

The Business Growth Agenda

Future Direction 2014





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Ministers' Foreword

We are pleased to present this report setting out our progress on, and the future direction for, our Business Growth Agenda.

Between late 2012 and early 2013, we published six reports setting out an ambitious work programme, focusing on the six key inputs businesses need to succeed, grow and add jobs: export markets, capital markets, innovation, skilled and safe workplaces, natural resources and infrastructure. This Business Growth Agenda (BGA) aims to build a more productive and competitive economy by building business confidence, and addressing the issues that matter to firms.

Since that time, we have made significant progress across all six areas. More than half of the more than 350 BGA actions are complete or being implemented.

At the same time, we have continued to create a business environment that has delivered more jobs, higher business investment and higher wages for New Zealanders. Over the past year, the economy has shown considerable momentum, with growth of around four per cent per annum in the second half of 2013. Employment and wages also continued to grow in the second half of 2013, with unemployment falling to six per cent in the December quarter.

This report summarises the significant achievements New Zealand has made to date.

Looking ahead, the economy is expected to grow strongly over the next year and to perform better than many other major advanced economies. However, we will continue to face a number of issues, including ongoing uncertainty in international markets and a high New Zealand dollar - reflecting the underlying strength of the New Zealand economy.

We now have the opportunity to encourage more businesses to build a global presence and take advantage of the increasing demand for New Zealand products being created by a rapidly-emerging middle class in Asian and in other markets.

The challenge for the BGA now is to reduce capacity constraints in the New Zealand economy and convert a couple of years of good growth into a sustained long-term lift in our growth rate, providing stronger incomes for Kiwis and their families.

In the light of our progress, we now intend to focus our future efforts on a smaller number of areas we see as particularly critical to building business confidence and growth - while continuing to deliver on our existing work programme.

This report therefore sets out our future approach in relation to each of the six key inputs, including a number of key priorities we are committed to delivering over the next few years.

We appreciate your feedback on New Zealand's Business Growth Agenda, and encourage you to continue to provide your views on what matters for business success and growth.

Export Markets Group of Ministers:

Rt Hon John Key
Hon Bill English
Hon Steven Joyce
Hon Murray McCully
Hon Tim Groser
Hon Nathan Guy
Hon Craig Foss
Hon Nicky Wagner
Hon Dr Pita Sharples

Capital Markets Group of Ministers:

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Hon Bill English

MINISTER OF FINANCE



Hon Steven Joyce

MINISTER FOR ECONOMIC DEVELOPMENT

The Business Growth Agenda

It is businesses that drive economic growth and build a more successful economy with more jobs for Kiwis.

Growing competitive businesses creates jobs and increases exports to the world. Nothing creates sustainable, high-paying jobs and boosts our standard of living better than business confidence and growth.

Building a more competitive and productive economy for New Zealand is one of the key priorities the Prime Minister has laid out for this Government to achieve. The Business Growth Agenda will drive this by ensuring the Government stays focused on what matters to business, to encourage confidence and further investment.

There are six key inputs that businesses need to succeed and grow. By focusing on these inputs we will ensure businesses have the opportunity to lead economic growth.

The six key areas in the Business Growth Agenda are:



The Government is holding itself accountable to the business community and to the public to achieve tangible progress in each of these areas.

The Ministry of Business, Innovation and Employment and the Treasury are working alongside other agencies to coordinate the Business Growth Agenda and ensure businesses can more easily access the advice and support from government agencies they need to be successful.

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Progress Highlights

Export markets



Of the 55 actions included in the August 2012 *Building Export Markets* progress report, just under half have now been completed and substantive work is underway for all of the other actions. Key achievements in this area include:

- further progress on our FTA agenda, with negotiations on the Trans-Pacific Partnership and with Korea at advanced stages, negotiations continuing with India and the Regional Comprehensive Economic Partnership with ASEAN and its FTA partner countries, and an agreement on economic cooperation concluded with Chinese Taipei
- steady growth in the use of New Zealand Story assets since launching in 2013
- a total of 60 trade missions led by the Government since the beginning of 2012
- strong uptake of NZTE's new Better by Capital service, designed to help New Zealand businesses access capital to fund their international growth
- establishment of Education New Zealand in September 2011.

We will continue to work to complete these actions, while particularly focusing our efforts on a smaller number of areas critical to building New Zealand's export markets:

- negotiating comprehensive, high-quality FTAs and implementing existing FTAs
- providing NZTE with more resources to assist more companies
- boosting our representation in China
- increasing our representation in other emerging markets
- promoting the procurement of New Zealand capital goods and services with New Zealand's Export Credit Office
- conducting fit-for-purpose checks on market-facing regulatory regimes
- completing the Trade Single Window for exporters and importers
- embedding the New Zealand Story, strategy and structure
- capitalising on the 2013 growth package for tourism and education.

Capital markets



Of the 50 actions included in the February 2013 *Building Capital Markets* progress report, half have now been completed and substantive work is underway for all of the other actions. Key achievements in this area include:

- successful completion of the Government Share Offer programme, with the float of Genesis Energy earlier this year
- continuing implementation of the Financial Markets Conduct Act 2013, including improvements to employee share schemes, and the clarification and widening of disclosure exemptions for investors in early-stage and private companies
- the passing of the Financial Reporting Act, which will remove the requirement for small and medium-sized companies to produce complex financial statements
- the passing of the Housing Accords and Special Housing Areas Act 2013 along with other measures aimed at improving the operation of the housing market
- the launch by the Commission for Financial Literacy and Retirement Income of an online tool that allows New Zealanders to compare different KiwiSaver funds, using improved disclosure information produced as a result of new KiwiSaver disclosure regulations.

We will continue to work to complete these actions, while particularly focusing our efforts on a smaller number of areas critical to building New Zealand's capital markets:

- rebuilding our financial reserves and focusing on efficient management of our operating balance once we have returned to surplus in 2014/15
- establishing the NZTE Regional Investment Attraction programme to identify regional investment opportunities and develop a compelling 'pitch' for potential investors
- implementing the Financial Markets Conduct Act
- strengthening consumer credit laws by implementing the Credit Contracts and Financial Services Law Reform Bill
- creating opportunities for new and innovative forms of capital raising by supporting crowd funding and peer-to-peer lending
- attracting multinationals to make high-value investments in research and development by working to identify and communicate where New Zealand has an international competitive advantage
- delivering an Asia Region Funds Passport to allow managed funds based in one jurisdiction to be offered more easily to investors in other participating jurisdictions
- delivering Inland Revenue's Business Transformation programme which is aimed at giving New Zealand taxpayers, particularly small-to-medium sized businesses, simpler and faster ways to deal with tax
- providing more capital-raising options for small and medium-sized enterprises (SMEs)
- encouraging new public growth markets which lower the cost of capital raising for smaller and high-growth businesses
- investigating differences in taxation treatment of savings vehicles with a view to removing any distortions that might exist.

Innovation



Of the 56 actions included in the August 2012 *Building Innovation* progress report, more than half have now been completed and substantive work is underway for all of the other actions. Key achievements in this area include:

- increased investment in science and innovation to \$1.46 billion in 2015/16, with Budget 2014 providing an additional \$56.8 million in contestable funding over three years from 2015/16
- Callaghan Innovation's continued delivery of services and support to encourage businesses to turn their ideas into new products and services faster, with over 621 businesses receiving 837 grants worth about \$272 million as at 30 April 2014 through its business R&D grant schemes
- the completion of the digital switchover in December 2013, freeing up radio spectrum for next-generation mobile and telecommunication services
- the announcement of the launch of the first National Science Challenge – the High Value Nutrition Challenge
- ongoing progress on the Primary Growth Partnership, with 18 programmes now announced and \$708 million of industry and government funding committed
- the implementation of changes to optimise the performance of the Centres of Research Excellence.

We will continue to work to complete these actions, while particularly focusing our efforts on a smaller number of areas critical to accelerate the growth of innovation in New Zealand:

- implementing changes to the tax treatment of R&D to allow innovative start-ups to 'cash out' R&D tax losses and to alleviate 'black hole' R&D expenditure
- implementing Callaghan Innovation's full suite of programmes
- developing a National Statement of Science Investments (NSSI), which will set out the Government's current and future priorities for its science investments
- increasing and reforming contestable funding, including ensuring this funding aligns with the objectives set up in the NSSI
- establishing new technology-focused incubators, using Callaghan Innovation's Repayable Grants for Start-Ups programme
- implementing the National Science Challenges
- boosting STEM skills, including undertaking a Science in Society project and setting up new ICT graduate schools
- boosting primary sector productivity through the Primary Growth Partnership
- increasing the number of Centres of Research Excellence and establishing a Centre focused specifically on Māori development research
- completing the deployment of ultra-fast and rural broadband
- improving the competition regime to protect consumers and encourage innovation, including passing the Commerce (Cartels and Other Matters) Amendment Bill.

Skilled and safe workplaces



Of the 62 actions included in the October 2012 *Building Skilled and Safe Workplaces* progress report, more than half have now been completed and substantive work is underway for all of the other actions. Key achievements in this area include:

- further significant progress towards ensuring 85 per cent of 18-year-olds will have achieved NCEA Level 2 in 2017. In 2013 79.7 per cent of 18-year-old leavers achieved NCEA Level 2, compared with 77.2 per cent in 2012. This means that approximately 1,500 more 18-year-old leavers had NCEA Level 2 in 2012 than if the achievement rate had remained the same
- continuing strong demand for the Apprenticeship Reboot scheme, with 11,000 trainees signed up for the scheme to-date, and commitment of a further \$20 million for an additional 6,000 apprentices. This brings the total funding for the scheme to \$69.3 million, and the total number of places to 20,000
- launching the new Tertiary Education Strategy. The new strategy signals a shift towards an outward-facing, demand-oriented tertiary education system, in which the mix and content of education provision effectively responds to industry demands
- an ongoing reduction in the numbers of people on benefits with over 17,000 fewer people on benefits in the December 2013 quarter, compared to December 2012, and a corresponding reduction of \$10.3 billion in the overall welfare liability in 2013
- the establishment of WorkSafe New Zealand, as part of the Government's reform of the New Zealand workplace health and safety system
- the announcement of new business migration policies to help ensure migrants create more ambitious and productive businesses.

We will continue to work to complete these actions, while particularly focusing our efforts on a smaller number of areas critical to further lift labour participation and productivity:

- investing in teacher quality to lift the achievement of young people, including creating new teaching and leadership roles to raise student achievement
- setting up new ICT Graduate Schools
- implementing the new Tertiary Education Strategy
- completing the welfare reform programme and getting more people into work
- investing in more apprenticeships and vocational skills
- encouraging eligible sole parents into higher education
- implementing the new health and safety framework in New Zealand, including designing and implementing a Safety Star Rating
- reducing the casualty rate within the forestry sector and other high-risk occupations
- toughening employment standards requirements and increasing the size of the Labour Inspectorate
- completing the Employment Relations Act changes to improve fairness in collective bargaining.

Natural resources



Of the 49 actions included in the December 2012 *Building Natural Resources* progress report, just under half have now been completed and substantive work is underway for all of the other actions. Key achievements in this area include:

- the release of the National Policy Statement for Freshwater Management, which will help to improve water quality and increase the economic return from our freshwater assets by setting sustainable freshwater quality and quantity limits
- the announcement of the 2014 Block Offer for oil and gas exploration, with 405,000 square metres available for bidding in five offshore and three onshore areas
- commissioning a Smart Grid Forum of energy sector experts to advance the development of 'smart' electricity networks in New Zealand to help support more efficient use of our electricity system
- funding 86 programmes through the Waste Minimisation Fund to promote waste minimisation (and indirectly, to support innovative waste management businesses)
- insulating over 250,000 homes through the Warm Up New Zealand: Heat Smart and Healthy Homes programmes
- introduction of an Environmental Reporting Bill in 2014 that will ensure comprehensive, coherent and independent reports on the condition of our natural resources and pressures on the environment.

