

10 November 2021

Digital Public Service
Department of Internal Affairs
PO Box 805
Wellington 6140
New Zealand

Dear Sir/Madam

Re: Towards a Digital Strategy for New Zealand

1. Background and initial thoughts

I am writing to you regarding the Discussion Document entitled *Towards a Digital Strategy for New Zealand* (referred to as "the Document").

While the Document asks a number of specific questions in relation to the future digital options for New Zealand, BusinessNZ would instead like to provide some initial overarching observations and thoughts, as well as comment on certain specific aspects of the Document.

Overall, BusinessNZ welcomes the release of the Document. Given the last Digital Strategy was 2005 and updated in 2008, it has now been 13 years since the Government took a wide lens to how digital technology can assist in improving New Zealand's growth and competitiveness. Needless to say, a comprehensive national strategy is long overdue, especially one that seeks to provide a meaningful pathway that will improve New Zealand's digital competitiveness.

In addition to the timespan between reviews, the ongoing effects of the COVID-19 pandemic is another reason for a reevaluation of the digital transformation of the economy. Since the first lock-down in 2020, the pandemic has shown that people can adapt very quickly to new ways of communicating and exchanging information in an efficient manner. This is not to say that some sectors have found lockdowns extremely difficult for their business operations, with no degree of digital options being a

complete substitute for being able to operate under normal circumstances. However, if we were to look across the board at those that already had a strong digital presence they have, in general, been able to operate at levels without an overwhelming degree of revenue loss and in some circumstances have grown their operations. Also, a number of businesses who otherwise did not consider it important or kept diverting resources to other avenues of their business, have now come to the realisation that having at least some digital presence is important for the long-term viability of their operations.

Overall impressions of the Strategy

In its simplest format, a strategy is a long-term plan on what to do to achieve a certain goal. It would be fair to say that a look through the work outlined on the Digital Government website¹ shows considerable time and resources have gone into accessing how we can lift the future digital landscape in New Zealand.

Therefore, given the vast array of work that has already gone into various facets of digital change, we believe the Digital Strategy as outlined in the Document is somewhat underwhelming. It is not the case that we fundamentally disagree with the content of the Strategy, but we are concerned that by itself, it will not do enough to greatly enhance New Zealand's digital presence.

Aside from a focus on regulatory clarity that should underpin most of the work going forward, we believe future work around the Strategy also needs to take into account the following two initial points.

Connection with the 2008 Digital Strategy

As mentioned above, the last time the Government undertook a Digital Strategy was 2008. The work of this update Strategy, through both the Government and the Digital Development Council, culminated in the Digital Strategy 2.0 Report, which explored opportunities and tackled the shared challenges of digital development.

Looking through the final document of the 2008 Strategy, it would be fair to say there is some cross-over with the 2021 Document. Both the 2008 and 2021 documents outline what work is already underway, possible options going forward, and ways to measure their success. However, instead of Trust, Inclusion and Growth as the proposed themes for 2021, it was Connection, Capability, Confidence and Content that were viewed as the key enablers for 2008.

One could argue that a strategy from around 13 years ago may not have significant importance for today's considerations around our digital future. However, BusinessNZ takes the view that we do not know where we are going unless we know where we have been. Therefore, we believe it would be beneficial if the current Digital Strategy provided an outline of the success or otherwise regarding targets and actions from the 2008 Digital Strategy so that a clearer picture of what still needs to be done is outlined.

¹ www.digital.govt.nz

Recommendation: That the Digital Strategy examines how successful or otherwise the targets and actions of the 2008 Digital Strategy were.

Prioritisation of options

As we will discuss in greater detail below, the Document outlines a number of opportunities for New Zealand to flourish and prosper in a digital world. From BusinessNZ's perspective, it is important that the Strategy recognises which future opportunities are the best steps forward. Currently however, there is no discussion or attempt to prioritise the opportunities outlined in the Document.

We believe one key factor when assessing the various options for change is cost. COVID-19 has seen significantly increased borrowing by the Government and subsequent rising national debt to levels not seen in many years. This should mean that now more than ever, every future policy decision across Government that involves a cost to the taxpayer will need to be properly scrutinised in terms of their cost/benefit for the country as a whole.

