

better business

MAY 2017

WELCOME TO THE NEW FINANCIAL YEAR

Many of us have or are about to reach the end of a financial year and embark on a new year. At the end of a calendar year we are often challenged to take stock of what we have achieved, where we are at and where we are going. Some of us choose to make resolutions for change and personal improvement at that time. We often don't achieve what we set out to do. When this happens, we can re-evaluate and try again.

This approach on a personal level can and should also be mirrored at a business level. Often our personal ambitions can lack some structure and discipline. If businesses don't plan appropriately they too can lose structure and discipline.

Often when in the hustle and bustle of day to day activities we fail to take stock of what we have achieved and what we still need to achieve. As many of us approach a new financial year it is an opportune time to reflect on what your business needs to achieve in the next year.

Change is constant, we can embrace this or drift off the pace. Any change to any aspect of a business will have a financial impact. If you are looking to grow revenue, change premises, employ more staff, increase production, increase prices, change accounting systems.... The list goes on – without planning and appraisal it is difficult to understand what the real impact of these changes will be to the business.

If you were to improve your gross surplus by 1% what impact would this have on profit? If you stock turns over more regularly,

what impact would this have on cash flow? Likewise, if you collect your receivables more quickly how will this improve cash flow?

These are examples of questions that we need to consider regularly. We have a team with broad experience in dealing



with staffing issues, accounting software solutions, budgeting, management accounting, taxation, wealth management and strategic planning to name a few. These are all disciplines that are future focused and where we can assist you with your business planning.

There can be varying degrees of structure around how we plan for the future. This will depend on the size of business, the historic approach to planning, or a holistic versus a project based approach. This also depends on the ownership style. My encouragement would be to review what you do now and consider what may work for you in the future. Then seek independent input from your professional advisor as they will be able to add value to the outcome.

Welcome to the new financial year and the opportunity to plan ahead. We are here to help you with this process and as always are happy to work on any aspect of your business with you.

In the words of Warren Buffett: "Preparation is everything. Noah didn't start building the ark when it was raining."



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Changes to the withholding regime

The Taxation (Business Tax, Exchange of Information, and Remedial Matters) Bill received Royal assent on 21 February 2017 and with it brings changes to the current rules around withholding tax. The most notable of these are:

- allowing contractors to elect their own withholding rate
- extending the withholding regime to include labour-hire firm contractors and the allowance of contractors not covered by the scheduler/withholding payment rules to opt in with the consent of their payer.

These changes will all come into force on 1 April 2017.

Contractors Electing Their Own Withholding Rates

Contractors who are subject to the withholding tax rules are now able to elect their own withholding rate without having to apply to Inland Revenue for a special tax code. This is subject to minimum rates of 15% for non-resident contractors and 10% for all other contractors. If a name and IRD number is not provided, a 45% rate will be used. If a contractor fails to meet a liability under an Inland Revenue Act, the Commissioner may prescribe their own rate.

When a contractor changes their rate twice in a 12-month period,

they require the consent of the payer to change it again. When no rate is selected, current rates apply.

Extending the Withholding Regime to Labour Hire Firm Contractors

Payments by labour-hire firms to their contractors will from 1 April be subject to the

withholding tax rules. This means that labour-hire firms are now required to withhold at the self-elected rate, as described above. Labour-hire firms will also have an obligation to deduct withholding tax even when they make payments to companies (i.e. the general exception to the withholding tax rules for companies is overridden). Furthermore, labour-hire firm contractors will not be eligible to receive certificates of exemption from withholding. A labour-hire firm is described as "an entity which has one of its main activities the business of arranging for a person to perform work or services directly for clients of the entity".

Voluntary Withholding Agreements

Contractors not covered by the withholding tax rules can now opt into the regime with the consent of their payer. This effectively means that if an agreement is reached, a contractor becomes

subject to the withholding tax rules and the payer will be required to withhold from payments made to them. When acting under an agreement, the payer will be required to withhold from the contractor at either the default rate of 20% or at the rate selected by the contractor (as outlined in "Contractors Electing Their Own Withholding Rates"). A payment to a person is a withholding payment when there is no obligation to withhold from the payment under either the Income Tax Act 2007 or the Tax Administration Act 1994 and both the contractor and the payer have agreed to treat the payment as a voluntary scheduler payment and have recorded their agreement in a document. Payments covered by voluntary withholding agreements are excluded from the FBT rules.