We will continue to work to complete these actions, while particularly focusing our efforts on a smaller number of areas critical to getting the best value out of New Zealand's natural resources in the future:

- increasing value from, and improving the quality of, our fresh water
- improving our environmental reporting, including passing the Environmental Reporting Bill
- making further reforms to the Resource Management Act
- accelerating petroleum and minerals exploration through a new data acquisition programme
- combatting Kauri dieback
- improving the productivity of Māori land by reforming the Te Ture Whenua Māori Act 1993
- increasing productivity and reducing carbon emissions through new energy efficiency projects
- promoting product stewardship, including investigating whether to adopt a mandatory approach for some priority products
- supporting primary sector growth in key regions
- freeing up land supply in urban areas to provide more housing.

Infrastructure



Of the 68 actions included in the November 2012 *Building Infrastructure* progress report, more than half have now been completed and substantive work is underway for all of the other actions. Key achievements in this area include:

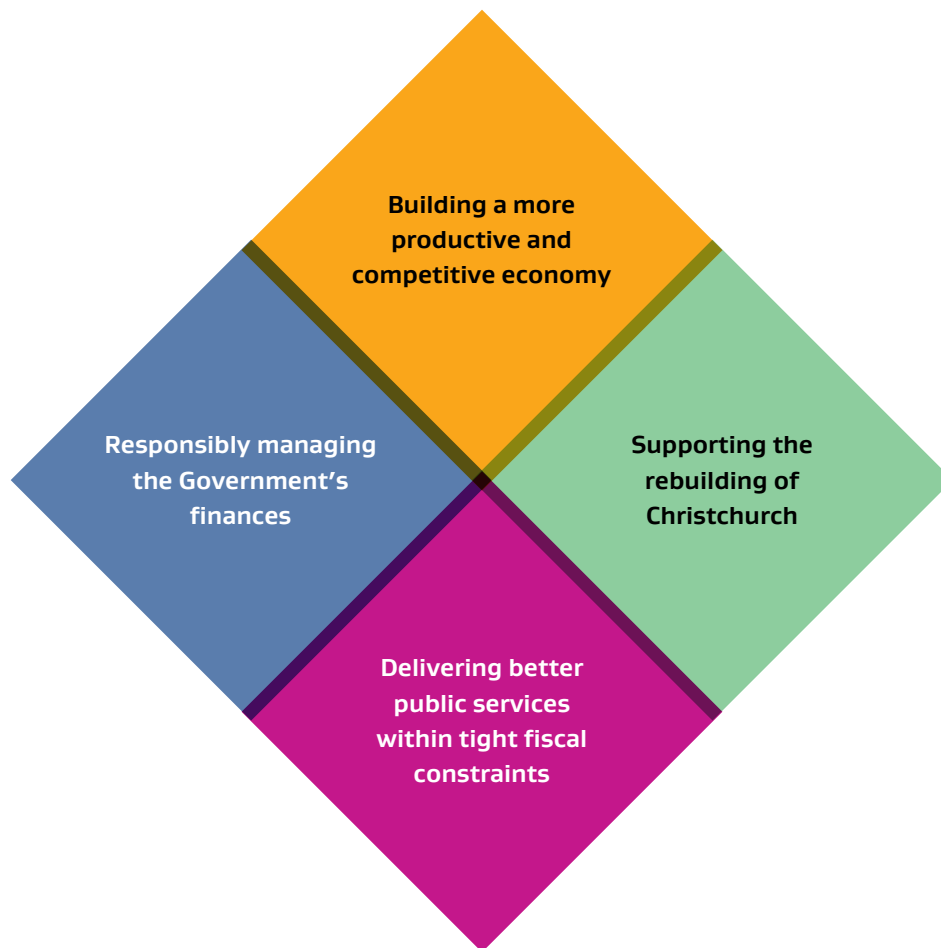
- ongoing progress on Roads of National Significance, including the start of construction on the 18km Mackays to Peka Peka section of the Kapiti expressway
- improvements to Auckland's transport network, including progress on the electrification of the metropolitan rail network, and procurement of a new fleet of 57 electric trains
- more than 420,000 New Zealanders with access to UFB, and approximately 187,000 rural homes and businesses with access to fast wireless broadband
- significant progress in rebuilding Christchurch's infrastructure and progressing major capital projects – including beginning work on the Justice and Emergency Services precinct
- the provision of \$27.8 million to-date in grant support to 15 projects throughout New Zealand through the Irrigation Acceleration Fund
- the signing of housing accords with Auckland Council and Christchurch City Council, and the announcement of 63 Special Housing Areas as part of a comprehensive programme to address housing affordability.

We will continue to work to complete these actions, while particularly focusing our efforts on a smaller number of areas critical to building New Zealand's infrastructure:

- removing bottlenecks on our road networks
- accelerating Auckland's transport
- strengthening rail, sea and air infrastructure, including making a commitment to a joint business case for the Auckland City Rail Link
- securing our energy future, including further progress on our renewables target
- completing the deployment of ultra-fast and rural broadband
- rebuilding Christchurch
- investing in hospitals and schools
- improving water storage and use, including delivering a portfolio of Irrigation Acceleration Fund grant-supported projects
- increasing competition and efficiency in the housing construction sector
- reforming the social housing sector to better meet the needs of social housing tenants
- getting a better understanding of future infrastructure challenges and opportunities.

Introduction

The Government has set four key priorities to deliver a stronger and more prosperous New Zealand.



The Business Growth Agenda (BGA) is central to the Government's priority of building a more productive and competitive economy. Lifting productivity and competitiveness is critical to creating business opportunities, more jobs and higher wages, and ultimately the higher living standards to which New Zealanders aspire.

This report outlines the significant progress we have made in delivering the more than 300 actions across all the BGA workstreams. It also sets out the future direction of the BGA, focusing on a small number of key areas that we see as particularly critical to further build business confidence and address the issues that matter to firms.

Economic Context

The economy is entering its fourth year of expansion and showing considerable momentum with growth at an annual rate of around four per cent in the second half of 2013.

This growth was broad-based across a range of factors, including strong export growth as agricultural production recovered from the 2013 drought; growing business investment as firms made up for under-investment following the global financial crisis; increased residential investment as reconstruction in Christchurch gathered strength; and increased household demand as consumer confidence rose. Labour productivity increased by 2.1 per cent in the year ended March 2013, well above the 1.6 per cent average between 1996 and 2013.

Household and business incomes have been boosted by high prices for New Zealand's export commodities, which have underpinned record high levels in the terms of trade. Employment expanded in the second half of 2013 and the unemployment rate fell to six per cent in the December 2013 quarter and remained there in the March 2014

quarter. Taking into account a 3.7 per cent increase in the number of people employed, total employment income increased by just over six per cent from a year ago in the first quarter of 2014. Private consumption increased 3.7 per cent in the December quarter from a year earlier, supported by the growth in real incomes. Annual inflation remained low, at 1.5 per cent in March 2014.

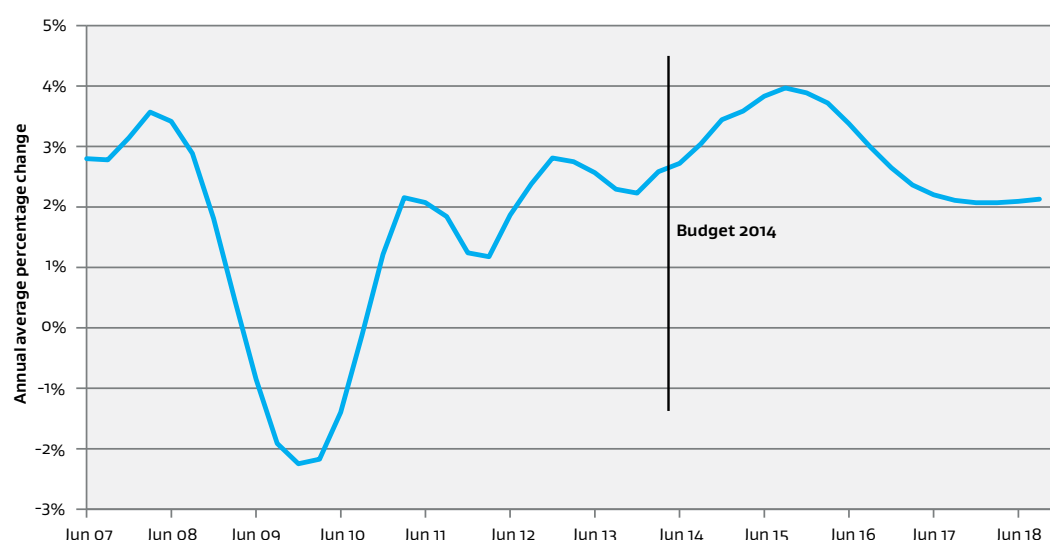
Looking ahead, export commodity prices are expected to remain at historically high levels, with some easing in the second half of 2014 as global dairy supply increases. The Government's ongoing fiscal consolidation is expected to constrain inflation in the economy over the forecast horizon. Private consumption and residential and market investment will remain important sources of growth in the coming year.

The economy is expected to grow strongly over the next year and to perform better

than most of the major advanced economies - as high export prices flow through to the rest of the economy, migration gains boost population growth, and the rebuilding of Christchurch continues. Annual growth in real GDP is expected to increase from 2.7 per cent in 2013 to nearly four per cent in 2014, before easing back towards trend growth of around two per cent. The unemployment rate is forecast to decline to 4.4 per cent.

Despite the slow recovery from the global financial crisis in many of our trading partners, demand for New Zealand's primary commodities remains strong, chiefly because of our close trade links with emerging Asia, especially China. Although growth in China is expected to slow, demand for dairy, meat and wood products is expected to continue to increase.

New Zealand real GDP growth
Sources: Statistics New Zealand, the Treasury



01

Building Export Markets



The Government has committed to the following high-level goal:

Increase the ratio of exports to GDP to 40 per cent by 2025

Exports are critical for New Zealand's prosperity. While we proudly punch above our weight in many areas, our size means we will never get wealthy selling to ourselves.

Exporting creates opportunities for businesses. These opportunities generate jobs for New Zealanders. Jobs allow people to realise their full potential and live the lives they and their families aspire to.

Exporting is also central to New Zealand's productivity. Businesses that export internationally tend to be more productive than businesses that solely supply the domestic market because of their greater access to resources, knowledge and ideas, and the increased competition they face against other global firms.

This is why the Government has committed to the ambitious goal of raising exports from 30 to 40 per cent of GDP by 2025. This is not an easy task and will require roughly doubling our exports.

As expected, progress against our target has been initially slow given the slow economic recovery in developed economies, which has reined in service exports in particular. Notwithstanding these headwinds, our export sector overall has performed well over the last year.

Merchandise (goods) exports exceeded NZ\$50 billion for the first time in the March 2014 year in New Zealand dollar terms. Relative to a year earlier, merchandise exports grew by 8.5 per cent, driven by a phenomenal 51 per cent increase in exports to China. Commodity prices remain near record highs and our terms of trade are the strongest they have been since 1973, meaning we can buy more than ever before with what we earn.

While services exports moderated slightly in 2013, the tourism sector performed well. Visitor spending increased by around nine per cent annually to \$7.0 billion in the year ended March 2014, with strong growth in spending by US arrivals.

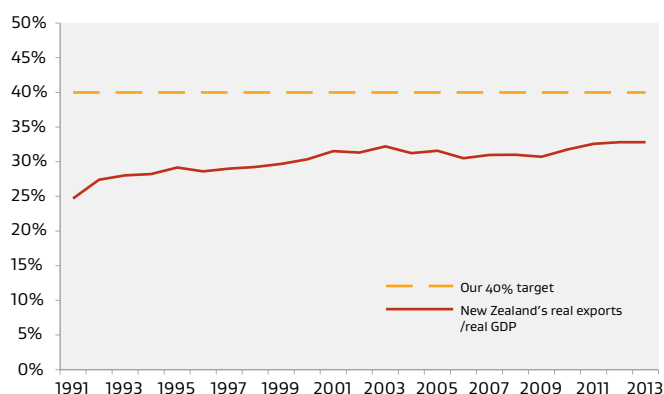
Developing our relationship with China has been critical to our export success. In the five years prior to the signing of the China Free Trade Agreement (FTA), our merchandise exports to China grew on average by six per cent per annum. In the five years since the FTA, export growth has increased to an average of 32 per cent per annum. As China's wealth increases, so too does its demand for the types of goods New Zealand is great at producing. For example, expenditure by Chinese visitors to New Zealand increased by 19 per cent in the March 2014 year, supported by increased air services.