Furthermore, if the Government sets multiple targets that are not economically viable (e.g. duplication of infrastructure to improve resilience or free internet for those that cannot afford it), then any cost/benefit analysis would need to take into account what any future private sector investment to achieve these goals would look like. Given that the Document discusses 'inclusive' changes such as 'free or subsidised internet subscriptions, devices and digital skills training,' it goes without saying that from a policy perspective, nothing is free. Either the taxpayer or industry will inevitably foot the bill.

If a deliberate and methodical cost/benefit approach is not taken for every digital option going forward, we are concerned that time and resources will be put into future changes that do little to improve New Zealand's digital position. Such outcomes will be exacerbated at a time when we are falling behind other countries in terms of a total digital skills resources across the country.

Recommendation: That the Digital Strategy looks to prioritise those themes and outcomes that are considered the most important to improving New Zealand's overall digital competitiveness.

2. Key Themes – Trust, Inclusion and Growth

The Document is built around three key themes that may form the future structure for the Digital Strategy, namely Trust, Inclusion and Growth. These have the stated aim of, *"enabling all of New Zealand to flourish and prosper in a digital world."*

Each key theme has its own chapter, outlining its goal, what is wanted, work already underway and opportunities for improvement. BusinessNZ does not have any problems with these three areas being included as part of a future strategy. However, as indicated above, we do have concerns that concentrating on only these three themes will not be enough to provide a sufficient collective shift to improve New Zealand's digital position.

Trust

The Document states that the goal of the trust theme is, *"the right foundations to sell our products and services to the world with confidence, while all New Zealanders embrace the digital future because they feel safe and secure."* There are two points BusinessNZ would like to comment on regarding this theme.

World leading or a fast follower?

Page 2 of the Document states, *"we want New Zealand to be an early adopter and a world leader in the digital economy,"* while the theme of Trust is based on, *"building the right foundations so that New Zealand can lead the world."* While such goals are laudable, we have to be careful when deciding whether New Zealand should be 'world leading' or a 'fast follower' when it comes to changes in policy.

Too often BusinessNZ has seen both Government and indeed the general public take the view that we should be world-leading or the first in the world to introduce something. This can sometimes be beneficial while at other times it can lead to unintended consequences, in some instances creating significant distortion. Too often policy makers do not understand that there is an inherent risk in taking this approach if we cannot see the unintended consequences that could lie ahead once such a decision has been made. The alternative - being a fast follower - makes it possible to observe both the mistakes that have been made and the actions that were successful.

BusinessNZ's concern is that our current culture often sees it as important to make New Zealand first in the world or world-leading and that as a consequence, many policy proposals fail to identify benefits and costs that ought first to be considered. But of itself being first in the world or world-leading is neither a benefit nor a cost; it is simply a consequence of whatever action is taken. Being first in the world or world-leading may give rise to costs or to benefits but these possibilities are seldom considered during the regulatory process. Often, too much weight is given to treating something as important when it is not.

Recommendation: That New Zealand looks to learn from the success and failures of other countries in developing its own digital strategy, rather than trying to be world leading.

Reliable and resilient infrastructure

The Document states that, *"reliable and resilient infrastructure underpins the use of all digital technologies."* BusinessNZ agrees, as trustworthy institutions and infrastructure ensure we are viewed in a favourable light regarding where we stand as a digital nation. This means a clear pathway around how both the public and private sector can work together is required.

Achieving the right policy decisions around infrastructure is important given the finite resources available to us. Because of such constraints, we need to ensure we also look at options around offshore infrastructure providers if that ensures a faster pathway towards achieving our digital goals. However, in relation to our discussion above concerning priorities, any future strategy needs to be mindful of avoiding 'gold plating,' namely incorporating costly features or refinements into something

unnecessarily, often in the name of improving safety or preventing redundancy. While we believe appropriate and reasonable measures should be taken for standard risk planning, if the Government takes the view that further investment is needed that focuses on potential extreme vulnerabilities, than a conversation will need to be had on how that is funded given the cost implications for the industries directly involved.