If you are a contractor or employ contractors and have any questions relating to these changes, please get in touch with us.

If a contractor fails to meet a liability under an Inland Revenue Act, the Commissioner may prescribe their own rate.



Michael Turner

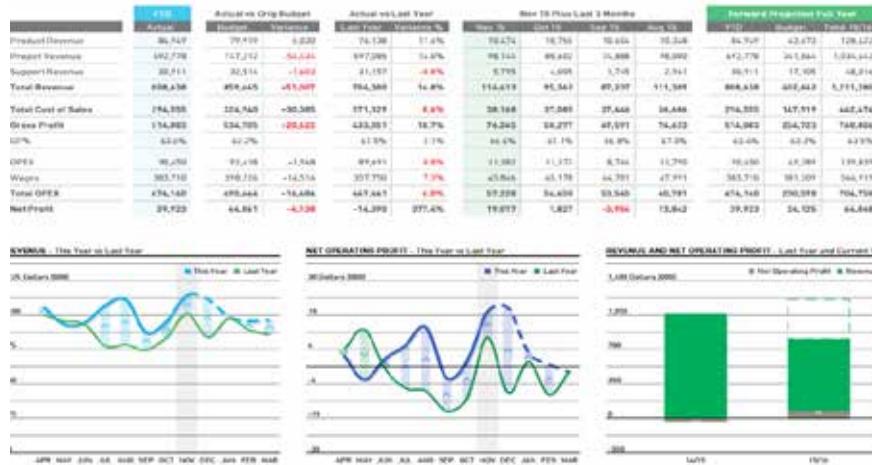
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Cloud computing



Cloud computing has changed the way we interact with our clients. Using an online platform like Xero and living in the now means you can get more out of your advisor. This is because we are now able to get more ingrained in your business.

At Polson Higgs, we can be your real-time business partner, or a virtual CFO. We use Xero as our accounting platform which enables us to connect to other businesses on Xero. We can see the same things you see. We can see what's going on and what may happen through regular catch ups and reporting.

The insights that our management reporting provides include:

Profit and Loss Analysis

- Tracking the year-to-date result. Let's you know how you are tracking to budget so that your performance is not based on a gut feeling or how the bank is looking.
- How does this affect our forward projection? Are there changes we should be forecasting for so that we can better understand our future performance?

Balance Sheet Analysis

- What do we own and to who do we owe? What have we got coming in? What has been going out?
- Keep track of the value of your business. We want to make sure that you are growing the value of your business.

The feedback we get from clients who receive monthly or quarterly performance reports is great.

Cash Profile

- Cash is king. The information from the profit and loss all funnel into your cash position.
- Understanding your cash cycle and knowing when the peaks and troughs are important.

Our monthly reporting is timely, accurate and informative. The feedback we get from clients who receive monthly or quarterly performance reports is great. It opens their eyes up to what's going on in their business and if those sales are translating into profit. Having this regular feedback means that you can review your

pricing, capacity, cash flow or projects as you go rather than at the end of each year when your annual financials are complete.

If you want to take more control of your business and make decisions based on timely and accurate data, then give us a call. The regular performance reporting and advisory sessions provided by Polson Higgs are tailored towards what your areas of focus should be. These services are all priced up front so you can fit them into your annual budget.



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Pioneers new look



When a visionary pioneer of Dunedin childcare started seeing enrolments falling because of increasing competition for a shrinking market, it was time for a new look — but one that would retain all the values that had benefited children over the last 40 years.

Now rebranded as Pioneers, the not-for-profit organisation is going from strength-to-strength, looking to the future without forgetting its history.

Pioneers — formerly known as the Dunedin Community Childcare Association — was established in 1975 by Dr. Anne Smith and Pat Hubbard, who shared a vision for accessible, affordable, quality childcare.

They saw childcare as much more than a creche or "drop off" environment, believing that educating young pre-schoolers was as critical as caring for them. They also saw the benefits of offering their childcare model not just in centres, but in private houses — what has now become known as home-based care.

"The aim was to support communities," says Pioneers' Director Penelope Pask. "In the 1970s more women were studying and starting careers, there were more solo mums and there was a great need for quality childcare. Providing this with trained teachers was a revolutionary idea at the time."

"The aim was to support communities," says Pioneers Director Penelope Pask.