Merchandise exports to our FTA trading partners collectively have increased by 43 per cent over the last five years, while exports to the rest of the world have fallen by six per cent.

**Exports increased
3% in 2013**

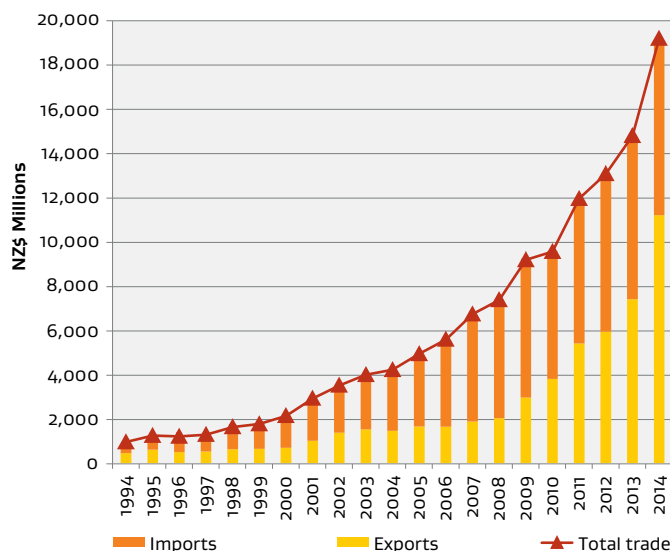
New Zealand's exports as a percentage of GDP

Source: Statistics New Zealand. Data for December years.



Total merchandise trade with China

Source: Statistics New Zealand. Data for 12 months to March.



Building Export Markets

Should all current negotiations be successfully completed, just under 80 per cent of New Zealand's total trade would be covered by FTAs. This will level the playing field for New Zealand businesses and also confer advantages relative to our competitors. Ongoing improvements to existing FTAs will also ensure that we are well-placed to capture the benefits of the rapidly-growing middle class throughout Asia.

Beyond FTAs, it is important that government and its agencies work abroad to promote New Zealand's brand, supporting deeper political and business relationships and unlocking new export opportunities, for now and in the future. We are increasing resources in key markets. For example, the size of our government representation in China has increased by over 10 per cent in the last year, with further increases budgeted for over the next four years. Our presence is also expanding in South East Asia, the Middle East and Africa. Those agencies represented offshore are actively working together to leverage their in-market presence into new opportunities for New Zealand business. Our offshore access to government officials and regulators is especially important in emerging markets where government regulations affecting exports shift on a day-to-day basis and are often dense and opaque.

Markets are one part of the equation. Additionally, our success as an exporting nation depends on how well-positioned New Zealand businesses are to succeed in a global environment. At present, we have a relatively small export pool, with our top 100 companies accounting for close to 80 per cent of our total exports by value and only around 250 goods-exporting companies with export revenues of more than \$25 million.

Growing our export pool will therefore be critical for our export success.

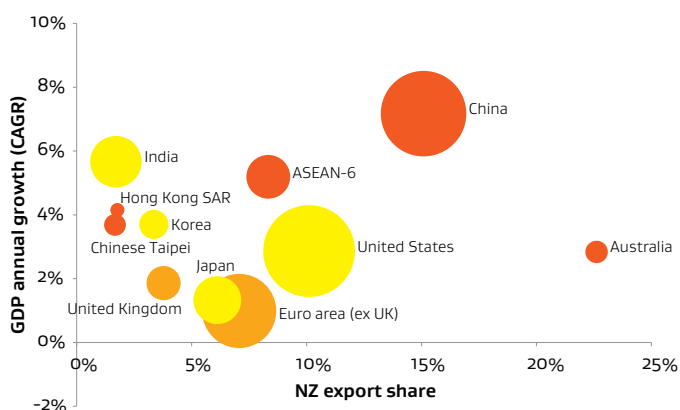
Our export base also remains focused on primary products, with more than half of New Zealand's total exports coming from that sector. Undoubtedly, our natural endowments will remain the basis for much of our comparative advantage over time. However, there are natural limits to how big our primary sector can grow. New exports and higher-value niche products (which often build off existing capabilities in the primary sector) that

complement our existing specialisation in agriculture are growing. Since 1990, exports from New Zealand's high-tech manufacturing have grown from under \$100 million to \$1.4 billion in 2012, exceeding New Zealand's wine exports in the same year. Exports of high-technology goods and services from New Zealand's ICT sector were valued at \$1.6 billion in 2012. Further in 2013, export revenue from New Zealand's top 200 high-tech companies (as defined by the TIN100) was \$5.3 billion – commensurate with the value of our meat exports.

We need more companies exporting and investing. This will depend on all streams of the BGA through, for example, ensuring our capital markets are well-placed to attract investment, our education system is producing the skills required by successful exporting businesses and our innovation system is generating the ideas that make products that the rest of the world wants to buy.

Growth prospects of New Zealand's trading partners - 2013 to 2017

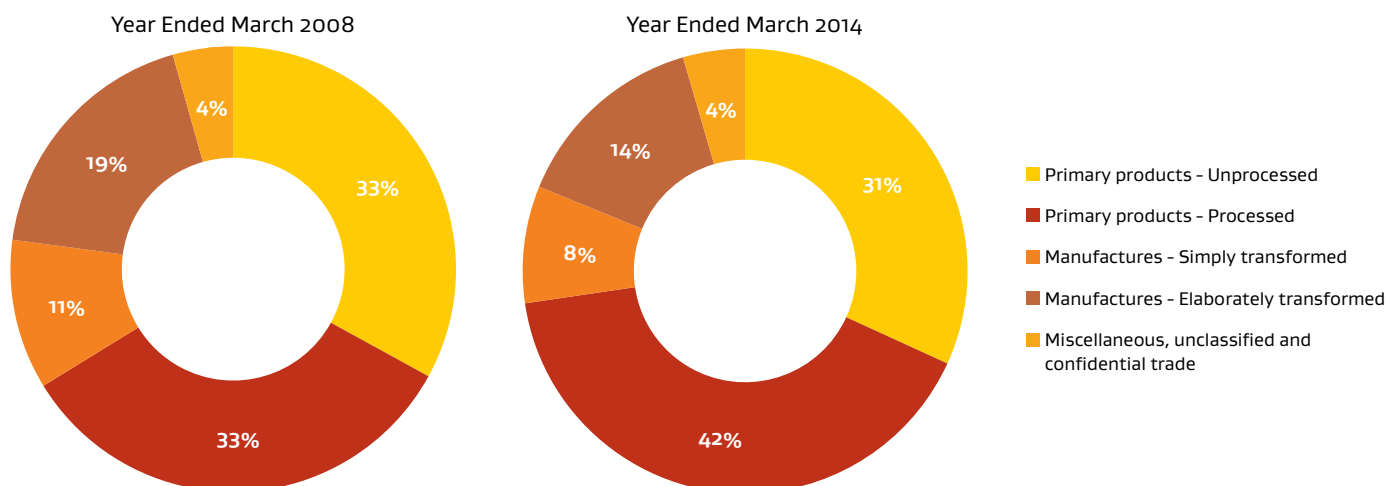
Source: IMF World Economic Outlook, Statistics New Zealand



Note: Export share includes goods and services. Size of bubble is total GDP of the country/region in Purchasing Power Parity terms. Red – countries with which New Zealand has a FTA. Yellow – countries with which New Zealand is negotiating FTAs. Orange – countries with which New Zealand does not have a FTA.

Share of New Zealand's goods exports by level of processing

Source: Statistics New Zealand



Progress update

The Government remains committed to successfully completing the 55 actions to build export markets that were set out in the August 2012 *Building Export Markets* progress report.

Just under half of these original actions have now been completed, and the remaining actions are either in progress or being implemented.

Nine actions have also been added to the Building Export Markets work programme, of which three are new, five are in progress and one is being implemented.

Building export markets	All actions	New	In progress	Implementing	Completed
Status August 2012	55	8	23	20	4
Status June 2014	64	3	19	17	25

We have made some significant achievements over this time.

We have continued to make progress on our **FTA agenda**. Negotiations on the Trans-Pacific Partnership and New Zealand's FTA with Korea are at advanced stages; we are making real progress in securing entry into force of the FTA with the six countries of the Gulf Cooperation Council; a successful start has been

made on the 16-member Regional Comprehensive Economic Partnership – an agreement bringing together the countries of ASEAN and its existing FTA partners in a market covering 60 per cent of New Zealand's goods trade; negotiations continue with India, one of the world's major emerging markets; and New Zealand has concluded an agreement on economic cooperation with Chinese Taipei. Our exports to Chinese Taipei grew 33 per cent in the first five months since the agreement came into force compared to a year earlier,

primarily driven by trade in dairy products.

We are also making good progress at **reducing barriers to exports**. In 2013, in response to the imposition of beef quotas by Indonesia, the Ministry of Foreign Affairs and Trade (MFAT) initiated WTO consultations, and these quotas have since been removed. Beef exports to Indonesia in the seven months until April 2014 increased over threefold relative to the same period the year before.

Spot light

Maximising the value of Free Trade Agreements

FTAs are not just about tariff cuts and preferential market access – they are living documents that provide mechanisms to address ongoing regulatory and trade barriers. Under the FTA with China, for example, there is a full implementation agenda, which uses provisions in the Agreement to deal with a range of regulatory and trade issues.

It is how we work each FTA that makes the difference to our trading prospects with our FTA partner countries. This requires the Government to invest time and resources in developing relationships and building trade.

Recent successes have included the implementation of the Electrical and Electronic Equipment Mutual Recognition Agreement, which means New Zealand electrical and electronic product manufacturers will now have easier access to the Chinese market by allowing us to test, inspect and certify a range of products to Chinese standards at home in New Zealand; agreement on multiple entry business visas between China and New Zealand; and agreement by China to enable tariff preference access for part consignments released from bonded warehouses, which is particularly important for the wine trade.

Also critical to maximising the value we get from FTAs is working with business to ensure the tariff preferences negotiated under the

agreements are taken up by New Zealand exporters. Over the past two years, utilisation for the preferences available under the China FTA has increased significantly, against the backdrop of strong export growth, indicating New Zealand exporters are getting increasing value from the Agreement.



Spot light

Strengthening our tax treaty network

There are significant opportunities to strengthen our relationship with key trade and investment partners through a targeted and well-maintained network of tax treaties. The tax treaty work programme strikes a balance between keeping our existing double tax agreements (DTAs) with key investment and trading partners up to date and negotiating new treaties where valuable opportunities arise.

Our top priority is updating our nearly 30-year-old DTA with the People's Republic of China. The current tax treaty is being updated to meet modern business needs and would build on the fast-growing relationship, which has been facilitated by the FTA with China.

Other key DTAs currently being updated include Korea and Norway. It is the Government's intention to enter into discussion with ASEAN countries – Indonesia, Malaysia and the Philippines. Valuable opportunities also arise in strengthening ties between New Zealand and the Gulf Cooperation Council on tax issues. In addition, given the importance of the trans-Tasman relationship, priority is also being given to the five-year review of our 2009 DTA with Australia.



We launched **the New Zealand Story** in 2013, with the aim of communicating our distinct and unique attributes to help New Zealand companies gain a competitive advantage in international markets. The uptake of the New Zealand Story has consistently grown since its launch. To date, over 1,000 New Zealand businesses have signed up to the website and downloaded the assets. This has remained steady at around 100 new users a week. Companies such as Air New Zealand and Lion have expressed an interest in leveraging the New Zealand Story brand when entering new markets or promoting New Zealand. The New Zealand Story video and imagery has also been used at a number of offshore events, including *The Hobbit: The Desolation of Smaug* premieres, the China High-Tech Fair in Shenzhen and the Russia Agribusiness Fair. An Executive Chair and Director for the New Zealand Story have



been appointed, with further operational team recruitment underway.

