

## December 2008



### End of Year Best Wishes

**The Principals & Staff at Graham & Dobson Ltd thank you for your continued support during 2008. We wish you a safe, happy and relaxing festive season.**

**The offices of Graham & Dobson Ltd will be closed from 4pm on Tuesday 23 December and will reopen on Monday 12 January 2009 at 8.30am.**

### Snippets

#### Family Tax Credit Increase

The annual amount of the minimum family tax credit, which guarantees a family's after-tax income, rises from \$18,460 to \$20,540 from 1 April 2009. This increase was approved by Order in Council on 6 October 2008.

#### FBT Interest Rate for Low-interest Loans

The prescribed rate used to calculate fringe benefit tax on low-interest, employment-related loans rose from 10.57% to 10.90% from 1 October 2008.

#### New Secondary Tax Rate

The Government announced on 7 October 2008 that Cabinet has agreed to a new, bottom secondary tax rate of 12.5%, from 1 April 2010. The Hon. Peter Dunne said "Secondary tax rates are not intended to tax income earned from two or more jobs more heavily than the same income derived from a single job". Lowering the secondary tax rate is not actually a tax cut. Taxpayers' tax obligations do not change –

lowering the secondary tax rate merely reduces the chances that taxpayers will be overtaxed during the course of the year. Where taxpayers have been overtaxed, they will be entitled to a tax refund at the end of the year.

#### Regional State of Play

House prices in Gisborne have fallen more sharply than anywhere else, albeit after several years of a strong boom. Non-residential construction intentions are reasonable in the region, and offsetting the residential slowdown. The recession is not getting in the way of plans for a \$16 million superstore for Gisborne. Moreover, the British newspaper, The Guardian, has compiled a list of ultimate New Year getaways – and second only to Paris is Gisborne!! A tourism slowdown has resulted in large falls in guest nights in the region – maybe this good publicity will help turn things around!

#### Where does your premium go?

To insure an average size house, of 120 square metres, you can expect to pay a premium of approximately \$472.00. The breakdown of this amount shows approximately 38% goes to destinations other than your insurance company. In commercial insurance, the equation is slightly different because Earthquake Insurance is underwritten by insurance companies.

\$294.00 Actual premium to the insurance company  
 \$ 76.00 Fire Service Levy – funds the fire service  
 \$ 50.00 Earthquake Commission premium for use in times of natural disaster  
 \$ 52.50 This is good ol' GST  
 \$472.50



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## Banks have tightened up lending

Regardless of whether you are looking for a loan from the bank to buy a house or start a business, it is going to be a lot harder to get the money from the bank. And that also includes those that want to top up the mortgage for a holiday or other personal needs, along with businesses that require an increased overdraft or loan to help them get through these troubled economic times.

Most banks are now wanting new home buyers to have at least 20% deposit. That equates to \$50,000 on a \$250,000 house.

Don't be complacent thinking you can easily get an additional loan from the bank just because they were trying to lend you extra a couple of years ago. That is certainly no guarantee that you can walk through the door and expect a similar offer now. The banks' criteria have changed markedly. A guarantee may be sought by the banks from someone prepared to back you where they are not comfortable with the security offered. Avoid this if possible.

New Zealand banks have to source approximately 30% of the money they lend from offshore. These funds are costing more, and are harder to get, even for the better banks.

On a positive note, interest rates are falling quickly so loan repayments should start falling too.

When your loan repayments drop we recommend you leave your loan repayments at the higher level, if you can afford to do so. It will mean a significant saving in the interest paid over the term of the loan. Go to [www.sorted.org.nz](http://www.sorted.org.nz) to get an idea of what savings can be achieved by paying your loan off quicker.

## Turn, tum, turn

To everything there is a season, as Ecclesiastes wrote a couple of millennia back. It was, after all, time for a change. The Helen Clark Government has made a difference. The Armistice Day ceremonies in early November were a nice reminder. Helen Clark took an interest in such events as a young backbench Member of Parliament in the early 1980s.



This became part of her Government's 'national identity' theme, which although at times threatened to be too overtly Labour Party oriented, still boosted a nascent New Zealand national pride.

In many ways she was very lucky. The first PM since the early 1950s not to face an economic crisis, Clark prospered on the back of an international commodities boom.

Many promises were unfulfilled. We are bwer in the OECD than we were, productivity is still poor and a key driver of low economic and social worth – the 20% of the workforce who are functionally illiterate – has not changed. It is time for a Government with greater interest in those things and one less restrained by interest groups which hinder them. John Key will need to deliver.