The idea became reality with support from Dunedin Teachers' College, Work and Income New Zealand and a grant from International Women's Year. Dunedin parents were enthusiastic and the initial daycare centre housed in two villas in Forth Street was soon supplemented with a family daycare scheme based in homes.

Pioneers

"Community was at the heart of everything our founding members and teachers did. They were serving the needs of local families, in particular supporting women who were seeking new career opportunities and needed childcare. But they were also giving children a fantastic start in life by providing early education, and the organisation soon had a strong reputation around Dunedin — everybody knew it."

Pioneers continues the tradition today. "We have taken the early vision of our founders and keep on growing it, helping it to evolve. We're still one of very few organisations that offer centre and home-based care and we are the biggest in the country running this dual service community-based model. We may have changed our name, but our principles remain the same."

As with any success story, competition soon arose in Dunedin. Private enterprise saw opportunities and invested in smart new buildings to house alternative daycare centres, and large local employers started their own in-house centres.

Despite the enviable reputation of what was then the Dunedin Community Childcare Association, numbers began to drop, exacerbated by falling birth rates.

"After 40 years leading the pack we realised that our reputation alone was no longer enough. The landscape had changed and childcare had become a lucrative private business. Large corporates were getting on board and competing with local centres."

It was time for a rebrand. The Board brainstormed for a new, catchier name, something that would reflect the organisation's





Dunedin heritage and its history and visionary founders, and would carry the brand into the future.

"We wanted a one word punchy name that would connect with Dunedin," says Pask. "When we thought about the city's pioneering spirit, the name Pioneers stood out. It reflects the pioneers who went before us and showed us the way; it reflects how we continue to evolve and move with the times and it reflects on the children coming to us who are the pioneers of the future."

With a new name, Pioneers needed a new approach to updating its image in a digital age, and took advice to focus on the web.

"We have to market to the right demographic in the right place. The current generation of young parents is very internet savvy. They ask good questions and keep you on your toes. We're selling quality so we must educate the market about what good childcare looks like. The market may have changed since the early days but we have kept our core values. We want to be judged by what we stand for."

Three values encapsulate the Pioneers brand, culture and vision, says Pask: nurturing relationships between teachers, parents and children to provide a trusting, caring environment; ensuring children have all they need to thrive in growth, development and learning; and assisting children to explore their world and expand their minds.

"We don't think that the regulation ratios of teachers to children are sufficient so our staffing levels are greater than the minimum, and we have small mixed-age groups rather than doing what our competitors do, segregating ages in different rooms. Research shows that our methods work better for pre-schoolers."

They also work well for parents. The new name and associated marketing generated a tremendous reaction.

"The website was amazing. It's our shop window and we had an

instant response. With the rebranding our enrolments picked up almost overnight."

With a new look, Pioneers decided it was also time for a revamp of administration systems. "As part of our rebrand we modernised our internal systems, moving online with all of our administration and financial systems, with a mix of in-house training and support from our advisors.

"Polson Higgs have supported our accounting systems for the last 10 years. We manage our day-to-day accounts and Polson Higgs helps with the preparation of end of month and annual accounts and the very complex Ministry of Education Funding accountability.

"They provide financial advice when required, or when they see something we may not have thought of. They also give us a means of quality assurance for our Board and verify that our internal systems are transparent. It's a good safety measure and very much appreciated by the Board.

"During our recent change over to Xero they worked with our administration team helping us with transitions. They helped streamline our accounting processes to make them easier and less time-consuming.

"They're good at picking up the details and they've certainly helped us through the rebranding, offering advice and assisting our understanding of business and financial matters. They're really supportive."

The founders of Pioneers went on to international acclaim as leaders in quality childcare. The current team feel they are following in a proud tradition.

"We've always been leaders in childcare in the community, training teachers and supporting childcare members. We're certainly the local leaders and the go-to experts for the media and ministries. We're still the biggest childcare organisation in Dunedin and the default option.

"The rebrand has helped us get our values across and we now believe we stand out. Our brand is identifiable with our founders' vision for good quality, accessible, affordable education and care for young children."

...we realised that our reputation alone was no longer enough. The landscape had changed...



2016 was a special year...

There have been many reviews of 2016 – most of them negative including disbelief around the election in the United States, the referendum in the UK etc. – but 2016 was a positive one for Polson Higgs Wealth Management.

There are more important services we provide to our clients than trying to shoot for the stars with regards to performance. That approach only leads to taking more and more risk and generally ends in tears. However, we do take one particular risk that other advisers don't necessarily take when we allocate large proportions of our clients' money to value and small companies.