Better by Capital is a new service designed to give New Zealand businesses the best chance of accessing the right capital, at the right time, to help fund their international growth. Launched in 2013, the service, administered by NZTE's domestic and internationally-based capital specialists, is delivered in partnership with private sector advisors with capital-raising experience. Better by Capital has so far engaged a total of 209

companies. Currently, 50 companies are using the service to strengthen the capital fundamentals of their business and undertake investment readiness activity. Another 40 companies are participating in an orientation phase to consider ways of funding their international growth, and 70 companies are using the service to accelerate their capital planning. Seven companies have completed their engagement with Better By Capital, and have raised a combined total of \$37 million.

Building Export Markets

Since 1 January 2012, the government has led **60 trade missions** including 31 ministerial missions. These missions have opened doors and provided strategic opportunities for New Zealand businesses in key markets. Highlights have included missions led by the Prime Minister to Indonesia, Latin America, China, Thailand and Australia.

In March, we announced the launch of **direct trading of the New Zealand dollar against the Chinese Renminbi** in the Chinese onshore market, only the sixth country to do so. Direct trading will increase the integration between the New Zealand and Chinese financial systems, and deepen the economic relationship between the two countries.

We established **Education New Zealand** in September 2011 – a Crown Agency

responsible for marketing our international education industry. Since its creation, it has launched a new overarching New Zealand international education market brand; established the Prime Minister's scholarships for Asia to support student mobility to our key trading partners; and implemented the International Education Growth Fund to support new business development by education providers. It is also responsible for a fund of \$5 million over four years to assist the recovery of the international education industry in Christchurch.

Tourism New Zealand has continued to invest in marketing New Zealand's association with the Hobbit movie trilogy. Independent research in western markets indicates that the "100% Middle-earth 100% Pure" New Zealand campaign has contributed to the recent

growth in visitor arrivals. According to the International Visitor Survey, 14.3 per cent of holiday arrivals said that The Hobbit trilogy was a factor in influencing their decision to visit New Zealand in the final quarter of 2013.

In December 2013 we announced that we had signed a memorandum of understanding (MOU) that will see the next three Avatar films made in New Zealand. The MOU outlines a range of contributions that these productions will make to New Zealand, including spending at least \$500 million in New Zealand, employment and skills opportunities, and marketing and promotion of New Zealand. Provided that the production meets its MOU obligations, it will qualify for a total rebate of 25 per cent.



Building Export Markets

We have also announced **changes to the structure and level of support for overseas and New Zealand film and television productions** to ensure the further development of New Zealand's screen industry. The new changes are designed to encourage the growth of mid-sized New Zealand-based productions that can compete, also increasing the competitiveness of our incentives for international productions in the short to medium term.

Progress has continued on Nga Haerenga, the New Zealand Cycle Trail. Out of 23 trails, 16 are now open and another four are expected to open in 2014. User numbers on the trails are showing strong growth, with average growth of 56 per cent across all trails to the year-end January 2014. Tourism New Zealand is promoting cycling as one of six special interest activities with marketing campaigns already underway in Australia and the United States.



Spot light

Relationship with South East Asia

The economically-diverse ten countries of the Association of South East Asian Nations (ASEAN) make up one of the world's most dynamic centres for economic growth, right on our doorstep. ASEAN economies currently represent three per cent of global GDP and nine per cent of the world's population. Together, ASEAN economies account for around seven per cent of global trade in goods and services. Rapid rates of urbanisation in some member countries, as well as a growing middle class, are likely to have a significant impact on the region's trading profile over time.

However, the past year has seen economic growth soften across the region and political tensions rise in some South East Asian countries. New Zealand has continued to weather these factors well economically: goods exports to the region increased to over \$5 billion in the year to March 2014, from \$4.3 billion a year earlier, and tourist visitor spending has hit the \$300 million mark for the first time.

This success has been bolstered by having the right mix of government representation where it counts most. New initiatives include appointing a senior Agriculture official in Jakarta in May 2014, who is charged with protecting and promoting the interests of New Zealand's primary exporters in ASEAN's largest economy. ENZ has established new staffing positions in Jakarta and Ho Chi Minh City, while Tourism New Zealand (TNZ) has also opened an office in Jakarta, as did NZTE by appointing a new Trade Commissioner the

year before. We have also opened an Embassy Office in Yangon, Myanmar – which with its increasing political and economic openness is likely to offer substantial business opportunities to New Zealand firms.

As well as an increased New Zealand presence, there is a high tempo of high-level political engagement with visits to the region by the Governor-General (Viet Nam, Cambodia and Laos), the Prime Minister (Thailand, Indonesia and Brunei) and senior Ministers. The leaders of Thailand, Brunei and Myanmar paid

reciprocal visits to New Zealand in 2013, some with large business delegations.

These exchanges breathed further life into the New Zealand-ASEAN Strategy, launched by the Prime Minister in July 2013. New Zealand is tracking well towards the Strategy's 2017 goals of increasing goods exports by 40 per cent; doubling two-way investment; nearly doubling revenue from ASEAN fee-paying students to \$450 million and boosting ASEAN visitor expenditure by two-thirds to \$470 million.



Future direction

Our natural endowments will continue to remain the basis for much of our comparative advantage. The growing middle class in many developing countries will sustain demand for the protein-based products we are good at producing. However, we need to continue to diversify our export base by finding new products and services to sell to the world. For example, if current trends continue, New Zealand will soon become a net exporter of computer and information services to the rest of the world. Over time, more internationally-focused businesses in a more diversified set of areas will position New Zealand well to take advantage of opportunities offered by a more inter-connected world.

The Government can encourage these developments by continuing to use our relationship with other governments

and our presence offshore to support deepening existing business engagement and to open up new export opportunities for New Zealand business. We can also work to reduce barriers to export from New Zealand and facilitate the development of new export sectors. In addition, promoting and protecting New Zealand's international reputation as a good country to trade and do business with will be key.

The previous sections show the significant progress we've made in delivering on our ambitious programme of export market actions. We will continue to make progress towards completing this programme.

However, in light of this progress, we intend to focus our future efforts on a smaller number of key areas we see as particularly critical to reaching our 2025 export target.

1. Negotiating comprehensive, high-quality FTAs and implementing existing FTAs

Improving access to international markets for New Zealand businesses through the negotiation of FTAs remains central to achieving our export goal.

We will work to **bring the Trans-Pacific Partnership (TPP) negotiations to a successful conclusion.**

We will also aim to **successfully complete negotiations with Korea and India as well as the Regional Comprehensive Economic Partnership** made up of the 10 ASEAN countries and their current

six FTA partners, which will significantly increase the proportion of our trade covered by FTAs. Efforts will also continue to **bring into force our FTA with the six countries of the Gulf Cooperation Council.**

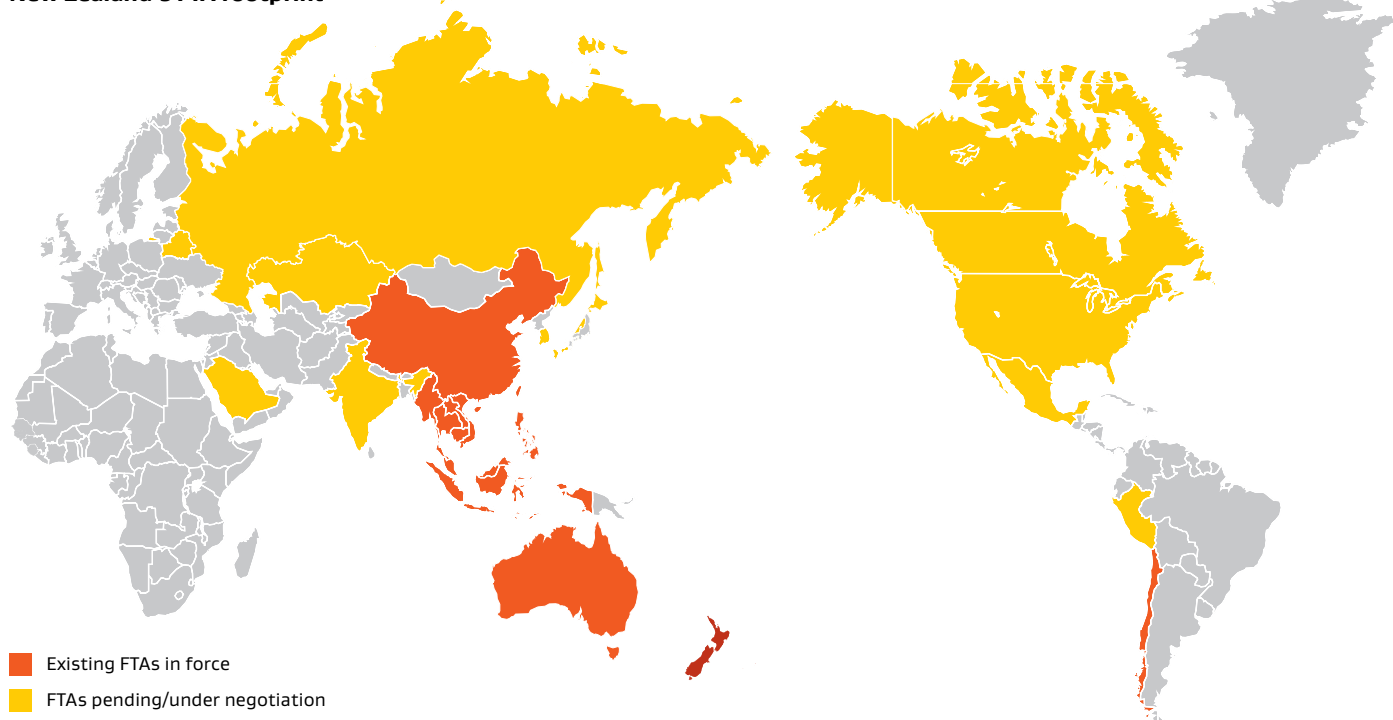
We will **work with the European Union and Pacific Alliance (of Chile, Colombia, Mexico and Peru) on options for refreshing our trade and economic relationship,** including through possible FTAs.

We will continue to work with business to **ensure high take-up of FTA preferences and other benefits conferred by our FTAs.** This will include: ongoing dialogue

with exporters to ensure they are taking maximum advantage of the agreements; completing built-in negotiations under existing FTAs to expand the scope of commitments in areas like services and government procurement; addressing impediments that limit the uptake of FTA preferences such as documentation requirements; and maximising the use of existing FTA provisions to maintain or improve market access and facilitate trade.

In addition, we will continue to engage with businesses about their priority non-tariff measure concerns, including on Sanitary and Phytosanitary issues.

New Zealand's FTA footprint



Building Export Markets

2. Providing NZTE with more resources to assist more companies

Ensuring New Zealand companies are competitive in international markets is critical if we are to grow our exports sufficiently to meet our 40 per cent target. Many New Zealand companies lack the international experience of their global competitors, as they have to start exporting much earlier in their lifecycle than overseas competitors. The

Government has a role to assist companies by providing them with a bigger footprint on the world stage than they could afford themselves.

In Budget 2014, an increase in the Government's investment in NZTE was announced. With this additional funding, we will expand the number of companies NZTE works intensively with to **provide customised services for up to 700 internationalising firms, and a lighter-touch engagement with 4,000 firms.**

This will also involve **expanding NZTE's international footprint and services in China, the Middle East and Colombia**, and providing new services that will meet the demands of firms as they innovate and grow internationally.

We will also continue to increase the attraction of growth capital by **increasing NZTE's focus on identifying investment opportunities**, along with a support programme to lift investment performance.

3. Boosting our representation in China

China is New Zealand's largest growth market for New Zealand's commodities trade, tourism industry and education sector.

The current goal of two-way trade totalling \$20 billion by 2015 is close to being reached. During the Prime Minister's recent visit to China, he and President Xi Jinping announced a new goal of \$30 billion by 2020.

New Zealand resourcing of the relationship must take account of the significant and evolving nature of our interests in China now and in the future, and the need to maintain strong political engagement in what has become one of our biggest markets.

