regulations come into force. Temporary visa holders will have to pay unless they were ordinarily resident in New Zealand before the border closure, and left before the border closure. The Government is looking for agreement from Cabinet to a charging structure of $3100 per person in a room, $950 for each additional adult and $475 for each additional child sharing the room. There will also be mechanisms to allow charges to be waived in full or in part. It is expected that the legislation will be passed before the end of the current parliamentary term.

The Government's announcement about a charging regime for returnees does not come as a surprise, and is similar in concept and quantum to what has already been introduced in a number of Australian states. According to the Government, the system is intended to be fair on arrivals and not act as a barrier for people returning to New Zealand, especially for those who might already be experiencing financial stress. However, the proposed regime with its various rules and exemptions will create anomalies and could prove controversial. For example, a business owner who has to travel overseas to meet a new customer would be required to pay the charge, whereas someone with permanent residency status who has been away for ten years and paid no taxes in New Zealand over that time would not be required to pay.

Meanwhile, the Government has set aside a total of $479 million to cover the costs of managed isolation facilities until the end of the year.

Seven weeks at Alert Level 1 has largely seen domestic life and activities across commercial, sporting and cultural spheres return to normal, as evident from the record crowds turning out to the relaunched Super Rugby Aotearoa competition. During this time, the nation's mood has cycled through a range of emotions, from burgeoning optimism in mid-June, on the back of expectations that the Trans-Tasman bubble might happen reasonably soon, through to varying degrees of despondency as people realised that we are in for a long haul when it comes to the recovery.

The Trans-Tasman bubble currently looks like a distant prospect given COVID-19 has flared up in Australia, and any reopening of our borders to the rest of the world is still a long time away.

There continues to be a pervasive uncertainty surrounding key influences on our economic recovery, notably what will be the impact domestically when the Wage Subsidy Scheme finishes, the extent of the global recession, our connections with the rest of the world, especially Australia as our nearest neighbour and most significant trading partner, and of course, the forthcoming election.

New Zealand's domestic situation is in stark contrast to most other countries that are still grappling with widespread COVID-19 outbreaks and community transmission, with varying degrees of restrictions impacting people's lives and businesses.

A global context

In the United States, while the President attempts to mount a re-election campaign and hold mass rallies, many US states such as Florida continue to experience increasing case numbers with the pandemic being virtually out of control in some areas. The US is grappling with unprecedented levels of budget deficit, with a shortfall of US$864 billion for the month of June alone. At some point the US will have to start living within its means, which poses an enormous challenge. US politicians continue to be deadlocked on spending plans, while the US federal system has proved to be a huge impediment to any coordinated national response plan.

European countries, including Italy and Spain, that suffered extreme health crises this year with hospitals overrun, and which imposed stringent lockdown restrictions, have now relaxed the rules and are allowing businesses to reopen for the busy summer tourist season. Numbers of cases of COVID-19 rose sharply in Spain, with nearly 1,000 infections reported in the two days prior to the UK Government swiftly removing the country from its list of safe travel destinations on 25 July. British holidaymakers returning from Spain must now self isolate for two weeks upon their return home.

In contrast to the US, the EU has initiated a €750 billion rebuild funding plan, although there continues to be debate as to what the individual country contributions will be. It is notable that the plan incorporates specific emphasis on environmental factors, which has been absent from New Zealand's response to date.

Other regions are also at very different stages in terms of their response to COVID-19. The pandemic is wreaking havoc in South America and Africa where it is also likely that reported case numbers are grossly understated. On the other hand, China, where the COVID-19 outbreak first occurred, has recently announced year-on-year economic growth, and has a much more positive outlook than most commentators would have picked seven weeks ago.

Further Government support measures have been announced

- The second round of Wage Subsidy Scheme support was made available for many businesses until the end of August. The Government had stated there will be no further extension to the scheme, with applications due to close on 1 September, and final payments due at the end of November. However, on 29 July, the Minister of Finance indicated that if community transmission did occur, and the country or certain regions were to return to Alert Level 3 or 4, then the Wage Subsidy Scheme may be reintroduced.
- The Government extended the Small Business Cashflow (Loan) Scheme (SBCS) (providing loans of up to $100,000 for businesses with 50 or fewer full-time employees) until the end of the year.
- In Budget 2020, a range of spending initiatives were announced within the Government's total COVID-19 response and recovery funding envelope of $50 billion (COVID-19 Response and Recovery Fund). This included COVID-19-related spending that had already been announced, so at Budget time, there was $20.2 billion left unspent.
- The Government has since announced a number of initiatives using the remaining funding including:
  - the $570 million package for COVID-19 Income Relief Payments;
  - an extra $700 million for the Wage Subsidy Scheme extension; and
  - over $300 million on the ongoing health response including $150 million for personal protective equipment (PPE).
- At the beginning of July, over $17 billion remained in the Fund, however the Government has stated it will make further announcements in the coming weeks on a range of initiatives costing approximately $3 billion. This includes $760 million allocated to Three Waters reform, and a $51.6 million recovery and investment plan for the international education sector.
- The Minister of Finance said the remaining $14 billion of the COVID-19 Response and Recovery Fund is set aside as a contingency for use should New Zealand experience a second wave of the virus.
- In addition to infrastructure funding assistance outlined above, the Government passed legislation to fast-track the consenting process for 17 initial significant infrastructure projects designed to help stimulate the economy, with the option to add others. These major projects are expected to deliver public or regional benefit, create jobs, and have construction works underway to provide further stimulus to the economy. The legislation should mean shovels in the ground sooner than under the existing approach to consenting.

Making sense of the numbers

Other measures continue to cushion the economy from the full impact of the COVID-19-induced recession. Banks have allowed borrowers to suspend mortgage principal and interest payments, generally for six months, with many of these expiring around the end of September. Households that have depleted income, possibly as a result of either redundancy or an income reduction, may face additional cash flow strain when they are required to resume their debt-servicing obligations.

There continues to be mixed views regarding the likely magnitude of the adverse impact on New Zealand's macroeconomic indicators such as GDP and unemployment. When the Government announced its Budget on 14 May 2020, the consensus was that GDP would drop by around 7-8% and unemployment would peak at close to 10%.

The GDP figures for the June 2020 quarter, which will capture the sharp economic contraction caused by the lockdown in April, are not due to be released until 17 September, two days before the election.

However, Treasury has published a new economic index, the NZ Activity Index (NZAC), which summarises eight monthly indicators of economic activity to obtain an accelerated gauge on movements in the economy.

The first edition of the index showed that activity in April 2020 was 19% down on the same month last year and, even though activity bounced back in May, it still remained 6.5% down relative to May 2019. The latest edition of the NZAC confirms a continuing recovery in June though activity remained slightly below 2019 levels.

While not directly related to COVID-19, the potential closure of major New Zealand industrial operations, such as the Tiwai Point Aluminium Smelter in Southland, and possibly the Glenbrook Steel Mill and Marsden Point Oil Refinery, as well as the cessation of offshore oil and gas exploration in Taranaki, will all result in additional job losses and impact the recovery.

New Zealand's paradox

Having virtually eliminated COVID-19 domestically, New Zealand finds itself in something of a paradox.

There are virtually no restrictions on day-to-day life with our borders closed, but this is with the knowledge that any reopening could result in new COVID-19 cases, cancelling out the hard-won battle to eliminate the virus.