2016 was the year when our tilt to value companies came home in spades handsomely in Australia, and to a lesser extent internationally. Value companies are the shares of companies that are cheap compared to their underlying value.

Value and small companies are higher risk than large companies - so why do we do it? The evidence from independent researchers tells us that these risks are worth taking; over time they pay off with higher returns than large companies. After a relatively quiet period for a number of years they did pay off in 2016:

Value and small companies are higher risk than large companies – so why do we do it?

- Australian large company shares returned 10% for the year*
- Australian small company shares returned 11% for the year
- Australian value shares returned 25% for the year

That is a whopping out-performance for value companies over large companies of 15% for the year (value companies represent half of our total allocation to Australian shares).

To be fair our Australian value companies had under-performed for a number of years and we were due for this out-performance. In a way it was catch-up and we were glad to get it.

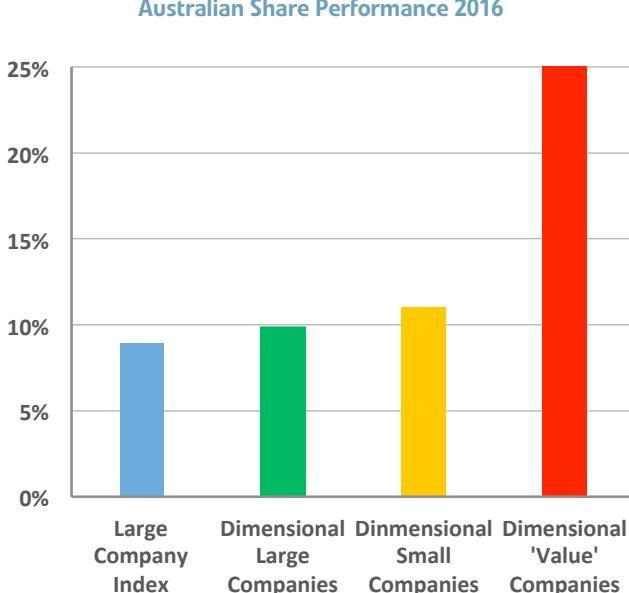
The past year shows us how lumpy the returns from small and value companies can be. One needs to remain invested for the long term and every so often one's patience is rewarded.

Our international shares also produced a pretty good year for small and value companies. Putting all that together – our diversified portfolios managed to strongly out-perform a number of other big names in the investment world by quite a large margin. Our tilts to value and small companies are likely to account for a good portion of that. For an outfit that focuses on "steady as you go" and avoids the risk of stock-picking and market-timing, we had a pretty good year in 2016.

Rhodes Donald, 23 February 2017

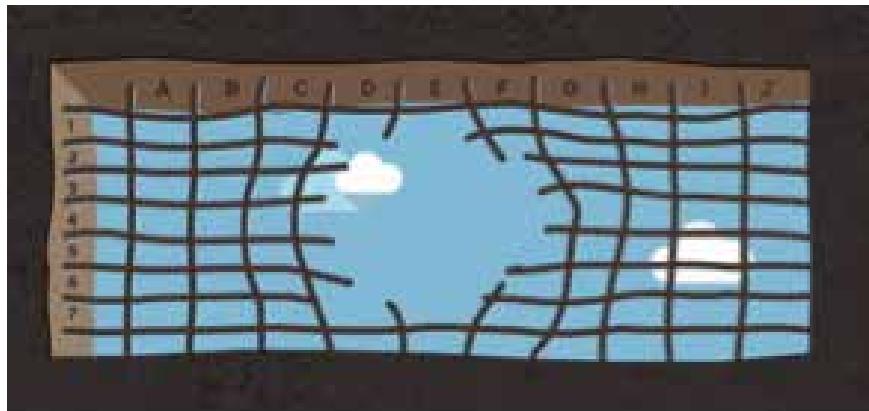
*All returns rounded to the nearest whole number, after all investment management costs but before adviser costs and tax.

Past returns tell you nothing about future returns and are not a good guide to selecting investments or investment managers. This article does not constitute advice. Figures prepared by Polson Higgs Wealth Management from original sources. A Polson Higgs Wealth Management Discretionary Investment Management Service Disclosure Statement or Disclosure Statement for Rhodes is available on request. See www.phwealth.co.nz.



