

TDB Digest, March 2019

Dairy review – the latest



In this year's Dairy Companies Review, TDB looks closely at Fonterra's performance in comparison with other NZ dairy processing companies. The transparency of Fonterra's different businesses has improved, allowing us to analyse the performance of the company's ingredients segment alongside its value-add segment. While Fonterra's overall return on capital over the past five years of 6% is lower than that of Tatua (19%), Open Country (11%) and Synlait (9%), Fonterra's core ingredients segment has been performing well and delivering returns above its cost of capital. It is Fonterra's "value-add" segment that is increasing costs faster than it is increasing revenue. This leads us to question whether the move up the "value chain" has been more a case of moving up the "cost chain" and whether Fonterra would be better off sticking to its core business in the ingredients segment. See our report and related media coverage below.

<https://www.tdb.co.nz/wp-content/uploads/2019/04/TDB-Advisory-Dairy-Industry-Report-2019.pdf>

<https://www.stuff.co.nz/business/farming/111241800/fonterra-told-forget-valueadd-stick-with-commodities?cid=app-iPhone>

https://www.radionz.co.nz/audio/player?audio_id=2018686515



Iwi investment

The combined wealth of New Zealand's iwi is now around \$9 billion. The 75 post-settlement iwi continue to take a variety of approaches to managing their asset bases, with total growth of around \$1.2 billion over the past year. What does this growth look like, what investment strategies have they adopted and which iwi are faring the best? In our 2018 Iwi Investment Report, TDB address these questions for eight of the largest iwi: Ngāi Tahu, Ngāpuhi, Ngāti Awa, Ngāti Porou, Ngāti Whātua Ōrākei, Raukawa, Tūhoe and Waikato-Tainui. These iwi have combined assets equating to around \$5.5b or around 61 percent of all post-settlement iwi assets. Find our review for each of these iwi in the 2018 Report and a summary in a NZ Herald article below.

<https://www.tdb.co.nz/wp-content/uploads/2019/02/TDB-Advisory-Iwi-Investment-Report-2018.pdf>

https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=12200963

Becoming smoke free

It is looking unlikely that New Zealand will be Smoke-free by 2025. Although smoking rates have declined since 2011, they still remain high, particularly among Maori and Pacific. At the current rates, we predict smoking will persist well into the second half of the century. The effectiveness of ever-rising tobacco taxes in reducing smoking appears to have plateaued and low income smokers are being heavily penalised by these taxes. If further increasing excise tax isn't an effective way of reducing smoking, what is? In our recent submission to the Tax Working Group for Philip Morris, we discuss the potential role of taxation policy in encouraging switching to significantly less harmful options including e-cigarettes and heated tobacco. Our submission discusses introducing a risk-proportionate excise duty that applies to heated tobacco products. Read about it in our submission or the one page infographic below.

<https://www.tdb.co.nz/wp-content/uploads/2019/03/TDB-Advisory-Incorporating-Harm-into-Tobacco-Taxation-Philip-Morris-2018.pdf>

<https://www.tdb.co.nz/wp-content/uploads/2019/05/TDB-Advisory-Philip-Morris-Tobacco-Taxation-Infographic-2019.pdf>

Improving local government funding

The Productivity Commission is undertaking an enquiry into ways to improve local government funding. As part of a submission for Foodstuffs NZ, TDB analysed the use of development contributions (DCs) by local councils. Development contributions are a fee charged by councils on new developments to contribute to the costs of building the infrastructure that supports them. While DC use is governed by a sound set of principles, we found that in practice, some councils have been assigning DC charges that are disproportionate to the extra infrastructure costs arising from the developments. We also found significant variations in charging mechanisms between councils, between developments and from one year to the next. We also found issues with transparency and the reliability of some councils' financial systems. Considering the inconsistencies in DC use across the country, we recommend that the Productivity Commission develops a best-practice guide for local councils to ensure councils apply consistent, fair and appropriate charges.

<https://www.tdb.co.nz/wp-content/uploads/2019/02/TDB-Advisory-Foodstuffs-NZ-Local-Government-Funding-Submission-2019.pdf>

Funding fire services

TDB is pleased to have contributed to the work of the Property Council that has led to the government announcing a review of the funding of fire services in New Zealand. The government has said it recognises the problems with the current regime's reliance on property insurance levies and will consider a clean slate approach to the funding of Fire and Emergency Services NZ (FENZ). In our report for the Property Council, we discussed a number of best-practice approaches to funding fire and emergency services both in New Zealand and internationally. The government's review plans to look

at a range of options to achieve a funding regime that is stable, universal, fair and flexible. Read our review of FENZ funding below:

<https://www.tdb.co.nz/wp-content/uploads/2018/01/TDB-Advisory-FENZ-Funding-Best-Practice-Review-2017.pdf>



TDB's Iwi report referenced in the Economist!

TDB is delighted to have been referenced in an article in The Economist late last year. Read the article below:

<https://www.economist.com/international/2018/12/01/why-new-zealands-maori-do-better-than-australias-aboriginals?frsc=dg%7Ce>