We will **expand the New Zealand footprint in China**, with a new Chancery built in Beijing and a further increase of at least 25 personnel working on the China relationship in China across MFAT, MPI, NZTE and Police by 2017/18.



4. Increasing our representation in other emerging markets

The economically-diverse ten country membership of the Association of South East Asian Nations (ASEAN) is one of the world's most dynamic centres for economic growth. Strong growth and demographic trends in Indonesia and Myanmar in particular present opportunities for New Zealand to expand trade and business links with these rapidly-opening markets.

A new ASEAN Ambassador based in Jakarta will take up the position in the

second half of 2014. The new Ambassador will focus on strengthening New Zealand's links with individual ASEAN countries through their regional institution.

In response to emerging opportunities in Africa, the Middle East, and South America, the New Zealand footprint continues to increase in those markets. A new Embassy opened in Addis Ababa in January this year. New NZTE personnel will go into Riyadh and Abu Dhabi in the second half of 2014 and there are plans to establish an MPI position in Dubai. Tourism New Zealand has established an office in Sao Paulo.

5. Promoting the procurement of New Zealand capital goods and services with New Zealand's Export Credit Office

There is an opportunity to facilitate increased trade through the identification of creditworthy buyers (primarily in emerging markets) who have a demand for New Zealand capital goods and services and who may be positively influenced by the presentation of a financing solution with multi-year payment terms.

We will **use the Export Credit Office to facilitate and underwrite multi-million dollar credit facilities** to foreign governments, banks and/or large corporates to promote and finance the procurement of New Zealand capital goods and services.

The initial target market is Papua New Guinea, and the Export Credit Office has proactively offered financing to the Papua New Guinea Treasury Department as a means of promoting New Zealand firms. The offer of a pre-approved, competitive loan arrangement that can be paid back over several years is intended to differentiate and facilitate the project award to a New Zealand firm or consortia.



Building Export Markets

6. Conducting fit-for-purpose checks on market-facing regulatory regimes

New Zealand's reputation is a recognised asset for our exporters, but some recent issues have reminded us what a big impact any damage to our reputation can have on businesses across an entire sector. Protecting our reputation requires having a much better understanding of how effectively our regulatory regimes are underpinning the success of our exports in particular sectors, as well as our broader international connections.

It is important that our regulatory regimes, and the way they interact with those in

our key markets, are not acting as a barrier to deeper regional integration. Officials will therefore undertake work to **more systematically identify and assess domestic regulatory regimes that are important for the New Zealand brand or that may have a significant impact on key export sectors**, including those outside the primary industry, from the perspective of our export markets.

We will also **take a more strategic approach to influencing the regulatory frameworks of our key markets**, such as China and South East Asia, and seek to enhance the different ways in which domestic regulators cooperate with their counterparts in these markets.

MFAT will **use its offshore presence to work with regulators and key government agencies**, particularly in emerging markets, where this is important to maintain and deepen market access.

We are **establishing an inter-agency infant formula market assurance programme** to further protect and strengthen confidence in New Zealand's food assurance systems to match rapid growth in infant formula exports.

We are also **implementing a communications strategy for China** as part of the post-whey protein concentrate (WPC) incident recovery programme of work.

7. Completing the Trade Single Window for exporters and importers

World-class border management enables New Zealand to participate more easily in the global economy, supporting export growth. A 2006 World Bank study found that each additional day that a product is delayed prior to being shipped reduces trade by more than one per cent. Put another way, each additional day is equivalent to a country distancing itself from its trading partners by one per cent, or about 70 kilometres.

The Trade Single Window project will enable parties involved in international trade and transport to submit the craft and cargo clearance data required by New Zealand border agencies electronically, once, through one entry point. Once fully implemented, the system is expected to deliver significant benefits to importers, exporters and others in the international trade supply chain.

We will continue to progressively **bring more traders online**. In May 2014, Fonterra switched to submitting their Customs export clearances via direct connection to Trade Single Window using the new data format. They join existing direct connectors - international express courier FedEx, freight integrator Mondiale Freight, and supply chain management software and integrated logistics solutions provider CargoWise (WiseTech Global). Meanwhile, 41 companies are using the

Trade Single Window website to submit the new format clearances.

We will also work to **expand the number and type of documents that can be lodged online**. Four documents in the new Trade Single Window format can now be submitted. This means Customs and Ministry for Primary Industries biosecurity and food data requirements for imports can be provided in a single clearance, with responses from the

agencies sent back through Trade Single Window. For exports, this means better quality information can be provided by exporters to help minimise the need for border checks.

In 2015, the last document will be available. This will allow agencies' requirements for arriving shipping containers, local and international transshipments and imported low-value goods to be provided in a single report.



8. Embedding the New Zealand Story, strategy and structure

The New Zealand Story was launched in November 2013 to communicate our distinct and unique attributes to international markets and help New Zealand companies gain a competitive advantage.

With an active private/public Advisory Board and an Executive Chair and Director appointed, the New Zealand story is **being embedded across New Zealand government agencies and exporters**. With over 50,000 visits to the website, the story and assets are being

used globally as a backdrop to ministerial presentations, trade events, trade discussions, Security Council presentations and ambassadorial engagements.

Partnering with industry leaders and companies across the export spectrum, we are cementing the brand attributes and values. With a co-creation focus, we are **tailoring and integrating the New Zealand Story to ensure relevance and momentum**. With over 1200 users registered and using the assets, our New Zealand Story is already gaining greater global visibility, broadening perceptions and assisting international-

ising companies achieve success. The New Zealand Story group will work with agencies to activate the New Zealand Story through sector campaigns and marketing campaigns.

Demand for more tools, support and advice is strong. We are **expanding the New Zealand Story website** with more assets, toolkits and templates being created to ensure ongoing relevance and to improve the quality of our companies' global storytelling.

Work is also underway to **develop a primary industry complement to the New Zealand Story** as well as a **New Zealand education story**.

9. Capitalising on the 2013 growth package for tourism and education

International tourism and international education are both substantial earners of overseas revenue for New Zealand. International tourism contributed \$9.8 billion to the economy in foreign exchange earnings in the year ending March 2013 – 16 per cent of all export revenue – while the international education industry has a value to the New Zealand economy of \$2.6 billion.

Industry and government need to be well-positioned to capture the significant opportunity presented by China as well as emerging markets such as India, Indonesia and South America. In 2013, the Government injected new funding to provide impetus to services exports, supporting high-value international tourism and international education through the Internationally-Focused Growth Package.

We will **undertake more targeted marketing of New Zealand as a visitor destination**. This involves providing support for international business events to grow the value from New Zealand's improving network of international-standard convention centres; establishing a presence and undertaking campaign work in priority emerging markets; and undertaking highly-targeted marketing activity aimed at high value visitors and high net worth individuals.

We are **partnering with industry through the Tourism Growth Partnership Fund**, which invests in business-driven initiatives that will boost



innovation and productivity in the tourism sector, and the International Education Growth Fund, which aims to increase the value of goods and services provided offshore, or increase the value of existing activities.

Education New Zealand and Tourism New Zealand are **working together to present joint education-tourism offerings** to ensure the opportunities presented by tourism and international education are realised effectively.

Education New Zealand has **increased the scale of existing activities and implemented new activities to attract potential students from our priority markets**, and from other emerging markets in Southeast Asia, Latin America and the Middle East. It has also **re-launched its promotional activities in the historical markets that are not priority markets, but where there is**

further growth potential. It will **continue to use targeted activities to attract potential students**, often building on their governments' priorities of sending their students offshore for a period of study or encouraging English language proficiency.

We will continue to **award Prime Minister's Scholarships** to New Zealanders for study overseas across a range of courses and international locations. The scholarships are for study in a subject area that can be linked to New Zealand's economic or trade agenda at an institution in an ASEAN country, China, Japan, Korea or India.

We have continued to **increase Education New Zealand's global footprint** to now include Tokyo, Mumbai, Guangzhou and Auckland as a result of the expanded work programme implemented during 2013/14.

Progress Indicators

The Government is continuing to focus on making substantial progress on the following *Building Export Markets* actions. Actions relating to our priority areas of focus are highlighted. Actions new to the *Building Export Markets* work programme are marked as [New].

KEY

- Complete
- Implementing
- In progress
- New project

	Action	Status	Lead agency	Also in	Comment
Delivering a compelling New Zealand Story	Priority area 8 - Embed the New Zealand Story strategy and structure [New]	In progress	NZTE		<p>The Executive Chair and Director have been appointed and commenced March 2014, with further operational team recruitment underway.</p> <p>The prototype strategy was presented to the Advisory Board on 27 March and was approved to proceed.</p> <p>The first 90 day initiatives are being implemented, including a 90-second brand film edit and an extension of the website to enable further tool inclusion.</p>
	Facilitate the use of New Zealand branding by private sector companies	Implementing	NZTE, ENZ		<p>Agencies are developing sector-specific tools, content and evidence to support private sector offshore marketing. Focus sectors include food, tech (high-tech manufacturing and digital) and agri sectors.</p> <p>As at 20 April, the Brand Lab (Education New Zealand's online marketing toolkit) had 1,240 registered users from more than 60 countries and has experienced 6,640 downloads since its launch in November 2013.</p>
Improving access to international markets	Priority area 1 - Negotiate new FTAs including the Trans-Pacific Partnership (TPP), and the World Trade Organisation (WTO) Doha Round	In progress	MFAT		<p>Intensive efforts continue to achieve, as soon as possible, a comprehensive, high-standard TPP that aligns with the objectives agreed by Leaders and Ministers in Honolulu in 2011. Ministers have agreed on potential landing zones for many issues across the negotiation but further work is required to advance high-quality market access packages and the most complex texts. Negotiators are engaging intensively with Korea to seek to conclude the bilateral FTA negotiations within this year. Negotiations on the Regional Comprehensive Economic Partnership with ASEAN and its FTA partner countries are ongoing, as they are with India. A modest but worthwhile package - centred on a new Trade Facilitation Agreement - was agreed at the ninth WTO Ministerial Conference in Bali in December 2013. The focus now is on charting a way forward, including for the remaining issues of the Doha Round.</p>
	Priority area 1 - Target efforts to address behind-the-border barriers in key markets, maintain existing market access, and promote FTA uptake	In progress	MFAT, MBIE, MPI		<p>Work continues in many markets to protect existing access and reduce or eliminate behind-the-border barriers to exports by New Zealand businesses. Examples include: substantial growth in export volumes of beef and some horticulture products to Indonesia following WTO dispute settlement consultations on Indonesia's market access restrictions; implementation of the Electrical and Electronic Equipment Mutual Recognition Agreement (EEEMRA) with China, and continuing initiatives to restore New Zealand's reputation for production of safe, high-quality dairy products in the Chinese market. New Zealand hosted the inaugural Joint Commission meeting of the Malaysia-New Zealand FTA in December and a major Joint Committee meeting of the ASEAN-Australia-New Zealand FTA in May.</p>
	Implement the NZ Inc. India Strategy to boost trade in goods and services	Implementing	MFAT, NZTE	Capital Markets	<p>NZ Inc. agencies are implementing priority actions for 2013/14. Interviews with New Zealand businesses active in the India market will inform the future approach to the merchandise goal in the NZ Inc. India Strategy.</p>
	Implement the NZ Inc. China Strategy to boost trade in goods and services	Implementing	MFAT, NZTE	Capital Markets	<p>NZ Inc. agencies are implementing priority actions for 2013/14. New NZ Inc. resourcing has been added in China to further the political and economic relationship. An ambitious new two-way trade goal of NZ\$30b by 2020 has been agreed with China.</p>