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Cin7 lets you make more money with less inventory



Tracking inventory with spreadsheets that don't integrate with accounting solutions may be adequate for young companies. But as a business grows, the method makes less sense.

You spend more time processing sales orders and invoices at multiple stages - at the POS, in your inventory spreadsheets, in your accounting software, and more. Not only does this eat up your resources, but it doesn't give you real-time stock levels and costs, and it runs a significant risk of input errors as you update your ledgers and other documents.

And all the sales and inventory data you accumulate over time? They won't give you insight to your cash flow, sales trends, or stock levels, without a specialist mining the information for you.

Here's the solution.

Cin7 gives growing businesses the real-time visibility of their stock levels and actual costs to assemble, store, and sell their products efficiently. Cin7 is a [comprehensive inventory management solution](#) that streamlines, automates, and integrates your entire supply chain, from your suppliers to your production jobs and warehouse, 3PLs, and all your online and physical sales channels.

Cin7 lets you process your purchase orders, sales orders, and invoices in a single cloud-based solution that automatically updates stock on hand and integrates with your accounting solution so you know your profits, in real-time. Cin7's in-depth reporting shows you the sales and stock data and trends for optimizing stock levels so you can make more money without the cost of holding too much inventory.

And the Cin7 App Store makes it quick and easy for companies to set up and scale up as they grow, with integrations to 140+ eCommerce platforms, online marketplaces, [3PLs](#), [EDI retailers](#), payment solutions, CRM packages, and more, including Xero and Quickbooks Online.

Cin7 thus gives you the control and visibility you need to sell your products any way you want to, without the burdensome cost of redundant and error-prone data entry, and without the need to manage multiple software solutions to accomplish the same thing.

Read how [other companies use Cin7](#) or sign up for a [free trial](#).

If you would like to know more on Cin7 and how it might work for you please contact Donna Hall for further information.



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PROMOTIONS

We are very pleased to share with you the following promotions here at Polson Higgs:



Ryan Ehlers has been promoted to Senior Consultant in our Tax team



Jamie Reidie has been made an Associate of the firm.



NEW ZEALAND SECONDARY SCHOOLS NATIONAL CHAMPIONSHIPS – VOLLEYBALL



In March, Ryan Ehlers from our Tax Team travelled away with the Taieri College Senior Girls A Volleyball team to the New Zealand Secondary Schools National Championships in Palmerston North. The Secondary Schools Nationals is one of the largest secondary schools sports events with 96 girl's teams competing and a similar number of boy's teams.

Ryan has been coaching this team for the past year including training in the off season. As a past player and coach for a number of years, Ryan decided to get back into coaching when Marlene Crummond from our Payroll Division asked on behalf of her daughter's team who were looking for a coach.

While it was a big step up for the girls going to their first Nationals with only a year of training, they seemed to enjoy the experience gained from being involved in such a large competition with players from all round the country and if they are keen, will look to compete again next year.

COMMUNITY INVOLVEMENT



Jamie Reidie from our Accounting Solutions division, has a number of charities that he is involved with. He is Treasurer of the Chatbus Trust. ChatBus is a mobile counselling service for children under 14 years in Dunedin and Mosgiel. Four counsellors using three Chatbuses visit schools to provide

counselling to children. Children can request appointments as well as being referred by teachers and parents.

He is also Treasurer for the Theatre in Health Education Trust (THETA). THETA provides innovative and challenging health education programmes to the rangatahi/youth of Aotearoa-New Zealand through the experiential medium of theatre. THETA's interactive theatre-based programmes use a combination of traditional theatre, educational drama, structured role play and decision-making activities to engage students in the exploration of issues relevant to their lives.

Both Jamie Reidie and Punsara Sommerville (Tax Division) are involved with Otago Allocation Committee Volunteer for United Way NZ. United Way is an independent volunteer-based organisation that encourages generosity by brokering resources (money, time and skills) between individuals, businesses and the community. The allocation committee is responsible for visiting the organisations that have applied for funding from United Way and then allocating funds based on an assessment of the organisation's effectiveness and the community's need for the services provided by that organisation. United Way NZ's operations are funded through corporate partnerships, service fees, investment interest, donations and grants.



*real people,
better business*

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Associates	
Consultants	Stephen Higgs Philip Broughton Jim Reay
Accounting Solutions	Jenni Redding Alison Glover
Business Systems Solutions	Donna Hall
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