

SUBMISSION ON THE PROPOSED NEW ZEALAND INCOME INSURANCE SCHEME

26 April 2022

Submitter: Willisbrook Orchards Limited

Contact: Privacy of natural persons

1. Introduction

Willisbrook Orchards is a fifth and sixth-generation farming enterprise based on the Waimea Plains south of Nelson, producing apples, kiwifruit and wine grapes on around 80 hectares of irrigated prime alluvial soils. 177 years of family farming on these plains has seen a broad range of primary production across the breadth of agriculture and horticulture. Within the current generations that has included vegetable production, arable production, sheep and cattle grazing, and fruit growing.

Commercial Information

In recent generations we have been a part of substantial changes in fortune in the primary sector, in particular the turmoil of 1980s economic and social reform; the lean years of kiwifruit in the 1990s and apples in the mid-2000s; and latterly the considerable challenges and additional costs of exporting in the midst of a global pandemic.

2. Orchard Workforce

Following the labour shortages resulting from the Covid pandemic, Willisbrook Orchards has made a concerted change to employment arrangements; taking on more permanent staff, and endeavouring to smooth the seasonal workflows to minimise peaks and troughs of labour demand. One good example of this is starting apple thinning earlier by starting with flower thinning, at considerable extra expense, over thinning fruit later in the season. In addition, we have made a commitment of the Living Wage as the minimum for permanent employees. Commercial Information

This past season we set out our intent to grow larger, better coloured fruit, in part to ensure that at harvest our staff were efficient and able to achieve great incomes for high performance. Co

This intent was achieved through increased expense at pruning and thinning time to ensure the trees were well set up to deliver larger, brighter coloured fruit.

It is worth noting at this stage that our orchard business has, as the harvest of this season's crop concludes, paid all our suppliers for the season and paid wages on time each fortnight throughout the growing season, without yet having received any income from our export customers: **Everyone else has had a payday and we're now hoping for ours**. Export receipts will start to come in from April through until November, finalised nearly 18 months after we started investing in the crop. We will start paying suppliers and staff for pruning ready for next season's crop before receiving even a fraction of income for the current crop.

Despite efforts to grow a more valuable crop, the increasing risks from export market uncertainty, global logistics constraints, market protectionism, and the normal natural risks from farming, this

season is forecast to again produce a loss for our orchard business. Quite simply costs overwhelm income. With the increased uncertainties and risks our business takes, we need to be increasing profits to justify the investment made.

Wages in the horticulture sector have risen between 25% and 30% in the past 2 ½ years. In the case of Willisbrook Orchards **Commercial Information** again we reiterate this gets paid regardless of whether the business is profitable or not. Continuing to increase the cost of wages, such as the NZIIS will do, without the necessary business income that can support such increases, is folly.

3. Concerns about the New Zealand Income Insurance Scheme

Willisbrook Orchards has a number of concerns about the New Zealand Income Insurance Scheme (NZIIS) as drafted. These are:

The Scheme as drafted does not address the Government's stated purpose and intent of the scheme, particularly for disability. Our specific concerns about the scheme are:

- **Additional Taxation.** The scheme is supplanting existing unemployment and training schemes funded from general taxation – in effect it represents additional tax with no apparent offset saving for Government. There is an expectation, if enacted, that Government makes contributions representing the savings from existing schemes.
- **Scheme Target; Disability.** *“People whose ability to work has been impacted by a health condition or disability would be supported to take the time off work to recover properly, work reduced hours, or retrain if they couldn't continue in the same job”.* The Government's own definition of disability is an impairment that it lasts for longer than 6 months. My view is that generally it would be considered permanent, or at least an unpredictable recovery timeframe. If a worker is affected by disability then there is longer recovery and any reduced capacity (ie forcing less work hours) is a long run issue, not just 6 months. **So, this scheme fundamentally misses resolving this challenge.** In Australia the NDIS (National Disability Insurance Scheme) exists to cover this need, funded by an increase in the Medicare Levy Up from 1.5% to 2% of taxable income, with the remainder funded from State and Federal general budget revenues.
- **Scheme Target; Health.** This is an aspect that represents an area where Government could do better. New Zealand's woeful preparation for the ultimate spread of Covid-19 in our community showed how underfunded and ill-prepared our health system is. The pandemic has demonstrated the need to take time off from work to get better – but simply loading those costs on business has already been done by increasing sick leave to 10 days – a 50% increase in sick leave liability for business. This already represents business playing an increasing, albeit increasingly unaffordable, role. The NZIIS is an untenable further cost for business.
- **Scheme Target: Current Benefits not Recovered to NZIIS.** There should be clear expectation that currently tax-funded payments to any unemployed who would be covered by the NZIIS is identified, and that spend commitment made to the scheme.
- **Scheme Target: Redundancy.** The proposal in this scheme for redundancy is an attempt by stealth to shift the dial on redundancy. This should be removed from the proposal and the Government have the courage to address it in amendments to employment law. It is unlikely that in many of the business situations targeted for redundancy would have the cash to pay anyway. Where redundancy is intended to give a business a chance to be a going concern, redundancy costs will erode this chance.