Building Export Markets

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Improving access to international markets	Develop NZ Inc. Country and Regional Strategies for Australia; the US; ASEAN; the Gulf Cooperation Council (GCC); and Europe	In progress	Cross-govt secretariat in MFAT	Capital Markets, Innovation	Strategies for Australia, ASEAN and the GCC have been approved by Cabinet, and agencies are implementing priority actions for 2013/14. High-level contact with the GCC region has been enhanced and steps have been taken to formally establish an entity to build public-private partnerships within the GCC. Agreements have been reached with Australia on Single Economic Market initiatives, the response to the joint study of the Productivity Commissions, and coordination on areas of shared major economic interest.
	Negotiate other priority Air Services Agreements (ASAs) to build transport connections	In progress	MoT, MFAT		New ASAs have been negotiated with: Cambodia; Ethiopia; Finland; Jamaica; Saudi Arabia; Sri Lanka; Togo and Zambia. Existing ASAs have also been enhanced at negotiations with: Hong Kong; Luxembourg; Mongolia; Norway; Philippines; South Africa; Sweden and Switzerland.
	Negotiate priority Double Taxation Agreements (DTAs) to prevent cross-border transactions being taxed twice	In progress	IRD, Treasury, MFAT		Since November 2013, new DTAs with Papua New Guinea and Viet Nam have entered into force, bringing New Zealand's total number of DTAs in force to 39. First rounds of negotiations for new DTAs with Samoa and Norway were held in early 2014, and a second round of negotiations for a new DTA with Luxembourg was held in May. New Zealand has also exchanged models with China in preparation for a first round of renegotiations in July to update the existing 1986 DTA with China.
	Accede to the WTO Agreement on Government Procurement (GPA) to enhance market access opportunities overseas for New Zealand suppliers	In progress	MBIE, MFAT		New Zealand tabled a second revised offer in November 2013. While GPA Parties agreed that it was a strong offer, they continued to express concerns in specific areas. Negotiations are ongoing as we continue to engage to resolve these remaining concerns.
	Adapt New Zealand's offshore footprint to better meet the needs of business	Implementing	MFAT		The programme is on track. Addis Ababa, Yangon and Bridgetown, Barbados, are all operational. A Consul General took up a new post in Honolulu in June 2014. A new Consulate General will open in Western China this year, pending official Chinese approval.
	Priority area 3 - Boost our representation in China [New]	In progress	MFAT, NZTE, MPI, ENZ		MFAT has put in place two new policy positions and two public relations positions in China. The Ministry for Primary Industries (MPI) has also added three new policy positions, while MBIE has appointed a science counsellor. NZTE and ENZ have added new locally-engaged staffing positions to their existing China operations.
	Priority area 4 - Increase our representation in other emerging markets [New]	New project	MFAT, NZTE, MPI, ENZ		ENZ has established new staffing positions in Indonesia and Viet Nam, while an Agriculture Counsellor from MPI has also been added to our Jakarta Post. Tourism NZ has opened new offices in Indonesia and Sao Paulo. A new Ambassador has been appointed for ASEAN, based in Jakarta, and serving alongside the existing Ambassador to Indonesia. New NZTE positions in Abu Dhabi and Riyadh have been established. A new post was established in Yangon, Myanmar, in 2013 and in Addis Ababa, Ethiopia, in 2014.
	Priority area 7 - Complete Trade Single Window for importers and exporters	In progress	Customs, MPI		The first public phase of Trade Single Window went live on 1 August 2013. The Customs and Excise (Border Processing - Trade Single Window and Duties) Amendment Act 2014 was enacted on 24 March 2014. Associated regulations are to be enacted in 2014. The progressive roll-out of Trade Single Window will continue into 2015.
Making it easier to trade from New Zealand	Priority area 5 - Use the New Zealand Export Credit Office (NZECO) to help promote the procurement of New Zealand capital goods and services [New]	In progress	NZECO		A recent Trade Mission to Papua New Guinea (PNG) met with the PNG Prime Minister, Treasury and key government buyers to discuss NZECO-supported loan arrangements in respect to large capital goods and infrastructure projects. The PNG Government and Treasury are to decide whether they will accept this form of external funding.
	Explore the development of customs security arrangements with key countries	In progress	Customs		Work continues to maintain existing arrangements and develop new ones, such as with the European Union.
	Deliver a work programme to make trade and travel more efficient through better co-ordination of border services	Implementing	Customs, MPI		Work is underway with operational areas implementing more coordinated services at ports, airports and improved processes to identify risks at the border.
	Implement Immigration Global Management System upgrade and network configuration	In progress	MBIE	Skilled and Safe Workplaces	Immigration ONLINE is focused on technical testing, user acceptance testing and security testing for the online student visa application process (known as Immigration ONLINE - Student). At this stage, it is intended for Immigration ONLINE - Student to go live during the third quarter of 2014. This timing will enable implementation of additional security measures.

Building Export Markets

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Making it easier to trade from New Zealand	Establish 'clearing house' to coordinate government efforts to address onshore regulatory barriers to exports	■	MBIE, MFAT		Monitoring for complex, systemic, or multi-agency issues is continuing. MFAT and MBIE collaboration resulted in the implementation in February of the China New Zealand Electrical and Electronic Equipment Mutual Recognition Agreement.
	Priority area 6 - Conduct fit-for-purpose checks on market-facing regulatory regimes [New]	■	MBIE, MFAT, Treasury, MPI	Natural Resources	Officials are undertaking work to better understand the views of New Zealand's trading partners on our regulatory regimes, and to assess the impact of regulation on the New Zealand brand, as well as trade flows in key sectors. Through forums such as APEC and our FTA negotiations, officials are continuing to pursue reductions in costs for New Zealand exporters due to differences in regulatory regimes. Work is continuing on implementing a communications strategy for China.
Helping businesses internationalise	Priority area 2 - Provide NZTE with more resources to assist more companies [New]	■	NZTE		The Government has prioritised \$69m over four years for NZTE to lift the number of firms it intensively engages with to 700 by June 2016, to expand its international network, maintain its multi-customer in-market activities and establish the Government to Government Partnerships Office.
	Deliver integrated knowledge on key markets to business from all agencies operating offshore	■	NZTE		NZTE has published an interactive online tool with information about 30 export destinations. This tool can be used as a platform for integrating market knowledge and reports from other government agencies operating offshore. Integration is already underway with MFAT content, with nine MFAT-sourced reports accessed via the tool, and around 25 additional reports to be integrated by end of June 2014.
Increasing value from tourism	Deepen partnerships with air services industry to strengthen demand and value of routes	■	MBIE, TNZ		New funding for destination marketing and a new tourism growth partnership co-investment programme are providing significant new opportunities for partnership and joint venture activity with industry and airlines.
	Priority area 9 - Capitalise on the Budget 2013 growth package for tourism [New]	■	MBIE, TNZ		<p>TNZ has opened and fully staffed offices in the emerging markets of India, Indonesia and Latin America to create a strong tourism presence. These offices are now delivering destination marketing, public relations and travel trade activity as envisaged. International business events and incentives activity substantially increased. A premium-sector strategy has been published and is being implemented in key markets.</p> <p>Since the last update, MBIE has held two rounds for projects aimed at boosting innovation and/or increasing productivity in the tourism sector. Eight projects worth around \$5.45m of government investment (in addition to sector contribution of approximately \$30m) are being progressed to contracting. Additional rounds will be held in 2014.</p> <p>China market review initiatives are underway including extended multiple-entry visitor visas, China immigration portal, China service delivery toolkit and a China Market Information Programme.</p>
	Capture the full potential value from growing Asian visitor markets	■	MBIE, TNZ		Implementation of TNZ's new three-year marketing strategy is underway, which includes destination marketing in the emerging markets of India and Indonesia, delivery of the Premiere Kiwi Partnerships programme in China, increased business events/incentive activity, and the establishment of premium tourist focus and activity.
	Develop international-standard convention centres in Auckland and Christchurch	■	MBIE		Following the passage of the New Zealand International Convention Centre Act on 18 November 2013, work has been undertaken on the Concept Design for the Centre. Responses to the Requests For Proposals for the development of the Christchurch convention centre precinct and for the operation of the convention centre are currently being evaluated.
	Establish Nga Haerenga - The New Zealand Cycle Trail	■	MBIE		Sixteen of 23 trails are open. User numbers on those trails are strong. Three trails are presenting some challenges for completion and MBIE is working closely with the trails to minimise risks around delays. NZ Cycle Trails Inc has been established, which will take over day-to-day governance of the trails.
	Convert the international attention New Zealand will draw from the Hobbit movies, into travel to New Zealand	■	TNZ		An integrated marketing campaign and public relations activity is underway or completed in key visitor markets including Australia, US, China, UK, Germany, Japan and France to leverage exposure from the second Hobbit movie.

Building Export Markets

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Increasing value from tourism	Establish and implement Māori Tourism Action Plan	■	TPK, MBIE		An action plan has been established, and is being implemented to build capability in the Maori tourism sector. Te Puni Kōkiri (TPK) and MBIE have begun evaluation of the action plan.
	Increase value to New Zealand businesses and New Zealand from public conservation lands and waters	■	DoC, MBIE	Natural Resources	Work to reduce uncertainty is being incorporated into the Department of Conservation's (DOC's) E-services project. DOC will continue to identify and implement partnership agreements with businesses that wish to invest in conservation. Effective, planned account management of the largest existing concessionaires is a key element for growing conservation, and implementation of effective account management is a priority over the coming six months.
Growing international education	Priority 9 - Capitalise on Budget 2013 growth package for education [New]	■	ENZ		ENZ has increased the total value of its International Education Growth Fund through using new funding. The sector-specific Strategic Roadmaps Initiative is underway. The first round of the Prime Minister's Scholarships for Asia has been completed with the second round underway. ENZ has scaled up its International marketing efforts and grown its presence in high-priority international markets.
	Deliver education targets in the NZ Inc. strategies for China and India	■	ENZ, NZTE		Immigration New Zealand data for 2013 suggest a strong increase in Chinese students coming to New Zealand, with overall student visas up eight per cent from 2012 and first-time student visas up 38 per cent in December 2013 compared to December 2012. The fourth quarter of 2013 (October – December) was the strongest fourth quarter for Chinese first-time student visas since 2009. In 2014, ENZ plans to commission research into regulatory frameworks and models for joint ventures in China to support education business growth, establish and expand private and public partnerships in New Zealand and China to explore new channels for collaboration and publish an industry guide on doing education business in China. ENZ will continue to build a preference for New Zealand education through digital campaigns, identifying opinion leaders and continuing work on its social listening project. India is tracking below the original NZ Inc. stretch target of 20 per cent compound growth per annum of student numbers. Nevertheless, ENZ is delivering sustainable growth in the market with early indicators showing positive increases over 2013.
	Assist the New Zealand education industry to have the capability to be successful in key international markets	■	ENZ		The strategic roadmap programme is a collaborative initiative between ENZ and the international education industry by which roadmaps will be created by and for each of the seven sectors within the industry. These roadmaps will contribute to an overarching industry roadmap and will identify an agreed future vision for each sector and a set of actionable steps each sector can take to reach their goals. The roadmaps are also intended to provide each sector with a cohesive planning tool and assist individual industry participants in their own business planning while informing the work that ENZ undertakes in support of the international education industry. In March 2014, ENZ initiated a further round of the International Education Growth Fund with matched funding of approximately \$600,000 available. The Fund is designed to help New Zealand's education providers achieve significant growth by making the most of international education opportunities.
	Focus marketing and in-country resources on high potential markets	■	ENZ		Each high-priority market has a marketing plan that focuses human and financial resources on educating students and parents on the unique benefits of studying in New Zealand, and then sending leads to agents or New Zealand institutions. Focused digital campaigns are now funnelling leads through to key agent and institution partners. Both ENZ and these partners will be using the Think New key messages as the basis for the campaign.