There has been much debate about the Government's response to the COVID-19 pandemic and the precise meaning and implications of 'elimination' as a strategy. This has been explained in the paper *Re-engaging New Zealand with the World*, published earlier this month and authored by Sir Peter Gluckman, the Rt Hon. Helen Clark and Rob Fyfe. They describe the discussion around the meaning of elimination in the following terms:

"To many epidemiologists, elimination means the reduction to zero of an infection in a defined geographical area. But as epidemiologist Sir David Skegg noted in his advice to the Epidemic Response Committee before lockdown was imposed, many others in the epidemiological community pragmatically define elimination as the reduction of a case-transmission to a predetermined very low level. These distinctions may appear subtle, but they become critical in our collective thinking about the path ahead. The former creates an expectation of keeping the virus out absolutely and indefinitely and that even one case coming in could be seen as a failure. The latter accepts that cases will occur and that processes need to be in place to ensure community spread is not established. Given the nature of the virus, the former definition is impossible to sustain unless we are prepared to continue aggressive and foolproof testing and quarantine at the border for a long time."

New Zealand is at a crossroads. On the one hand we could continue as we are, cocooned within our natural ocean borders and isolating all incoming arrivals to prevent further domestic COVID-19 cases. But, the challenge is the

growing economic and social costs that stem from our isolation, especially given our domestic economy is relatively small and we have always relied on open borders and free movement of people and capital.

Alternatively, we could cautiously embark on a path to reopen borders with selected countries, while instigating additional safety measures to minimise the risk of COVID-19 returning to the country. Even with a range of precautionary measures, it is unlikely that the risk will be eliminated, meaning this course of action will almost certainly see a return of COVID-19 at some point.

We can wait for a vaccine before considering any wide-scale reopening of borders. There are encouraging early signs from some of the trials taking place internationally, although it could still be some time before an effective vaccine exists and is widely available.

There are a range of opinions on which path New Zealand should follow, and these reflect the different risk tolerances that individuals have. For example, young people, while certainly susceptible to catching COVID-19, are much less likely to die from it, and therefore may be more willing to accept greater risk, whereas the virus is far more likely to be fatal for older people, who may be more risk averse.

There is little doubt that our political leaders, and New Zealand as a whole, are still coming to terms with this paradoxical situation.

> “New Zealand is at a crossroads. On the one hand we could continue as we are... But, the challenge is the growing economic and social costs that stem from our isolation...

For the time being, the health battle is won, but it is clear the longer term war against COVID-19 is far from over. Businesses are particularly keen to get greater clarity from the Government as to the circumstances under which borders might be reopened, including the criteria that will be used to inform such decisions.

In the meantime, it is important that the Government continues to make the right decisions in providing the framework and support for the economy, recognising that there is a limit on the funds that can be deployed for this purpose, as all of the expenditure translates into higher public debt that future generations will have to service.

The significance of the border debate

While most aspects of everyday life, social and business activity in New Zealand is unrestricted under Alert Level 1, our borders have remained closed other than to returning New Zealand citizens and those entitled to permanent residency.

Relative to many countries, New Zealand has a small domestic economy, and is reliant on international trade, export revenues, and the movement of people and capital in order to sustain and grow the economy. Continued closure of our borders has significant negative consequences affecting not only the obvious sectors such as tourism and international education but eventually virtually all segments of the economy and all elements of society.

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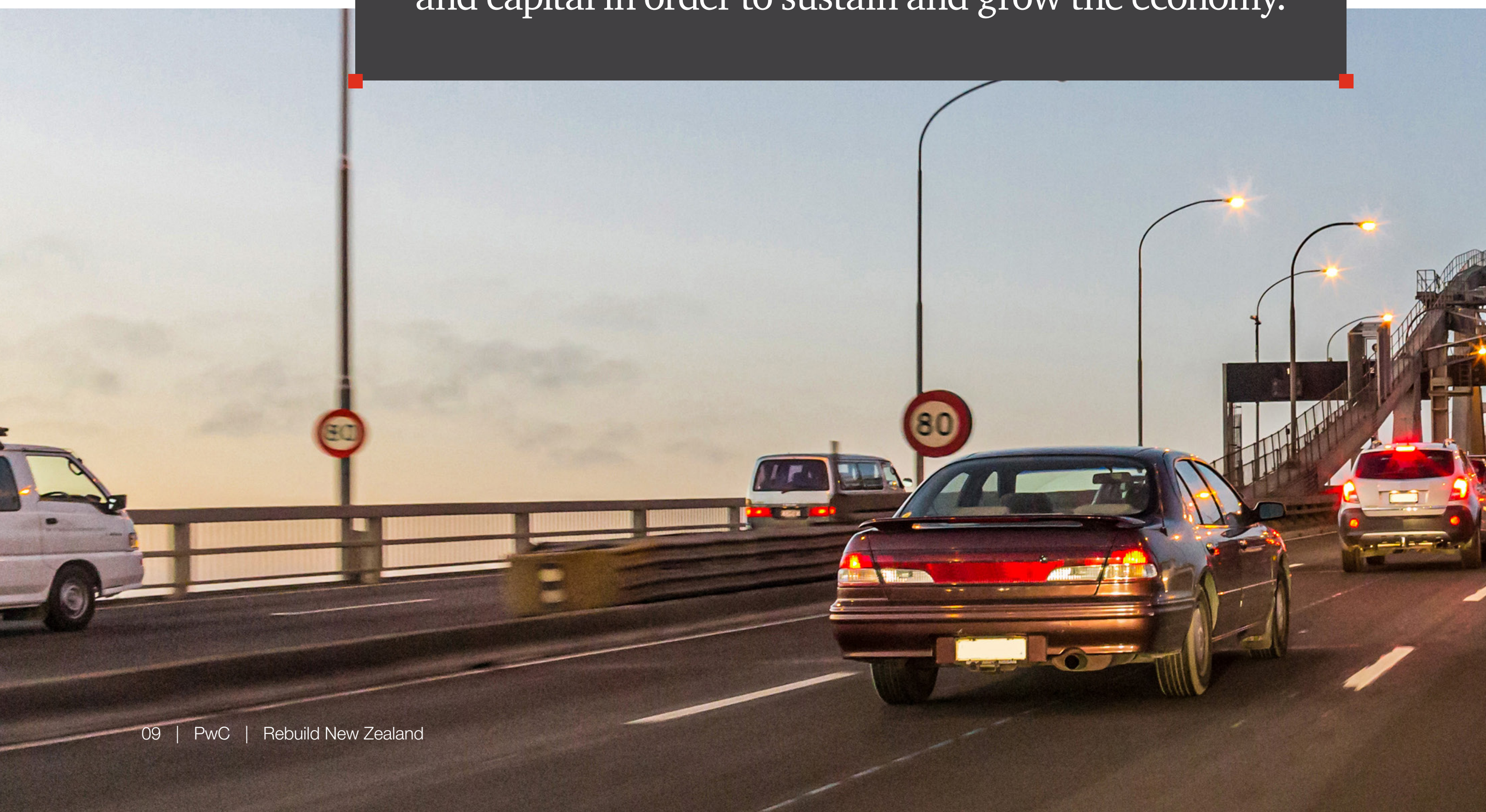

Tourism

Border closures have hit the tourism sector the hardest. Given that international tourism comprised around 40% of the total industry and the tourism sector accounts directly for approximately 6% of GDP, a significant portion of GDP has been lost by international overseas tourists no longer coming to New Zealand.

This has flow-on consequences for related sectors such as retail and hospitality, and so the overall impact on GDP will be greater.