## Remaining Robust in Uncertain Times

Global economic crisis, credit crunch, financial meltdown – all terms that have been echoing around the world in recent months. What has been happening in the world will inevitably affect New Zealand businesses. The state of the world economy is such that New Zealand cannot ignore what is happening – after all, given the relative size of our economy, it is not able to influence the outcome of the current crisis.

From a New Zealand perspective, the question is whether businesses do nothing and hope for the best, or take appropriate measures to strengthen themselves for the storm to come and emerge on the other side in a relatively healthy state.



The majority of New Zealand businesses are small to medium sized enterprises. Given the uncertainty for businesses at present, they need to make every attempt to safeguard themselves against the downturn in the economy. The mantra for businesses, to ensure survival in difficult times, must be “Cash is King!” Cash is the lifeblood of businesses.

What follows are some reminders for businesses of sensible and good business practice in uncertain times. They are by no means anything extraordinary that businesses must do; they are merely reinforcements of how to maintain a strong and healthy business.



### Cash position

Businesses will need to take a more focused approach to what their cash requirements are. What are the business cycles for the enterprise? If cash resources are inadequate, the business will need to review its overdraft facilities for adequacy and approach the bank to make adequate arrangements. For a large number of businesses in New Zealand, their shareholders’ lifestyles are funded by the business. In the current economic climate, businesses should be prudent about the levels of funds being extracted by shareholders by way of drawings or otherwise.

### Stock

Businesses must determine the levels of stock required for operating the business at an optimal or efficient level. Too little stock means the business could be caught short; however, too much stock means cash is tied up unnecessarily. To get stock levels at as optimal a level as possible, the management should review turnover levels of the business, which will in turn provide information about when stock should be re-ordered. As part of the stock review process, any obsolete or slow moving stock should be cleared as soon as possible – they could become sale or discounted items. The business should also review its sales and distribution strategies.



### Debtors

The first thing to remember about debtors is that they represent money belonging to the business – money that is sitting in someone else’s bank account! This is the time to ensure that the business has robust credit control policies. To encourage prompt or early payment, discounts could be given. Debtors, who may have been lax in the past with payment, may need reminders to prompt them for payment.

### Cost Management

Businesses must also review their cost structure and, where possible, savings should be made. Businesses should concentrate on their core functions and costs. Where there is ‘dead wood’ within the business, consideration should be given to pruning that part of the business. The business should identify which parts are operating efficiently, and which parts are not? Can efficiencies be improved upon? Management should isolate the reasons for these efficiencies, and work on improving those parts of the business.

These are a few areas that businesses can focus on. There are many more areas and strategies that can be looked at to ensure a robust future in difficult economic times. Businesses that have a strategy now are more likely to come out at the other end of economic unrest unscathed.



### Newsletters via the website

In future, we would prefer to send an email to clients advising that our latest newsletter is on our website. We consider this to be a more efficient and cost effective way of getting the newsletter to you.

If you would like to receive future newsletters by e-mail, please go to our website at [www.grahamdobson.co.nz](http://www.grahamdobson.co.nz), click on the “Register for Newsletter” icon and complete the registration screen.





## The School Answering Machine

This true tale came about because a school had implemented a tough new policy requiring parents to be responsible for their children's absences and missing homework.

The teachers were being held accountable for their students' failing grades – even though the failed children were absent on up to 30 occasions during the term and did not complete enough school work to pass their competency levels.

The school and teachers were on the point of being sued by irate parents who wanted their children's failing grades changed to passing grades.

In desperation the Board of Trustees of the Californian High School voted unanimously to record on their school telephone answering machine the following message :-

*Hello! You have reached the automated answering service of your school.  
In order to assist you in connecting to the right staff member,  
**please** listen to **all** the options before making a selection -*

*To lie about why your child is absent – Press 1*

*To make excuses about why your child did not do his work – Press 2*

*To complain about what we do – Press 3*

*To ask why you didn't get information that was already enclosed in your newsletter and several flyers mailed to you – Press 4*

*To request another teacher for the third time this year– Press 5*

*To complain about bus transportation – Press 6*

*To complain about school lunches – Press 7*

*If you want us to raise your child – Press 8*

*If you realise this is the real world and your child must be accountable and responsible for his/her own behaviour, class work, homework and that it is not the teachers' fault for your child's lack of effort:  
hang up and have a nice day!*

*And*

*If you want this in Spanish, move to a country that speaks it!!*