Building Export Markets

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Growing international education	Undertake dedicated \$5m plan over four years to assist recovery in Christchurch export education market		ENZ		<p>ENZ is implementing a programme of work for 2014/15 aiming to aid the recovery of the Canterbury international education industry.</p> <p>Major subprojects include: effective marketing of Christchurch as a study destination; ensuring Canterbury providers offer products and services to meet international market needs; improving the international student experience in Christchurch; and creating an environment that drives recovery and growth.</p> <p>This includes creating a sustainable platform for transition of Government-led recovery initiatives to industry-led initiatives and local government partnerships.</p>
	Roll out ultra-fast broadband to enable exporters to competitively deliver services offshore		MBIE	Infrastructure, Innovation	As at 31 March 2014, 31 per cent of New Zealanders in UFB areas had access, and over 27,000 users were connected to UFB.
Strengthening high-value manufacturing and services	Develop new services to help New Zealand companies, including SMEs, increase their success in government procurement, complex supply chains and large contracts [New]		NZTE, MBIE	Innovation	A full service suite will be available by the end of July 2014. The action outlined in the Innovation chapter to extend application of the Rules of Sourcing to the wider State service sector will also help improve the way government engages with SMEs through its procurement activity.
	Establish mechanisms to secure commercial export opportunities on the basis of core Public Sector intellectual property and expertise		MFAT, NZTE	Innovation	<p>Early pilot projects in the Middle East have developed deep relationships and have had commercial results for New Zealand's public sector expertise in the areas of fisheries and water management. Opportunities in a wider range of public sector capability are being actively pursued.</p> <p>A joint operating mechanism between MFAT and NZTE has been agreed and established, with the New Zealand Government Partnerships Office housed at NZTE.</p>
	Identify key issues for commercial service exporters and promote export prospects		MFAT, MBIE		Work is underway to better understand the characteristics and potential of New Zealand's commercial services markets, including modes of delivery of services. As part of the New Zealand Sectors Report series, MBIE has published an in-depth report on knowledge intensive services. The data provided in these reports will be updated on a regular basis.

The following actions have now been completed and have moved into “business as usual.”

Action	Status	Lead agency	Also in	Comment
Delivering a compelling New Zealand Story		NZTE, TNZ		Brand film and digital assets were delivered for the launch in November 2013.
		NZTE, TPK		There was extensive consultation during development of the Story. Recent feedback indicates the integration has been well-received.
		NZTE, TNZ		A digital toolkit was developed and launched in November 2013.
Improving access to international markets		MFAT		FTAs have been signed with Malaysia, Hong Kong, Chinese Taipei and ASEAN.
		MoT		
Making it easier to trade from New Zealand		NZECO	Capital Markets	NZECO's loan and bond guarantee products have been broadened, enabling NZECO to underwrite additional \$75m export transactions to date under these enhancements.
		MPI, ENZ	Natural Resources	
Helping businesses internationalise		NZTE, MFAT		
		NZTE		This is an annual activity and has been completed for 2013/14. This action has been superseded by the new investment in NZTE outlined in the previous table.
		NZTE		This is an ongoing annual activity and has been completed for 2013/14. NZTE will continue to grow business-led coalitions and support multi-customer in-market activities in 2014/15.
		NZTE		This is an ongoing annual activity and has been completed for 2013/14.
		NZTE, TPK		
		NZTE, TPK		This is an ongoing annual activity and has been completed for 2013/14.
		IRD, Treasury	Capital Markets	
		MFAT		The Official Development Assistance-funded Partnerships Fund, which is aimed at facilitating private sector engagement in developing countries, has been established by MFAT, and has seen increasing interest from New Zealand businesses. It is expected to attract an increasing number of private-sector applicants over time.

Building Export Markets

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Increasing value from tourism	Install SmartGate to provide a streamlined experience for Australian passengers	Completed	Customs, MPI, MBIE		
	Further streamline passenger facilitation including expanding SmartGate technology functions	Completed	Customs, MPI, MBIE		
	Develop and implement new three-year marketing strategy for New Zealand's destination marketing	Completed	TNZ		
	Invest \$10m annually into the Major Events Development Fund to increase the number & quality of major events	Completed	MBIE		
Growing international education	Develop Education New Zealand to help the education industry double the value of international education by 2025	Completed	ENZ, MoE		
	Use newly adopted policy and regulatory tools to oversee international student market in New Zealand	Completed	MinEdu, NZQA		
Strengthening high-value manufacturing and services	Develop Advanced Technology Institute	Completed	MBIE	Innovation	
	With ATI, Better by Design, Better by Lean, Better by Strategy and Primary Growth Partnership, assist firms to grow international capability	Completed	NZTE, MPI, ATI	Innovation, Natural Resources	
	Develop stronger 'NZ Inc.' approach with business on cyber security	Completed	NCPO, MBIE		
	Explore changes to the Large Budget Screen Production Grant that would enable more New Zealand firms engaged in high value post-production activities in film, television and animation to win international business	Completed	MBIE		In December 2013, Cabinet agreed to further changes to screen incentives and, in particular, the establishment of the new New Zealand Screen Production Grant. This new grant, in operation from 1 April, will offer international productions a 20 per cent rebate, and a small number of productions which have the potential to market and promote New Zealand may qualify for an additional five per cent. Other changes have been made for New Zealand content. In addition, the Government announced that it has entered into a MOU for three <i>Avatar</i> sequels to be made in New Zealand.

02

Building Capital Markets



The Government has committed to the following high-level goal:

Reduce the real interest rate premium on New Zealand debt compared to US and Australian equivalents

Capital is vital in allowing businesses to grow, invest, export and create jobs for New Zealanders. Achieving our overall target of increasing exports to 40 per cent of GDP by 2025 requires an extra \$160 billion to \$200 billion of new productive capital to flow to our export businesses. The Government is taking a range of actions to create high-performing capital markets in New Zealand, focusing on levelling the playing field with overseas competitors by reducing the cost of capital to New Zealanders.

We remain committed to reducing the interest rate premium on New Zealand debt compared to US and Australian equivalents. This is an important area of

focus because of the pervasive effect this premium has on our economy – the higher premium on government-issued bonds flows on to New Zealand as a

whole, influencing everything from the cost of capital to business, to the amount of interest paid by households via higher mortgage interest rates. While long-term interest rates have begun to rise in the last year, this has been a global trend and does not represent a significant increase for New Zealand in relation to comparator countries. By focusing on prudent fiscal management and on introducing efficient and effective financial market regulation, we are confident this will improve New Zealand's position with overseas creditors and reduce the real interest rate premium, with positive outcomes for the country as a whole.

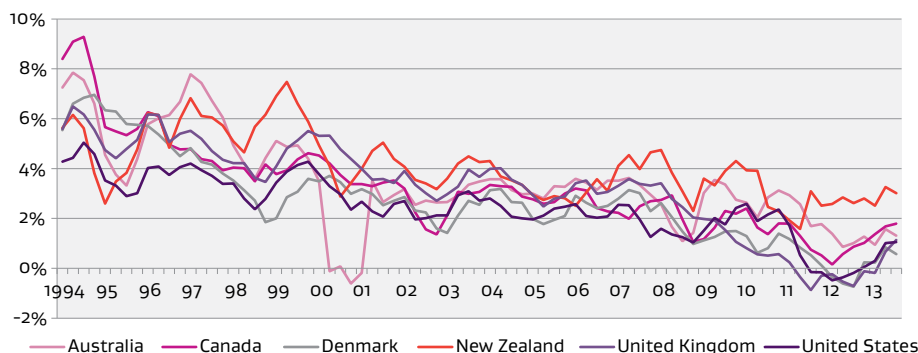
In particular, the Government has continued to focus on returning to an operating surplus, and bringing down debt to minimise pressure on interest and exchange rates. We remain on track to return to surplus in the 2014/15 financial year.

There are also positive signs that capital market activity is strengthening.

New Zealand's public equity markets have grown strongly over the last few years, in part supported by the Government Share Offer programme along with other listings such as Z Energy, Airwork Group, GeoOp and Wynyard Group, amongst others.

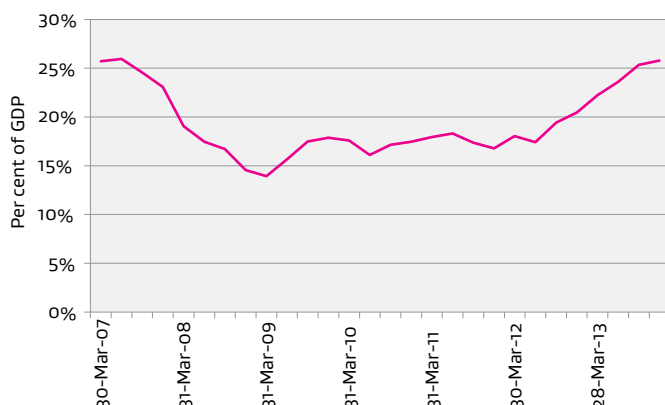
Real interest rate (10-year government bonds)

Source: OECD database



NZX capitalisation as a percentage of GDP

Source: NZX and Statistics New Zealand

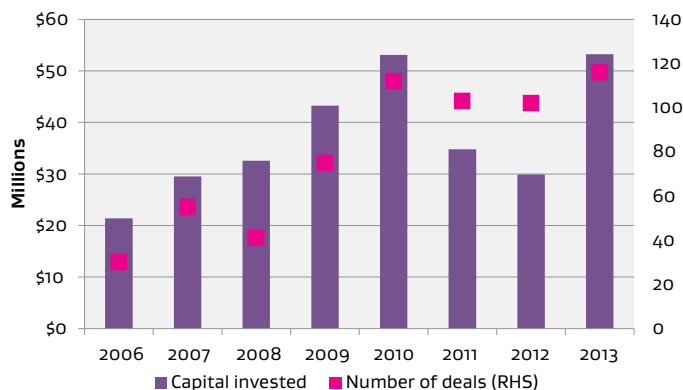


Building Capital Markets

Private capital markets investment activity rebounded in 2013. Reported mid-market private equity investment more than doubled to \$192 million from 2012 to 2013, getting close to the record year in 2011. There were 15 deals. Divestment activity was very muted compared to previous years.

Seed and start-up investment in New Zealand

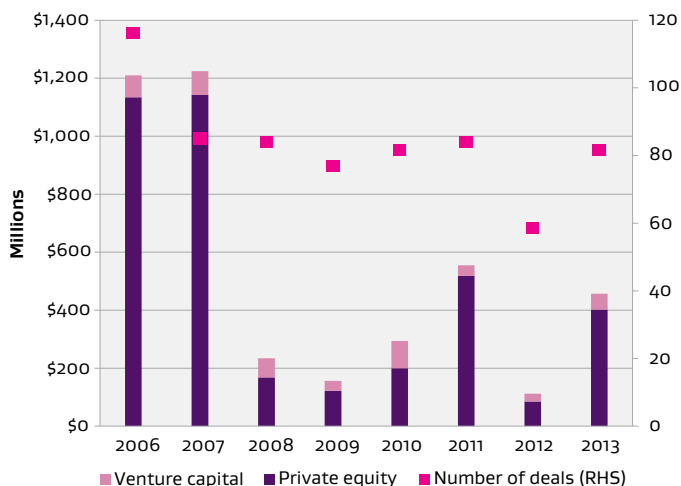
Source: New Zealand Venture Investment Fund, Angel Association New Zealand



Venture capital investments also more than doubled, to \$55 million invested through 66 deals, up from 50 in 2012. Venture capital funds continued to focus on information technology, software and the health and bioscience sectors. There were no reported venture capital fund divestments in 2013.

Venture capital and private equity in New Zealand

Source: New Zealand Private Equity and Venture Capital Monitor, 2013 Full Year Review



The buy-out private equity market (for transactions with an enterprise value over \$150 million) exhibits significant year-on-year variability. After recording no investments in 2012, there was one in 2013 for \$210 million. There were four reported divestments totalling \$663 million.

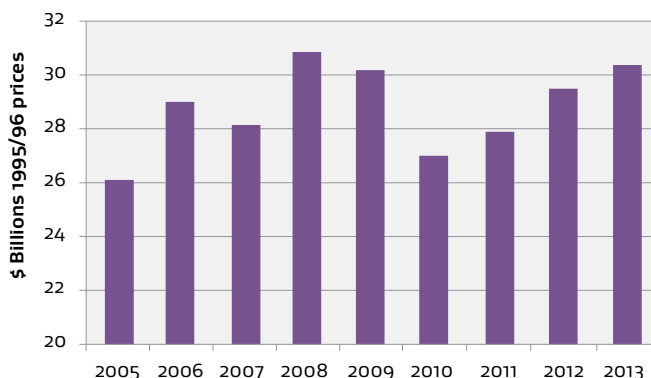
Reported seed and start-up investment by angel investors declined in 2011 and 2012 but recovered in 2013. There were 116 deals in 2013, investing a total of \$53 million (\$30 million in 2012) in New Zealand's early stage firms. The number of deals has been relatively steady over the last four years. The average deal size has fluctuated with the downward trend from 2008

arrested in 2013 when average deal size increased from \$293,000 in 2012 to \$459,000.