There have been some encouraging signs of increased domestic tourism, but this may be short-lived. It could reflect pent-up demand stemming from the lockdown period, coupled with the July school holidays. Anecdotal evidence shows that regional tourism activity for the period was strong, although many operators are concerned that after the school holidays, demand will drop off. It remains to be seen whether this level of domestic activity can be sustained.

The survival of some tourism businesses will also be challenged when the Wage Subsidy Scheme finishes at the end of August.

The cessation of wage subsidies will directly impact tourism businesses receiving the support, and it is likely to have a flow-on indirect impact because some households will have less available income, which will dampen domestic travel demand.

Some commentators and industry experts believe it will be a lengthy recovery for international tourism, especially if long haul airfares are higher in future, and this could work to New Zealand's disadvantage given our distance from key markets.

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International education

The other sector that has been badly impacted by the continued closure of our borders is international education, which generated around $5 billion of annual revenue pre-COVID-19.

Despite efforts to find a way in which international students can be permitted to return to New Zealand to continue their studies, there seems to be little prospect of this happening this year. Time is rapidly running out for international students to return for the beginning of the 2021 academic year.

On 27 July, the Government released a long-term strategic recovery plan and $51.6 million of funding for the international education sector. The money is coming from the COVID-19 Recovery and Response Fund to help stabilise New Zealand's international education sector.

The aim of the investment is to help cushion the blow to the education sector from the loss of international revenue, and the recovery plan falls into three parts that will run concurrently:

- stabilising the international education sector
- strengthening the system by ensuring the regulatory settings, policies and practices to support the recovery and rebuild
- accelerating the transformation of the sector signalled in the International Education Strategy launched in 2018.

Consumer confidence and retail

There is evidence, in some cases anecdotal, that retail activity in certain segments and areas is quite buoyant, almost in defiance of the dire economic predictions and the recessionary environment that exists.

The recent opening of the Commercial Bay retail and office development in downtown Auckland has been well received, with more than 500,000 people visiting the complex within the first two weeks. However, the flurry of activity within Commercial Bay runs against the trend in much of the Auckland CBD area, where retailers report extremely challenging trading conditions, in part due to many central city workers not returning to their offices on a full-time basis. Along with the absence of international tourists, this has led to reduced foot traffic and a number of inner-city businesses saying that they will not survive.

There is little evidence of any softening in residential property prices, which have surpassed expectations for performance post COVID-19 lockdown. According to the latest REINZ data, median house prices across New Zealand increased 9.2% in June to $639,000 (up from $585,000 in June 2019, and up from $620,000 in May 2020). Some economists attribute this to the market playing catch-up after the lockdown period and an environment of record-low interest rates, but they forecast this level of activity will not be sustained when the Wage Subsidy Scheme ends, unemployment rises and the international market remains closed.

Another factor contributing to the resilience of residential property prices is the influx of returning Kiwis who now need a place to live.

While there are encouraging signs of activity and a degree of confidence amongst New Zealand consumers, our domestic economy could well be experiencing the 'calm before the storm'. We have yet to see the full impact of the global economic contraction, and the domestic economy has benefited from the Government's support measures which cannot be sustained. The last quarter of 2020 may prove far more challenging.

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CASE STUDY

Smiths City

This one-hundred year-old national retailer was saved from collapse through a structured buy-out with an entrepreneurial investor.

Founded in 1918, Smiths City Group Limited (Smiths City) has been a cornerstone of the retail sector in Christchurch and throughout regional New Zealand, specialising in consumer electronic products, kitchen appliances, home heating solutions, home furnishings and other household items. The Company has built a reputation for offering New Zealanders trusted advice and quality service. Smiths City also has a finance division providing payment options for customers.

Finding a way forward

The Company had not been immune to the challenges facing the retail sector and experienced several challenging years in terms of financial performance in the lead up to COVID-19, which exacerbated Smiths City's situation due to the trading restrictions imposed during lockdown at Alert Level 4.

Smiths City reached out to PwC whose Corporate Finance and Restructuring Team acted as financial and commercial adviser to Smiths City. PwC was able to bring together a blended skill set including M&A, insolvency, financial modelling and legal expertise to manage the process and stakeholder relationships throughout a challenging time, assisting Smiths City with the sale of its business and assets to Polar Capital. This work provided confidence to banks and other stakeholders which led to an accelerated and successful transaction.

A solid result

The sale was announced on 18 May 2020 and the business transferred to its new owner shortly thereafter. The majority of work to make this happen took place during the stringent Level 4 and 3 lockdown period which meant there were a number of practical challenges, all of which were successfully overcome using the latest technology.

Smiths City's new Chief Executive Tony Allison said: "The vast majority of jobs were saved and an outlet for suppliers and local service providers was retained. The agreement with Polar Capital allows Smiths City to continue to operate and grow the business while retaining 75% of its staff and 22 stores, and Smiths City remains a tenant for many landlords."

As the country has come out of full lockdown and worked through the alert levels we have seen retail and consumer spending begin to increase and through a number of cost saving initiatives the new Smiths City is strengthening its position. During the process, Smiths City was able to achieve a managed exit out of a number of loss-making stores and has already found a number of other locations where it can open new stores to continue to grow in regional New Zealand.

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Infrastructure

Many of New Zealand's largest and most complex infrastructure projects rely on skilled workers in key roles who arrived from abroad specifically to assist with these projects. Closed borders make it difficult to retain and recruit skilled people to continue working on these projects.

Evidence of this issue and its impact on projects can be seen in the further delay to Transmission Gully, which is now not expected to be completed until 2021. This delay has been partly attributed to the fact that around 100 people who were working on the project were stuck overseas and unable to return due to current COVID-19 border restrictions.

The Government's plan to stimulate the economy through additional infrastructure spending relies on an available workforce. The capability and resources within the construction sector were already stretched pre COVID-19, and the industry is therefore likely to be even more stretched now, which may hamper the infrastructure-led recovery.

PwC's Rebuild New Zealand: infrastructure report released on 3 July looks at the opportunities for the infrastructure sector and how it can play a pivotal role in this country's recovery in terms of both economic and social outcomes.

Capital flows

Between April and late June this year, 24 New Zealand listed companies tapped into their shareholders and institutional investors for cash, raising more than $5 billion in aggregate. This indicates that the equity capital markets are working well for listed companies, and those that have seen a need to bolster their capital position have been able to do so.

However, listed companies in New Zealand represent a small cross-section of the total business population. Access to capital for smaller privately-controlled businesses is more challenging, and yet many of these companies will require recapitalisation to counter the impact of losses caused by COVID-19.

Closed borders are impeding capital flows. While a small number of transactions have been concluded, a much larger number of transactions have stalled because prospective purchasers and their advisors have been unable to travel to New Zealand and carry out physical due diligence such as inspecting premises, viewing operations and meeting management, customers and financiers. New Zealand has always been an importer of capital, and lack of capital inflows from overseas will hamper recovery efforts. The availability of foreign capital is important given the limited size of our domestic capital markets.

PwC's Rebuild New Zealand: Private Equity report released on 29 July looks at the role that private equity (PE) has played in our economy and the role PE can play as an important source of capital that will assist companies as they recover and need access to additional equity funding.

CASE STUDY

Auckland International Airport

Auckland International Airport (AIA) is the gateway to New Zealand and New Zealand to the world. In the 2019 financial year AIA greeted 21.1 million passengers, almost 75% of all international arrivals to the country. AIA has many responsibilities to its customers, relating to providing places for businesses to operate, accommodation, retail, dining and travel.