- Scheme Expectation. The scheme will require people to look for work or take part in “training and rehabilitation”. We are concerned that there is little reference to the scheme being enabled and expected to enforce these requirements on potentially eligible recipients, as an assurance of sound management on behalf of the scheme funders.
- Effect on Employers due to Employee Health. Redundancy has to be paid if an employee’s health degrades to the extent it requires redundancy (no fault of employer). This takes no account for the costs already likely to have been incurred by employers up to the point of redundancy. We do not support this inclusion.
- Good Governance Essential. Any scheme realistically addressing health needs requires genuine, realistic and effective mechanisms to avoid a worker simply getting a sympathetic doctor to declare them unwell and therefore eligible. In essence the scheme must recognise the expectation of all scheme funders to avoid rorts, and provide value, not just add cost. We don’t see any reference to this in the documentation, nor an acknowledgment that this is the responsibility of the scheme owner (Government) on behalf of the debenture holders (employers and employees) and the governance and management must be held specifically accountable for avoiding rorts and misappropriation of scheme funds. Targets must be set, and appropriate rebates/discounts should be provided if these specific targets are not achieved.

4. Concerns for Workers and Business

The intent of this scheme adds to several other proposed legislative changes that will add further costs to the primary sector and our business. Introducing this scheme will severely curtail the confidence in our business, the intent to improve wages for skilled and productive staff, and the ability to pay the sort of bonuses mentioned earlier. That will not just limit our endeavours but those of our staff as well.

We are concerned that this tax on our staff will lift their expectations of increased pay, just to ensure they can meet the rising costs of living. So, either way each party will be looking to offset the increased taxation effect from the NZIIS, because neither party can afford the increase and still meet their costs. Therefore, we do not support the NZIIS.

We have grave concerns regarding the effect on both workers and business. These are:

- Tax Increase. For the lowest paid workers, the NZIIS **represents a staggering 19% increase in tax** paid (2.77% on top of 14.46%). Whilst the scheme intent is to 50/50 fund ultimately any employer commitment will have to be recovered from future remuneration reviews/increases.

Minimum Wage Worker NZIIS Tax Increase			
Min Wage/Week	\$ 21.20	40	\$ 848.00
Min Wage/Year		52	\$44,096.00
Marginal Tax (As per IRD Calc)			\$ 6,376.80
Marginal Tax Rate			14.46%
Proposed NZIIS levy			2.77%
INCREASE in TAXATION RATE			19.15%

Adding tax to our workers, especially as inflation runs at 30-year highs, seems unconscionable.

- Unintended Effects. The likelihood of unintended effects can be seen from the Australian requirement requiring private healthcare coverage if above \$90,000 income. All that has done is lift the medical costs for treatment where the patient has health cover, a vicious circle that then lifts premiums and so it goes on. The beneficiary is the medical fraternity, not the policy holder. Our concern is that this scheme may have some of the same effect on the cost of health provision and training/education. If enacted the scheme must monitor, benchmark and annually report on the costs of the services that will be funded by the scheme to ensure they

are not over-priced by the demand created from the scheme (i.e. the principal benefit is for employees not simply reaped by providers).

- NZ Economic Situation. It must be apparent to policy makers that the NZ economy is in a precarious situation. The balance sheets of businesses have been eroded by the pandemic and lockdowns; inflation is running at 30-year highs; business confidence is very low; export markets are still uncertain; and the margins for business as costs rise are making the risks of business activity too high for the limited reward, if any exists.

To quote the foreword: *“The challenges of the future are real and inescapable”* – business is very well aware of this, but the challenges aren’t in the future, they are now.

- Seasonal Workforce. We are concerned as to the potential liability any seasonal ‘layoff’ have on eligibility for redundancy for employers. We simply cannot afford to pay another 4 weeks wages at the end of a season, especially if that season is curtailed earlier than anticipated by weather or crop shortfalls generated by nature, not the business.

5. Conclusion

The NZISS in its current form does not represent an effective tool to address the stated objectives, most notably support for disability. For any such scheme to be successful it would require strong governance and operational management to ensure safeguards for the fund contributors against short and premium pricing from service suppliers.

The increase in costs, without commensurate Government savings, will fuel inflation and further burden workers and businesses, all at a time when business success is critical to New Zealand’s recovery from Covid-19. Neither our business, nor our employees, can afford a further hike in taxation to cover the costs of this scheme.

Lastly this is not an isolated cost increase but one of many likely to ultimately lead to business deflation to mitigate against costs, risks, and due to a lack of reward for the risks being taken. New Zealand already has a poorly performing economy with GDP 25% lower than OECD top performers, and productivity 35% lower. This scheme does nothing to address those challenges and ignores the very real short-term concerns of both business and workers.

Willisbrook Orchards does not support the NEW Zealand Income Insurance Scheme.

Confidentiality

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