Recommendation: That the Government takes appropriate and reasonable measures for standard risk planning to avoid 'gold plating' outcomes.

Inclusion

The Document states that the goal for the theme of inclusion is that, *"all New Zealanders have the tools, services and skills they need to participate in, contribute to, benefit from, and lead in the digital world."* At the same time, the Document also points out that one of the challenges with this theme involves making sure all New Zealanders are included. Overall, BusinessNZ supports this goal, given a rising tide of digital technology use and connectedness across the country will likely benefit the economy as a whole.

However, as pointed out above around prioritisation, the potential resources put towards ensuring every New Zealander has the tools, services and skills to participate in a new digital world can quickly mount up in terms of costs. In turn, these can often come at the expense of other themes and their related opportunities the Digital Strategy may be seeking to achieve. From our perspective, very few policies achieve the goal of complete success across their intended audience. For whatever reason, there will always be those who fall through the cracks around the stated aim of the policy. The key goal for most policies should be that they are successful for most of the population they are targeted towards.

Therefore, we would want to see the Government take a pragmatic approach to the theme of inclusion, so that the Strategy does not quickly become one that focusses on the 'last person,' while neglecting other areas that would see a better return around digital technology across New Zealand.

To illustrate the point around balancing prioritisation and pragmatism, improving rural connectivity is noted as one of the objectives in the Document. We would agree that connectivity in rural areas needs to be improved, and it is our understanding that industry is continuously investing to achieve this objective, including through the Rural Connectivity Group (RCG). However, related to this is the idea of universal coverage. While it would be ideal to have 100% coverage across New Zealand, the economic viability of this would likely come into question given competition across industry and government funding have already led to mobile coverage being delivered to 98.5% of where New Zealanders live and work, which will soon to grow to 99.8%².

Having a Digital Strategy that focuses on improving capacity to help meet the growing demands/data growth of rural and regional New Zealand is one thing. Moving it to one where it simply becomes a goal of universal coverage is quite another. If it becomes

²https://comcom.govt.nz/_data/assets/pdf_file/0030/247377/2020-Annual-Telecommunications-Monitoring-Report-Revised-version-16-March-2021.pdf

the latter, then some frank conversations will be needed around how that is funded, and to what degree opportunity costs are at play, where such funds could instead be diverted to more worthwhile options.

Recommendation: That the Government takes a balanced and pragmatic approach to the theme of inclusion, so that resources are not diverted to the extent where there is regulatory overreach.

A Digital Strategy for all New Zealanders

Issues around prioritisation and pragmatism are not simply confined to infrastructure options, but also to other aspects of general society in New Zealand.

As the Document currently stands, we believe the discussion around inclusion portrays an imbalance between ethnicities. The current version of a successful digital strategy outlines opportunities for Maori, a Maori perspective on digital inclusion, and future indicators that include sub-sets for Maori. However, if we are to examine this strategy through the population lens of the next 10+ years, it will be apparent that the full make-up of New Zealand's ethnicity needs to be factored in.

Based on StatisticsNZ's data on the ethnic share of New Zealand's population through to 2043, those who classify themselves as European will still make up around 2/3rds of all New Zealanders through to 2043. However, those who classify themselves as Asian will make up around one quarter of all New Zealanders by 2038, compared with one-fifth for Maori. In addition, Pacific Peoples will make up 10 percent by the same time period³.

The Document contains very little on how New Zealand's Pasifika people could be included in any future Strategy, and almost no mention of what digital opportunities could be contemplated for New Zealand's growing Asian population. Given New Zealand's geographical position and immigration patterns, the fact that many Asian New Zealanders will likely still have strong family and/or friend connections with their original home country means that we need to examine how our Digital Strategy can make the most of this.

For instance, existing connections with large parts of Asia could enable digital business opportunities in one of the most populated areas of the globe. This could see a benefit to New Zealand in both directions, either through exporting our services/technology to areas not normally considered, or through identifying and importing key digital technology/workers to enhance our own digital footprint. Given New Zealand needs to take every digital opportunity available, it would be remiss of us if we do not explore what New Zealanders with strong connections with other parts of the world can offer.