Hundreds of business operate on the airport precinct each day with thousands of people either hosted in its buildings or passing through the doors. Pre COVID-19, AIA was undertaking a transformative $2bn capital expenditure programme, to meet forecast growth in passenger numbers. No one could have foreseen the disruption that COVID-19 brought to the travel, tourism, retail and hospitality industries, all of which are core activities at the airport.

Not an airport or airline in the world has been left unaffected by the impact of COVID-19 and the global lockdown but, for a nation of island dwellers, airports are, for the vast majority, the only way in or out. AIA plays a crucial role in connecting our country with the globe and we all have a vested interest in seeing this business survive and thrive.

Responding at speed

The sudden impact of COVID-19 (and the resulting travel restrictions imposed) had a significant and abrupt impact on AIA's immediate cash flows. In the space of two months passenger numbers fell over 94% and considerable uncertainty existed over when any recovery in passenger numbers would occur. As a result, AIA needed to act quickly, firstly to stabilise the business and secondly to strengthen its balance sheet so to position the business for the eventual recovery in the travel industry.

More immediately, AIA was forecasting a period in which aeronautical, retail and transport revenues reduced to near zero. This significant drop in revenue meant it required assistance with cash flow management and negotiations with lenders as earnings based debt covenant breaches were possible should the adverse passenger environment continue for the foreseeable future. Additional capital was also sought to provide AIA with sufficient liquidity to see it through this period of considerable uncertainty.

A plan of action

AIA management needed to stabilise the business and prepare for any follow-on capital raise. PwC was engaged to assist including:

- working with management on the levers available to manage cash flows;
- reviewing monthly cash flow run rate under various scenarios, including capital expenditure and debt repayment situations;
- strategic advice in relation to AIA's debt strategy, including advising on covenant waivers, maturity extensions, reviewing bank and USPP documentation and lender engagement;
- assisting with management on their retail tenant discussions; and
- providing advice on the quantum of equity capital that AIA should seek to raise and the method of that raise.

Looking to the future

The work completed gave the Board and management confidence to execute New Zealand's largest secondary capital raise and one of the most successful, pricing the $1.2 billion issue with one of the tightest discounts of any capital raise in Australasia undertaken in response to the COVID-19 outbreak. Since the raise, the AIA share price has appreciated 30.7% based on the issue price.

The speed at which AIA responded to its changing fortunes allowed the business to focus on its important role in responding to the COVID-19 outbreak, ensuring the safe repatriation of people, rather than be distracted on cash flow management and balance sheet matters.

In Alert Level 1, local travel is picking up, while international travel is still subdued. AIA's extensive investment property portfolio has provided some financial cushioning, with the eventual return of international travel allowing AIA to return to full capacity. The capital raise has positioned AIA to respond to border relaxations when governments around the world allow it.

> The impact on our Pacific Island neighbours from continued closed borders could be potentially disastrous as they rely enormously on tourism...

International business connectivity

Many New Zealand businesses trade internationally or require contact with businesses overseas as part of their operations. Exporters need to meet customers in international markets, and many New Zealand businesses rely on imported goods and equipment, which requires visits to overseas suppliers or sometimes on-the-ground support from people based offshore.

Video conferencing has gone a long way to meeting communication needs, but it is not a complete solution. As Phil O'Reilly, Managing Director of Iron Duke Partners and Chair of the Board of Business at OECD, said on a webinar recently, "business is still a contact sport!"

International social connectivity

Closed borders also have an impact on social interactions. Estimates suggest there are more than a million New Zealanders living overseas, including more than 600,000 in Australia. Many Kiwis have relatives living overseas and closed borders mean that important events, such as weddings and funerals, can no longer be attended given the implications of managed isolation upon arrival or returning to New Zealand.

People may be willing to tolerate this for a short period of time, but the consequences over a longer term are much harder to sustain.

The outlook for reopening our border

In mid-June, there was a high level of optimism that some degree of travel would resume without quarantine requirements between at least some states of Australia and New Zealand (the so called Trans-Tasman bubble). However, hopes that this might occur in the short term have been dashed due to the second wave of COVID-19 cases in Victoria and New South Wales. Where commentators had talked about Trans-Tasman bubble in place by the end of September, we'd be doing well to see this before the end of 2020.

It is possible we may see some level of travel to certain Pacific Island states, such as the Cook Islands, which have been COVID-19 free for some time. However, here too the Government is taking a cautious approach, as most Pacific Island nations lack hospital infrastructure that is able to cope with a serious COVID-19 case let alone a widespread outbreak.

The impact on our Pacific Island neighbours from continued closed borders, could be potentially disastrous as they rely enormously on tourism, which accounts for nearly 70% of the economy in the Cook Islands.


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Taking precautions beyond the border

Sir Peter Gluckman, the Rt. Hon. Helen Clark and Rob Fyfe have noted that border controls are never foolproof. Human failures will occur and it is likely that at some stage a new COVID-19 case will emerge in New Zealand.

To reduce this risk and manage the eventual outcome whereby the country ends up with COVID-19 cases again, a range of precautionary measures is necessary, rather than relying almost entirely on a quarantine regime for arrivals.

To complement strict border controls and mandatory quarantine processes, and potentially to enable some relaxation of these, it is imperative that the Government place equal emphasis on other measures that will promote a safe domestic environment for New Zealanders.

In an interview in the New Zealand Herald on 12 June, Rob Fyfe summarised five priority measures:

- *The need for all New Zealanders to maintain new social norms, such as distancing;*
- *An intelligent virus-free border, a subject which is canvassed in more detail in the previously mentioned article that Rob Fyfe co-authored with Sir Peter Gluckman and the Rt. Hon. Helen Clark;*
- *Encouraging people to carry out their own daily health check, to drive detection at the earliest sign of symptoms appearing;*
- *A high speed and high accuracy testing system for the COVID-19 virus;*
- *Assistance for instant tracing and rapid isolation of close contacts of those who may have been affected by contact with someone with COVID-19.*

Most COVID-19 tracing apps have failed, both in New Zealand and elsewhere, due to low uptake rates, equity/access issues, and low utilisation.

As an alternative the CovidCard has been suggested as a tracing device. It is a low-energy Bluetooth device the size of a credit card, which everyone would be required to carry. It detects and records close contacts using Bluetooth and stores this data securely on a person's card for 21 days. However, both the Privacy Commissioner and the Productivity Commission have voiced concerns over privacy issues and its potential effectiveness.

While more than 500,000 New Zealanders downloaded the COVID-19 app, actual usage has all but ceased and many businesses no longer display QR codes. Some experts contend that tracing apps have proved ineffective in most countries, and are unlikely to succeed because human behaviour indicates that the level of voluntary compliance will never be as is needed to make it effective, and also because not everyone has a smartphone.

We have become reliant on border controls, with few further measures being adopted inside our borders, in part reflecting that we have, for the time being, completely eliminated the virus within communities.

However, if we wish to see reopening of our borders, it is critical we step up efforts and accept additional control measures to reduce the prospect of future widespread outbreak, recognising any such border reopening will inevitably create risk that isolated cases will re-emerge within New Zealand.

The alternative of an indefinite border closure is grim:

- It will leave many tourism businesses, at best, marginally profitable; with significant flow-on consequences for associated sectors such as retail and hospitality.
- Many, if not most, tertiary institutions will be in deficit due to the continued absence of international fee-paying students.
- Major infrastructure projects will slow down due to shortages of skilled overseas workers in key roles, along with the time taken to retrain the New Zealand workforce. This thwarts Government efforts to use infrastructure to help stimulate the recovery.
- Capital flows will be restricted, meaning more businesses may fail. Many companies have suffered substantial financial deficits and erosion of shareholder equity, and require an 'equity infusion' to survive.

“We have become reliant on border controls, with few further measures being adopted inside our borders, in part reflecting that we have, for the time being, completely eliminated the virus within communities.

- Many of the things that most Kiwis have taken for granted, such as the ability to join with family and friends across the Tasman, or the ability to travel and 'see the world', will be lost. New Zealand may find itself increasingly out of step with the world, with people paying a high price in economic and social terms for their safe, COVID-19-free cocoon.

Balancing priorities in an election year

Less than 60 days from the forthcoming general election on 19 September, it appears the Government is already in election mode.

There is a risk the election cycle overtakes the emphasis on measures to promote a medium and longer-term recovery of the economy. The Government has announced a number of additional support measures since Budget 2020, but it is not clear if there is any cohesive strategy surrounding these announcements.

For example, the Government launched the $400 million Strategic Tourism Assets Protection Programme intended to safeguard essential parts of the tourism industry through the disruption caused by COVID-19. Some investments have been announced, the merits of which have been debated. We understand more than 300 operators sought assistance under the scheme. If more of this funding support is not delivered to the industry, before long there will inevitably be more failures throughout the tourism sector.

These measures are being funded from the balance in the Government's $50 billion COVID-19 Response and Recovery Fund. As noted earlier, $14 billion of this Fund will be retained for a potential second wave of the virus, so there is plenty of 'petrol in the tank'.

While it is helpful to have substantial funding on tap for recovery initiatives, it is equally important that any fresh spending initiatives are well designed, properly targeted and highly effective. Otherwise the only certainty will be an increase in Crown debt that future generations will be left to service.

Approximately 70% of the COVID-19 Response and Recovery Fund has either been spent or committed to date, and includes wage subsidy support and other benefits. These measures have unquestionably helped businesses keep people employed, but they do not necessarily provide enduring benefit and cannot be sustained long term given their enormous cost.

It is important there is a balance between this type of support and other initiatives such as infrastructure spending that can deliver longer, more enduring benefits. We would encourage the Government to be extremely disciplined about further initiatives, ensuring they are properly prioritised, and aligned to those sectors where our economy enjoys a natural competitive advantage, because there is a greater prospect of the benefits enduring.

The national response to the COVID-19 health crisis relied on people having a high degree of trust in our political leaders and their senior officials, coupled with extensive voluntary compliance from the public. With this high-trust and voluntary compliance model comes an expectation that those same government agencies will act in a consistent, fair and effective manner to ensure the ongoing safety of New Zealanders, notably through processes like border control.

> While it is helpful to have substantial funding on tap for recovery initiatives, it is equally important that any fresh spending initiatives are well designed, properly targeted and highly effective.

When failings have become apparent, this has been accompanied by widespread public criticism, which is a natural, given so much has been asked of the public. Many households and businesses have made enormous sacrifices in the interest of preserving public safety and assisting the national response to the health crisis.

What are the foundations for recovery?

We remain strongly of the view that the seven key planks identified in our *Rebuild New Zealand June 2020* report present a foundation that will enable New Zealand's economy to rebound quickly and strongly. These planks are:

1. **Maintaining the highest levels of employment feasible in the challenging COVID-19 environment until the economic recovery takes hold;**
2. **Understanding what real economic growth means and stimulating this;**
3. **Removing the barriers and impediments to real and sustained, across-the-board productivity improvement;**
4. **Addressing the growing degree of intergenerational inequity, which has been exacerbated by the cost of combating the COVID-19 pandemic;**
5. **Addressing tax reforms to broaden the Government's revenue base, remove distortions on investment decisions and create greater fairness;**
6. **Addressing the urgent challenge of climate change so that there is a planet for future generations to enjoy; and**
7. **Partnering effectively by all elements of the public and private sectors to aid recovery.**

> To create jobs, New Zealand businesses need a stable environment where the Government articulates a clear vision for the country.

Medium to long term economic recovery framework

The Prime Minister has made it clear that the Government's chief priority for recovery is "jobs, jobs, jobs". We agree. Maintaining employment is of critical importance and deserves to be the number-one priority. However, the real question is how best to achieve this?

To create jobs, New Zealand businesses need a stable environment where the Government articulates a clear vision for the country. This should be supported by a framework (measured in economic, regulatory, fiscal and social terms) so that all parts of the economy and society can understand where they fit, and how each can maximise the available opportunities.

The Government's role is not to act as a player within the ecosystem, but to provide the structure and institutions that guide decision-making by individuals and businesses.

Policies encouraging businesses to employ staff

An economic environment that enables businesses to survive in the near term and thrive in the medium to long term, is needed to maintain employment. While the Government has announced a massive investment in training programmes and other support measures, these alone will not lead to the creation of jobs. This requires a strong, confident private sector. Business owners also need to feel confident and be incentivised to deploy capital and undertake new investment so that additional staff will be needed.

Businesses are looking to the Government for credible signals that it recognises the fundamental role that all businesses play in the economic recovery. They expect the Government to take a lead in terms of demonstrating both respect and understanding of the issues and challenges confronting businesses, large and small. In this regard, the Government also needs to lead by example, with decisions that are fair, pragmatic and commercial.

The Government needs to investigate policies, especially for small and medium-sized enterprises, that are likely to encourage them to take on additional staff, alongside policies that encourage business investment generally.

A reduction in the company tax rate is generally accepted as a lever that can be pulled to improve productivity (because workers are typically more productive when using more capital, and a lower rate ostensibly allows successful businesses to retain more of their profits and so invest in capital equipment). However, data from recent tax rate reductions shows that this is only true when the rate reduction is not effectively countered by other measures.

A lower rate of company tax may also be seen to make New Zealand more competitive internationally, but again history reflects no significant increase in foreign direct investment accompanying rate reductions, while the loss of tax revenues on location-specific rents (the return made without discouraging investment) remains a real consideration. COVID-19 has already changed this landscape, with fewer New Zealand businesses paying tax due to the COVID-19-induced recession, a situation which will continue for some. At the same time, there is a sense that New Zealand is seen globally as a safe and appealing place to do business.

Perhaps then it is time to revisit whether a company tax rate reduction could provide New Zealand businesses with a real and sustained stimulus that helps them to survive and thrive? We caution against a rate reduction without also considering the overall impact on the integrity of the tax system, fiscal adequacy, efficiency and productivity, and the sustainability of the tax base over time. The Tax Working Group estimated in 2018 that a reduction of the company tax rate from 28% to 23% would reduce tax revenues by $1.425 billion per annum. What is clear is the need for the Government to explore ways of reducing the effective tax rate of New Zealand businesses.

Other measures that will help stimulate businesses to employ staff are measures that increase demand for their goods or services. Investment in infrastructure should assist as there will be a trickle down effect throughout the industry resulting from the early commencement of projects.

> “While any form of infrastructure expenditure will create jobs in the short term, the key is to identify and prioritise those projects that will deliver maximum long term benefit in stimulating growth and improving productivity, and target these for investment at the earliest opportunity.

The Government has announced substantial additional spending to retrain workers. It is important this focuses on sectors that have sound fundamentals and long-term competitiveness, as this is where long term sustainable demand for additional jobs will exist. The dairy farming sector is an example, as over recent years it has relied on increasing numbers of people from abroad working to support the industry. Similarly, horticulture has become very reliant on workers under the Recognised Seasonal Employer scheme, especially over the harvesting season.