Overall, we believe an undue focus on just one ethnicity can create an inward-looking, rather than an outward-looking stance when seeking to raise our overall digital position, and risks missing opportunities elsewhere that would lift New Zealand's

³ StatisticsNZ 'Ethnic share of New Zealand population – median projection 2018 – 2043'.

digital presence across other facets of society. We believe a better balance between all New Zealanders is required within the Digital Strategy.

Recommendation: That the Digital Strategy examines the opportunities for all New Zealanders.

Growth

The Document outlines the growth goal that, *"our tech sector continues to be fast growing and becomes more inclusive, selling home-grown IP the world over, and all our businesses are quickly adopting technology in order to grow."* From our perspective, this theme provides the greatest opportunity for New Zealand to prosper in a digital world. In terms of prioritisation discussed above, we would place greater weight on this theme, given the capacity for the private sector to become an integral and positive part of the way forward.

Immigration policies to increase pace of digital talent pipeline

Page 22 of the Document discusses the issue of building a strong talent pipeline by equipping people with digital skills, primarily through the education sector. However, while growing talent domestically is the Strategy's first focus, it also points out that, *"in some cases New Zealand will want to use immigration as a source of specialized expertise."*

At present, we currently find ourselves in a policy setting that has effectively turned the digital talent immigration tap off due to COVID-19. It would be fair to say that during this time (now stretching out to over one and a half years), our overall digital competitiveness has gone backwards in relation to other countries because of the extreme migration measures taken by New Zealand. This is deeply concerning given the ongoing international demand and competition for digital skills. Even with an eventual change in MIQ status that allows the free inflow of offshore workers in the short-medium term, it will still be some time before offshore workers see New Zealand as a viable destination to apply their trade. In addition, there is every chance of further brain drain if New Zealanders head offshore to work in circumstances where they cannot get back into the country with ease. Last, there will still be the ongoing heavy competition with other countries for highly skilled workers.

Therefore, rather than placing immigration a side option, BusinessNZ believes the Digital Strategy needs to be more ambitious about enticing highly skilled digital workers to New Zealand so that the overall pool of digital talent is lifted. Simply taking the view that New Zealand can build its own talent pipeline without also developing comprehensive policies to invite highly skilled digital workers from other countries is hopeful at best. Without a strong focus on immigration, the Digital Strategy could find itself on a difficult road to success.

Recommendation: That the Digital Strategy puts a greater weighting on immigration as a way to broaden New Zealand's digital talent pipeline.

Government letting private sector lead the way

It is pleasing to see the point made on page 5 of the Document that New Zealand's technology sector is outstripping growth in the wider economy, growing 30% faster than the economy overall over the last five years. We agree with the views expressed in the Document that New Zealand has a growing technology sector. A growing sector provides increased opportunities for the private sector to assist the public sector in improving digital outcomes.

In that regard, we note that in addition to the Digital Strategy Document, there is also a Public Sector Version entitled 'Strategy for a Digital Public Service.' This details both a strategy and programme of work in five key focus areas for government departments to work through.

While we support a digital strategy for the public sector, BusinessNZ is disappointed that there has not been more effort put towards seeing how the public sector digital strategy and the strategy outlined in the Document can be deployed in a collaborative approach. We agree that trust is a key issue where the private and public sector can work together, in areas such as cyber security and secure provision of digital services. However, we believe there is also an opportunity for the private sector to provide a range of technological solutions that have typically been the domain of the public sector.

A current example of how the private-public sector technological relationship could be enhanced is through the significant investment made in upgrading Inland Revenue's IT capability. This has culminated in a world class tax administration infrastructure including the new START system. That, however, is not the end of the journey, but the foundation on which New Zealand can build a world-leading tax administration for the future. Such a tax administration needs to be low cost for everyone and fair to all, especially for those with the least resources who struggle to meet a multitude of tax obligations and the technical complexity of tax rules.