We have also noted the potential closure of major industrial operations, such as the Tiwai Point Aluminum Smelter. Although this is not directly COVID-19 related, it will add to the number of New Zealand's unemployment and slow the economic recovery, especially in the local Southland region. While the Government

rightly has a focus on expenditure initiatives to create jobs, so too should it consider the cost of maintaining existing jobs, as this may be a more achievable and lower cost option than trying to create new ones, at least over the short to medium term. While we would not advocate the long term subsidisation of fundamentally uncompetitive industries, a case could be made for some support over the short to medium term to allow a phased wind-down and provide time to retrain workers for other industries that have better future prospects

Accelerating infrastructure that will stimulate growth and improve productivity

Accelerating essential infrastructure spending can make a significant contribution to addressing our second and third planks, namely stimulating real growth and improving productivity. Aside from those projects already announced there are many more still ‘on the drawing board’, although we are yet to see anything in the way of a paradigm shift, in the type of infrastructure spending taking place

The planning and prioritisation of new infrastructure needs to include a major emphasis on the environment, and a green lens must be applied to each decision. Addressing the climate change challenge requires a complete reset in infrastructure spending, in order to shift the trajectory of carbon emissions.

While any form of infrastructure expenditure will create jobs in the short term, the key is to identify and prioritise projects that will deliver maximum long term benefit by stimulating growth and improving productivity, and target these for investment at the earliest opportunity.

Providing additional funding for infrastructure can help stimulate the economy, but this will only be effective if the building and construction sector has the resources and workforce, including access to skilled staff, to carry out the new projects. Training schemes need to be targeted towards increasing the size and skill base of the workforce that will be needed to support an infrastructure-led recovery.

Developing greater digital capability within all businesses and households

So long as our borders remain closed, we need to make greater use of alternative ways of engaging with the rest of the world. Over the lockdown period we saw a rapid uptake in video conferencing out of sheer necessity and the investment in the rollout of ultra fast broadband has served the country extremely well. However, we have a long way to go to develop digital capability consistently across the nation.

PwC has completed more than 190 business continuity workshops for predominantly small to medium sized enterprises sponsored by New Zealand Trade & Enterprise and Tourism New Zealand.

One overriding theme emerging from these workshops is that many enterprises are still in the early stages of digital capability. Businesses need to accelerate rapidly, to engage with potential new markets or customers, and make up for the inability to meet face-to-face.

A 'whole of business' digital strategy is needed that embraces suppliers, customers and other stakeholders to ensure that key stakeholders receive the right messaging via the right channels.

During lockdown we saw the initiative to deliver education digitally, to all students at all levels, at home.

In many respects this experiment, forced out of sheer necessity, was a success. It also showed the need to extend the availability of essential devices like laptops and tablets, and make sure all households have access to the broadband and data transmission that is needed so that education can, where appropriate, be delivered remotely. While this will never replace the classroom experience, there is still scope to develop the digital delivery of education, including enhanced ability to flex between remote and face-to-face learning environments, especially for older students.

CASE STUDY

New Zealand Trade and Enterprise

Building resilience in New Zealand businesses following COVID-19

When New Zealand closed its borders and entered lockdown, and businesses braced themselves for the worst, it was New Zealand Trade and Enterprise (NZTE) that saw the urgent need to bring in strategic support to help New Zealand companies assess, and if required, adjust their businesses for the effects of COVID-19.

NZTE plays a crucial role in the fabric of our economy and to help Kiwi export businesses thrive. It reached out to business owners with a plan and partnered with PwC as a core provider to run the COVID-19 Export Business Continuity Service. This service was a NZTE-sponsored initiative to equip businesses with the tools they need to navigate the changing landscape.

Since April, PwC has delivered over 150 COVID-19 Business Continuity workshops to a variety of companies employing between five and 500 people, with turnover ranging from $200,000 to $200 million, and that export a range of goods including seafood, aircraft, wine, skin treatment, dairy food, professional services, industrial plant, digital products and baby clothes.

Craig Armstrong, Director – Customers at NZTE, and who established the service with PwC, said: “Around a quarter of all New Zealanders rely on the export sector for their jobs, so there was never a question that we needed to move fast to help export businesses survive this disruption. We also needed partners like PwC who could adapt their skills and knowledge on the fly: with everyone in lockdown, all the analysis and advice had to be via digital channels; and every business has its own specific challenges, so it was vital that we could establish a relationship of trust really quickly and provide the right advice for each person. The service has made a real difference for these businesses. It’s not a stretch to say it helped many make the right decisions to keep their businesses alive.”

Here we take a look at some of the ways participants of the workshops responded to the challenges of lockdown to continue trading, and build resilience into their businesses for the future and expand their digital capabilities into their businesses for the future.

Digital acceleration

The increasing adoption of e-commerce is something PwC has seen both here and abroad as consumers turn to online channels, in some cases for the first time. This is not simply a blip, it is the acceleration of trends already seen in online buying behaviour and one which will likely stick. Businesses are accelerating their own digital ambitions to meet demand, increase operating efficiency and build resilience in sales channels.

Jacob Faull, co-founder Nature Baby, a successful New Zealand business that designs and manufactures sustainable, natural, high quality children's clothing says "being able to focus on our online channel, especially for the Australian market, enabled us to continue to do business. While we still suffered a significant downturn it would have been catastrophic without online sales."

Adapting and building resilience

Technopak

Technopak designs and develops hygienic 25kg bag and bulk powder packing, conveying and handling equipment. They employ around 40 staff and are a world-leader in bag-filling machinery for powdered materials such as dried milk, infant formula, pharmaceutical and nutritional powders.

Technopak installs machines and systems all over the world, particularly the US, as well as supplying many New Zealand companies.

When the country went into Alert Level 4, General & Operations Manager Luke Holmes had to find a way of keeping the company going. Whilst no new equipment could be made, spare parts and systems support were still needed.

A payment plan for staff was arranged and, with help from the Government's Wage Subsidy Scheme, most manufacturing staff went into isolation at home, whilst engineers, IT and customer support workers operated remotely. Key staff undertook manufacture and dispatch of critical spares on a limited schedule to maintain Food Production Sites. "We sought confirmation of the business plan at the NZTE workshop with PwC, which gave the company directors confidence that we were on the right track," says Luke.

Technopak installs machinery abroad and, now that New Zealand is operating at Alert Level 1, international work has resumed. However, sending staff to the US and other countries that have high rates of COVID-19, poses an obvious risk.

"We were classed as an essential business by the Ministry of Business, Innovation and Employment, and US dairy factories, which enables us to install equipment at client sites in America, but the health risk is a big ask for our staff". The managed isolation when staff return to New Zealand also puts people out of commission, which has a knock-on affect to business. "It's hard to know now how to quote for a job that is a long way out as we have to compensate for the down time," says Luke.

With the existence of COVID-19 in the world, businesses are seeking clarity from the Government on how to operate internationally in the new normal. New Zealand needs its manufacturers, exporters and services to grow for the security of the economy, however, travel for business raises important questions around the practicalities of managed isolation and who should pay for it, which will only become more relevant as time goes on.

Ecoware

Well-known plant-based packaging company, Ecoware, used the impact of COVID-19 to accelerate a diversification of their business that was already in play.

Pre-COVID-19, Ecoware had been growing quickly with a few thousand established customers across New Zealand's food and beverage industry. Their award-winning food packaging products can be found at cafes and eateries, food trucks, stadiums, festivals, grocery stores and on airlines and ferries.

However, the shutdown of hospitality and tourism businesses during Alert Level 4 meant packaging orders all but ceased and adaptation was essential.

"We needed to act fast," says James Calver, Co-founder and Director of Ecoware, "as around 90 per cent of revenue was down. There were immediate challenges to overcome, whilst also progressing our expansion plan that would build further durability in the business." Ecoware quickly responded to the lockdown by increasing health and safety protocols for staff and suppliers, revising cash flow forecasts, taking advantage of available Government support initiatives such as the Wage Subsidy Scheme and actively engaging with its key financial stakeholders.

Through a NZTE workshop with PwC, Ecoware received advice on how best to engage with its lender to temporarily amend the structure of its working capital facilities to alleviate cash flow pinch points that were expected to occur as a result of the COVID-19 lockdown. By quickly resolving the short term liquidity challenges, Ecoware's management team were able to focus on their diversification plan.

With supermarkets trading well, Ecoware saw the opportunity to focus its resources on gaining sales with food brands that supply the supermarket channel.

Since the country began operating at Alert Level 1, trading with their core customers has resumed and the Company's targeted growth strategy is continuing. "Ecoware made it through the dark days of lockdown and we've established ourselves as an even more resilient and flexible brand that is now years ahead of the original business plan," concludes James.

Flexibility for the future

Now that we're operating at Level 1 some of these issues seem a long way behind us, but the reality is that we've moved irreversibly into a new operating paradigm.

We are in recession in New Zealand, as are many other countries. No one knows just how deep and prolonged the recession will be nor the shape of the eventual recovery. The uncertainty over trading conditions and travel is still pervasive and businesses will need to get used to navigating through this uncertainty.

This means taking a fundamentally different approach to setting and monitoring strategy. Businesses will need to create a scenario-based strategy, incorporating multiple possible paths, understand the decisions needed for each, and then monitor market conditions and business performance to understand which one they are on.

This approach to business management and stewardship requires dynamic thinking and a leadership style that supports staff though ambiguity. On the plus side, businesses that are able to adapt to the new conditions will be able to build quickly from a solid core and thrive as the world recovers from COVID-19.

Recommencing the tax reform debate

Our fifth plank for recovery is the need to consider tax reforms to broaden the Government's revenue base. The Green Party has announced their tax policy, which includes a wealth tax where assets exceeding $1 million would be subject to an annual wealth tax set at 1%, and in the case of assets above $2 million, the rate would increase to 2% annually. In addition, they propose two new tax brackets, where income above $100,000 per annum would be taxed at 37 cents in the dollar; and for incomes exceeding $150,000, the top marginal tax rate would be 42 cents in the dollar.

While a wealth tax along these lines may be viewed as improving the progressivity of the New Zealand tax system (i.e. so that higher-income households have a significantly higher effective tax rate and inequalities are reduced), there are concerns that such a tax, especially if coupled with higher rates of income tax, would overly focus on a relatively small proportion of New Zealand households.

A wealth tax also comes with several very real problems including that there is not necessarily any underlying income or cash flow to support the tax payment obligation and the cost and complexity of valuing unlisted shares in companies (where most of New Zealand's non-property wealth is held).

We favour a broadening of New Zealand's tax base (income tax and GST make up 90% of the total tax revenues collected), but believe that there are better alternatives to a wealth tax.

With a realisation-based capital gains tax off the table politically, the Government needs to look again at areas where income can emerge as an untaxed capital gain. A broader tax base can, in the long run, support lower tax rates. Revenue raised in these areas could be used to in part support a corporate tax-rate cut and in part to start to repay public debt.

Reopening our borders – when and how rather than if

Maintaining an absolute isolation strategy indefinitely is likely to become increasingly intolerable to many New Zealand businesses and households due to economic and social consequences. Most New Zealanders have little or no tolerance for fresh outbreaks of COVID-19 like those in other countries including Australia. However, there is an expectation the Government will be open-minded, constructive, flexible and transparent in its approach to the border issue, given it is such a game-changer.

Throughout this report we have made repeated references to the sectors most directly affected by our closed border, namely tourism and international education. There are many other sectors, individual businesses, and elements of our society such as sporting codes and cultural organisations that are also suffering. We believe the Government needs to prescribe strict standards and protocols for any individuals or groups that want to enter the country. The Government has already permitted exceptions, including for America's Cup syndicates, so precedent exists.

These protocols could include:

- Testing both prior to departure, upon arrival in New Zealand and periodically thereafter;
- Determining which countries of origin would be eligible;
- Dictating the duration of any quarantine upon arrival, depending on the country of origin;
- The specific quarantine requirements (covering matters such as supervision, exercise, mixing, etc) with potential ability for the physical quarantine environment to be selected at the applicant's discretion;
- Incorporating the use of technology to monitor self-isolation at home or elsewhere, especially for those who are classified as low risk;
- Encouraging further testing and potential monitoring after any quarantine period; and
- Ensuring costs are equitably borne by the individual/groups entering the country.

For example, if international tourists want to come to New Zealand and spend an extended period of time travelling around the country, they would be able to do so if they are willing to undergo a quarantine period of two weeks (or whatever is required), in the knowledge that they would select the quarantine facility (i.e. choose a hotel of their preference) and would also bear the cost.

This could create an opportunity for New Zealand to develop a new competitive advantage in international tourism based on our COVID-free status.

Likewise, having clear protocols and a supervisory regime in place would enable tertiary institutions to undertake their own feasibility assessment and plan for the return of international students in a way that complies with the Government's requirements.

It is really a case of the Government and its officials focusing on the conditions required to allow non-residents to enter the country in a manner that does not unduly compromise our national health status, but does enable greater opportunity and flexibility than the current situation. This requires a 'can do' attitude, focusing on what might be possible and under what conditions. It is also likely to require a substantial scaling-up of our quarantine or isolation facilities, but it seems paradoxical to on the one hand have accommodation facilities sitting idle, but on the other hand being unable to accommodate more arrivals due to a shortage of quarantine facilities.

Reimagining the future of New Zealand tourism

The pandemic and border closures have profoundly impacted New Zealand's tourism industry, which will adversely and in some cases fatally affect many businesses within the sector. There is no 'quick fix' and nor can the sector simply return to how it was, given the problems that were already emerging in terms of over tourism.

Many within the industry are already calling for the need to seize the opportunity, in part forced upon us as a result of COVID-19, to conduct a proper strategic review of the sector, with a long term horizon. This review should reflect a reset with the focus shifting from volume to value, and should deliver a vision for what a high value, low impact tourism sector could look like for New Zealand. By doing this we will not waste the opportunity for long term positive change that presently exists.

The long term vision for this sector should also have a focus on ensuring that the sector is seen as being:

- a desirable industry for people to work in and make their career;
- attractive for investors; and;
- founded on principles of sustainability, respect for the environment and our cultural heritage.

Questions for further debate

There can be no simple and speedy return to the old ways of doing things.

We are being forced to adapt and, if done correctly, this can bring about positive change that benefits all segments of society. The current crisis provides an opportunity to address many questions New Zealand should be debating in order to build a better future. Some of these questions include:

Given New Zealanders are living longer, and that young New Zealanders will inherit a substantial debt burden due to the COVID-19 response, is there a case for raising the age of entitlement for national superannuation and should the universality of this benefit be revisited?

What role do local governments play, and to what extent do they continue to have responsibility for major elements of critical infrastructure? These projects are often complex and capital intensive, and require national coordination and prioritisation. How many councils do we need in New Zealand?

Can we afford as many standalone institutions as we presently have, e.g. seven independent universities, and 20 standalone district health boards (noting that consolidation of the number of DHBs down to 8-12 within five years has been proposed by the New Zealand Health & Disability System Review)? Could we achieve savings and efficiencies through some rationalisation in these sectors?