The key will be to leverage off the investment made in START. In that regard, risks and costs are driven down by automation, but this requires a diverse group of intermediaries providing digital systems and system management services. Therefore, in order to get value from the digital revolution in tax, we would like to see Inland Revenue partnering with a much broader group of private sector intermediaries than has been the case in the past. With a New Zealand tax administration that is flexible and smart and that capitalises on the enormous possibilities IT advances open up, this means driving down risks and costs for everyone, including the Government, businesses and individuals.

BusinessNZ believes there is fertile ground for the private sector to provide technological solutions for various Government departments. To illustrate the extent of the opportunities in this space, in conjunction with a number of private sector tax experts, BusinessNZ will soon be publishing a paper outlining a revised set of tax principles for the future, and a view of what the future could look like.

Overall, we believe the Digital Strategy provides an ideal opportunity for the private sector to drive digital and technological change around the way many Government departments interact with taxpayers.

Recommendation: That the private sector has an increasing role in providing digital solutions for the public sector.

SMEs involvement in a digital strategy

BusinessNZ's membership covers almost all sectors, sizes and regions. Therefore, we can ensure an SME lens is placed over any policy discussions we respond to.

We note that the Document outlines 'digitally enabled businesses' as part of what the future should look like. The associated example in the Document highlights the overall outcomes of small businesses that used a number of digital applications during the 2020 COVID-19 lockdowns, compared with those that did not. For any Digital Strategy, the key will be to build on the swift digital change many SMEs have experienced over the last year so that they make the most of what is available to them, while ensuring they develop the mindset to seek out further opportunities to grow their business through digital options. Given the sometimes overwhelming regulatory and compliance issues many businesses have to deal with on a daily basis, simply having dedicated time to access how their digital presence can be improved often becomes a low priority, when it should often be top of mind.

To ensure digital development remains top of mind for SMEs, we would like to point out that options to improve the digital capability of SMEs should not rest entirely with exclusively government options. BusinessNZ's members currently allocate significant resources towards improving their day-to-day business activities across a large number of priorities, including improving their digital presence. Therefore, opportunities for the private sector to help raise the digital bar for SMEs are plentiful.

Recommendation: That options around digital enabling businesses – particularly SMEs – identify ways in which the private sector can be directly involved.

Underwhelming growth opportunities

In terms of work already underway under the theme of Growth, we believe there are a number of positive initiatives currently taking place to increase New Zealand's digital capability. However, in terms of opportunities for growth, the Document outlines just two, namely:

- Complete the Digital Technology Industry Transformation Plan (ITP); and
- Continue to support businesses through Digital Boost.

While BusinessNZ has no issue with further work being undertaken in these specific areas, it appears from what is described in the Document that the future gains from these areas seem marginal at best. For instance, and in relation to the discussion under 'Inclusion' above, no one would argue that encouraging Maori participation in the digital sector is not a worthy goal. However, would that represent the priority

target for growth that would significantly move the needle for all New Zealanders? Also, in terms of digital boost, we would again question whether translating 200 training videos into the Maori language will again create the type of accelerated growth that an ambitious Digital Strategy should aim for.

Overall, there seems to be a lack of ambition in the Document regarding future options for growth, underlining the point we raised earlier about the underwhelming nature of the Digital Strategy itself.

Recommendation: That opportunities for digital growth involve options that create the strongest potential for New Zealand's digital competitiveness.

3. How we will track our progress

In terms of what success looks like, the Document outlines both existing indicators for the three themes, as well as future indicators that are planned or being explored. We wholeheartedly agree with the point raised in the Document that "*clear goals and ensures are important*". We would go further and say they are fundamental to success.

While we do not have any overall concerns with the indicators outlined, we would reiterate the point that better collaboration with the private sector would significantly assist achievement under these indicators. The collection and use of digital data in the private sector continues to grow exponentially, providing useful options to track progress. Much like StatisticsNZ seeing opportunities for the private sector to take an active role in recording and measuring a number of statistics, the Digital Strategy could usefully see more opportunities for the private sector to play a part in outsourced information collecting.

Recommendation: That where available, moves towards tracking the progress of the Digital Strategy seek private sector cooperation.

Thank you for the opportunity to raise these matters, and we look forward to further discussions.

Kind regards,



Kirk Hope
Chief Executive
BusinessNZ