Will substantial reform of the Resource Management Act and other regulations streamline approval processes for building and other infrastructure projects, which will also help boost productivity and growth?

Is our foreign direct investment regime and the Overseas Investment Act based on the right principles and does it have due regard for the requirements New Zealand has for imported capital?

Should we revisit existing immigration policies in order to allow high net worth individuals to bring investment capital and business activity to New Zealand, and take advantage of our COVID-19 free environment (assuming they can satisfy a "good character" test and demonstrate their commitment to New Zealand)?

How do we build more housing at a lower cost? We have an ample supply of land, and yet building houses is very expensive relative to other countries. More activity in this sector will help stimulate the economy as well as addressing a critical social need.

Would changes to our tax system, whether in relation to taxing assets or income, make a difference to the willingness of New Zealanders to invest more or create more jobs?

In the education system, do we need to invest more heavily in teachers and encourage the best teachers to remain in the profession? How do we ensure that young New Zealanders don't fall further behind their overseas counterparts in areas such as literacy and numeracy?

How can we create more so-called 'unicorns'? Fisher & Paykel Healthcare, The a2 Milk Company and Xero are standout examples of innovative and successful businesses. But it is a short list. What do we need to do to encourage these sorts of businesses, and help ensure they remain in New Zealand?

How and when will we address the many issues impacting the health and disability sector, particularly equity of access? This pressing matter came under the spotlight due to COVID-19 and the response in Pacific and Māori communities in South Auckland is an example of what could be achieved for all New Zealand.

CASE STUDY

South Seas Healthcare Trust

A South Auckland healthcare provider puts the community at the heart of their COVID-19 response by providing an integrated approach to health and social service delivery.

South Seas Healthcare is Ōtara's largest Pacific health provider, delivering a range of primary care, community and social services throughout South Auckland. Their vision is excellent health and wellbeing for Pacific people and all communities.

South Seas is part of the Pacific Consortium which includes Vaka Tautua, Penina Health Trust and Pacific Homecare, and focuses on meeting the needs of Pacific communities respectfully, seamlessly and in a culturally appropriate manner through connected and integrated service delivery.

> A number of initiatives were delivered in response to COVID-19 that saw South Seas and its partners adopting an integrated and collaborative approach for service delivery that positioned Pacific people and their families at the heart of all its work.

The outbreak of COVID-19 had a significant impact on Pacific people, Māori and the community of South Auckland. Demand for health and social services rose as a result of the pandemic and South Seas had to respond in an agile and collaborative manner to ensure the community was supported as the country locked down.

A number of initiatives were delivered in response to COVID-19 that saw South Seas and its partners adopting an integrated and collaborative approach for service delivery that positioned Pacific people and their families at the heart of all its work.

The Community Wellbeing Hub

Due to an increased need for health and social support as a result of COVID-19, South Seas initially established a Community Wellbeing Hub, to connect Pacific people and their families to holistic, wrap around services that are easy to access and support their needs and goals.

Following this, South Seas established the Ōtara Community Based Assessment Centre (CBAC), located in the centre of town. The CBAC ensures easy access to COVID-19 testing for the community and to date (July 2020) has tested 10,000 individuals from over 182 suburbs. The Ōtara CBAC has had an unprecedented amount of walk-ins, with approximately 7.4% (700 individuals) accessing the Ōtara CBAC by foot. This is the highest number of walk-ins of any CBAC across New Zealand.

South Seas recognised the reach of the Ōtara CBAC and leveraged this point of entry to engage with people to assess their wider health and social service needs. These assessments quickly showed the growing support requirements of the community as a result of COVID-19. In response to these needs, South Seas connected individuals and families to the Community Wellbeing Hub and established a Food Hub to provide food support and parcels, including essential supplies.

South Seas also identified that there has been no South Auckland focused COVID-19 community response dedicated to and for Pacific youth. To respond to this, South Seas established the MYSTORY Bubblegum Initiative to provide Pacific youth and their families the essential support they need, during and post COVID-19. This has included training, upskilling and mobilising a group of Youth Navigators to support the community.

The average family accessing the Community Wellbeing Hub has seven members and, during lockdown, more than 250 families (88% Pacific) gained support from the Hub. The Food Hub has distributed over 5000 food parcels, along with $23,000 of food vouchers and 2,200 baby products, reaching over 17,000 people in need. The MYSTORY Bubblegum Initiative has reached over 25,000 youth, with over 300 individuals attending the Let's Stick Together event aimed at supporting youth and their families post COVID-19.

Every door is the right door

Underpinning South Seas approach is that 'every door is the right door.' By working together to mobilise groups including churches, sports clubs, NGOs and community leaders to connect with those in need and to distribute resources, South Seas and its partners have been able to provide seamless services that improve outcomes for families.

PwC has supported South Seas throughout their COVID-19 journey, providing project management support to develop their initial COVID-19 strategy and working alongside them, connecting South Seas with the right parts of government to seek necessary funding for the Community Wellbeing Hub, Ōtara CBAC and Food Hub. Operating behind the scenes, PwC worked to ensure South Seas had the tools it needed to continue to expand and evolve.

In June 2020, the New Zealand Health and Disability System Review (Hauora Manaaki ki Aotearoa Whānui) recommended that a new model of community and primary health care (Tier 1) services be created, based on the needs of local populations. The South Seas model is an example of how this can work to the greatest possible advantage for community health. Now that South Seas is transitioning into the new business-as-usual, PwC is helping South Seas establish and adapt its processes to support the new way of working.

South Seas has received heartfelt feedback from the community for the additional support provided through these difficult times: "Thank you so much for the support and empathy during these testing times. I am a proud Polynesian man but am truly humbled for the assistance. Again thank you so much, keep up the good work in helping our community, it does make a difference. Ofa atu."

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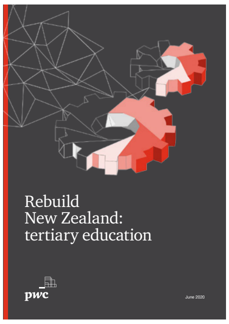
Rebuild New Zealand: June 2020

PwC's first Rebuild New Zealand special report looked at the country's pressing economic, societal and productivity needs as a result of COVID-19, and outlined seven planks underpinning the nation's recovery.

Rebuild New Zealand sector series

PwC's series of Rebuild New Zealand sector-focused reports examine industry-specific challenges and contexts as a result of COVID-19. The series looks at the big ideas and opportunities for the nation's key sectors to recover, so that New Zealand can emerge as a more competitive and productive nation.



Rebuild New Zealand: tertiary education

PwC considers the hurdles that must be overcome by tertiary education providers in order to recover from the impact of COVID-19 and tackle the needs of the country's new learning requirements.

Rebuild New Zealand: infrastructure

PwC looks at the opportunities for the infrastructure sector and how it can play a pivotal role in this country's recovery in terms of developing both economic and social outcomes.

Rebuild New Zealand: private equity

PwC explores the role private equity can play as an important source of capital for businesses looking to rebuild in the wake of COVID-19.

Rebuild New Zealand: primary sector

This report examines the opportunities for the sector to accelerate the shift to becoming more productive, sustainable and resilient by selling high-quality, high-value products to global markets.

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About PwC

At PwC New Zealand our purpose is to build trust in society and solve important problems. With over 1,600 people. PwC New Zealand has offices in the Auckland, Waikato, Hawkes Bay, Wellington, Canterbury and Otago regions. We're part of a network of firms in 157 countries with more than 276,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more by visiting us at www.pwc.co.nz pwc.co.nz