Following a sharp decline during the recession, business investment has steadily risen. Increased business investment raises the growth potential for New Zealand's economy. Higher growth potential means the economy can grow without running into capacity issues, or 'overheating' which requires interest rate rises to manage.

Business Investment¹

Source: Statistics New Zealand



¹ Business investment is calculated as gross fixed capital formation other than residential buildings. It includes public sector non-residential investment

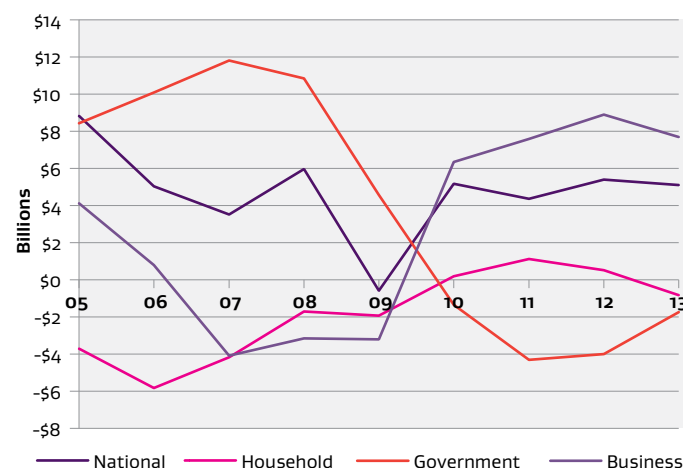
Domestic savings, along with international capital, provide the financing for business investment.

In recent years, there has been a change in the saving behaviour of New Zealanders – households are saving more than they have in the past (although there has been a slight downward trend between 2011 and 2013). The value of household superannuation funds (including KiwiSaver investments) has more than doubled since 2009 to over \$42 billion, approximately \$20 billion of which is in KiwiSaver.

While increased government borrowing has had a negative impact on overall national savings, this is a temporary effect, as government moves to return to surplus by 2014/15 and commences paying back debt.

Components of New Zealand's national savings

Source: Statistics New Zealand



Progress update

The Government remains committed to successfully completing the 50 actions to build capital markets that were set out in the February 2013 *Building Capital Markets* report.

Half of these original actions have now been completed, and the remaining actions are either in progress, or being implemented. Many of these are significant initiatives that will be delivered over a number of years.

Four new actions have also been added to the Building Capital Markets work programme, all of which are in progress.

Building Capital Markets	All actions	New	In progress	Implementing	Completed
Status February 2013	50	8	31	2	9
Status June 2014	55	0	21	9	25

We have made some significant achievements over this time

The Government Share Offer programme has helped to deepen New Zealand's public equity markets and has spurred many New Zealanders to invest in the share market for the first time. For more details on this key initiative, see the Spotlight box below.

The Future Investment Fund was established in Budget 2012 to allocate the proceeds from the GSO programme. The Fund's aim is to fund new capital investments without government issuing debt. Budget 2014 allocated a further \$1 billion of new capital from the Future Investment Fund, including \$200 million for health sector projects, including the new Grey Base Hospital on the West Coast; \$198 million for KiwiRail's Turnaround Plan; \$172 million for

school property expansion, including completion of a new school at Pegasus near Christchurch; \$75 million for Canterbury housing development; and \$40 million to invest in irrigation infrastructure. Almost \$3 billion has now been allocated from the Future Investment Fund, and the remaining \$1.7 billion will be allocated in the 2015 and 2016 Budgets.

Spotlight

The Government Share Offer programme

The recent float of Genesis Energy has brought to a close the Government's successful share offer programme. Total proceeds from share offers in Mighty River Power, Meridian Energy, Air New Zealand and Genesis Energy totalled \$4.7 billion. The proceeds from the sales have gone into the Future Investment Fund, channelling funding into investment in assets like schools and hospitals, without the need for borrowing from overseas lenders.

The Government Share Offer (GSO) programme has also been instrumental in deepening New Zealand's public equity markets. Listing activity on NZX in 2013 was at its highest level in over a decade. More than 60 per cent of the capital raised was due to the GSO programme. Together, Mighty River Power, Meridian and Genesis Energy have added more than \$8.85 billion in capitalisation to the NZX main board.

The GSO programme has also spurred many New Zealanders to invest in the share market for the first time. 111,000 common shareholder numbers have been issued during the share offer programme, indicating that tens of thousands of New Zealanders have become shareholders and are now earning dividends from shares.



Building Capital Markets

The establishment of the **Financial Markets Authority (FMA)** and the implementation of the **Financial Markets Conduct Act 2013** are improving the regulatory framework that governs New Zealand's capital markets. These initiatives represent significant steps towards the creation of fairer, more efficient and more transparent financial markets. Many of the changes made under the Financial Markets Conduct Act bring New Zealand into line with international securities law, bolstering areas of strength and working towards remedying weaknesses revealed in the wake of the Global Financial Crisis. And there are already signs that investor confidence is growing. A recent Financial Markets Authority survey of New Zealanders' attitudes to financial markets, found that confidence in our financial markets is growing. Overall confidence has risen five percentage points to 59 per cent from 54 per cent in 2013.

The **Financial Reporting Act** has been passed into law, removing the requirement for small and medium-sized companies to produce complex financial statements. The Act allows shareholders of small and medium-sized companies to decide whether the company must prepare financial statements.

In July 2013, New Zealand Trade and Enterprise (NZTE) launched **Better by Capital**. This service helps businesses seek capital to fund international expansion. Since July, NZTE has evaluated almost 200 companies for the programme and is currently working with just over 70.

We have made progress on delivering a **comprehensive package of measures aimed at improving the operation of the housing market** to better match supply with demand, and keep house price inflation down. This includes the passage of the Housing Accords and Special Housing Areas Act - enabling councils and the Government to free up land supply, and providing access to streamlined consenting processes for residential developments.

Other measures have been taken to ensure the stability of the housing market. **Loan-to-value ratio (LVR)** restrictions introduced by the Reserve Bank came into effect on 1 October 2013, restricting the amount of high-LVR lending a bank can undertake. These



restrictions reduce the risk of a sharp housing downturn and the loss of equity that would result, particularly for highly-indebted home owners. The restrictions were introduced under a Memorandum of Understanding guiding the use of macro-prudential tools and signed by the Minister of Finance and the Reserve Bank in May 2013.

We have continued to support KiwiSaver through higher minimum contribution rates, which took effect from 1 April 2013, along with new disclosure rules so that investors have better information to compare funds.

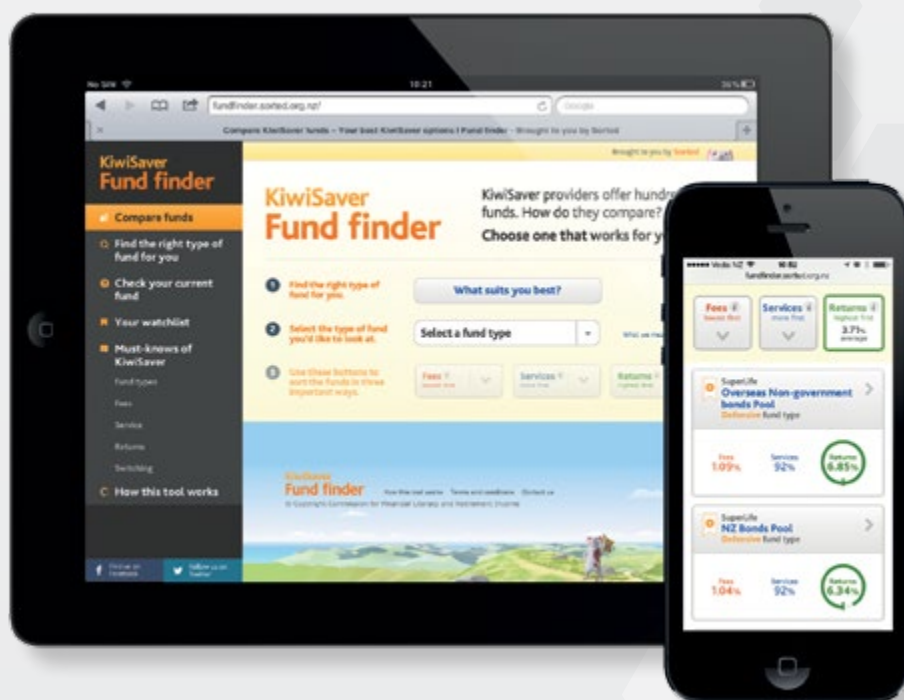
We have also selected nine default Kiwisaver providers for a seven-year

term beginning 1 July 2014. As a requirement of their appointment, these KiwiSaver default providers will offer investor education to encourage people to make an active choice of KiwiSaver fund. This reflects our commitment to build on KiwiSaver's contribution to developing a savings culture and lifting New Zealanders' confidence in our financial sector. The process for the selection of the default providers has also significantly reduced fees for default funds, particularly for smaller fund balances.

For more details on the changes to disclosure rules, see the Spotlight on the following page.

Spot light

Lifting our national saving rate to support investment



National savings are a crucial ingredient in our capital markets, reducing the cost of capital to New Zealand's firms, making investment more affordable.

To further encourage retail investment in our pool of national savings, the Government has taken steps to help investors identify and take advantage of opportunities to generate the best returns from their capital. To enable retail investors to make informed investment choices with their KiwiSaver funds, the KiwiSaver (Periodic Disclosure) Regulations were enacted in July 2013. The principal objective of the Regulations is to ensure that all retail KiwiSaver funds report in a consistent

and comparable format, enabling investors to better understand investment information and compare funds.

The Commission for Financial Literacy and Retirement Income has used the improved disclosure information to develop the 'KiwiSaver fund finder', an online tool to help New Zealanders compare funds that meet their investment needs. Launched in November, the KiwiSaver fund finder offers a standardised and impartial picture of each fund, making it easier for people to compare funds that match their risk profile and find those that have reasonable fees, offer the level of services they want and have not had

subpar results. In the past, KiwiSaver funds have used varying methods to present their returns. People can now be sure that they're comparing 'apples with apples' when it comes to their KiwiSaver options – giving them greater confidence to invest in New Zealand's capital markets.

Additionally, the new Kiwisaver default providers will be required to offer investor education to encourage people to make an active choice on which type of fund is right for their circumstances.

Future direction

Despite positive signs that capital market activity is strengthening, New Zealand continues to face some ongoing challenges. As noted previously, New Zealand's real long-term interest rates remain higher than most other OECD countries. And New Zealand's currency remains strong, which will continue to impact on the export sector.

As the economy moves into a growth phase, it will require strong capital markets to maintain its momentum and support its growth.

The Government will need to continue to work closely with the private sector to ensure that businesses can access the capital they need to grow, and investors have a broad range of trustworthy investment options open to them.

While there has been good progress in deepening public equity markets, there remains substantial opportunity for development. Providing a wider range of public markets and improving the availability of independent analysis and information on publicly-listed firms will support further development of public markets.

Moreover, direct investment in businesses both into and out of New Zealand remains an under-exploited opportunity.

While the stock of investment (foreign direct investment or FDI) into New Zealand is at a similar proportion of GDP to other small developed countries, there is still room for improvement. More export-oriented foreign direct investment into New Zealand will bring not only capital, but international expertise and access to new markets.

New Zealand's outward direct investment (ODI) in businesses - the amount invested overseas by New Zealanders - is low in comparison to all other OECD countries, and is particularly low when compared to other small, advanced, open economies. ODI is important for the New Zealand economy as it allows

international connections to be made, with the potential for expertise to flow back through to New Zealand, resulting in gains in productivity.

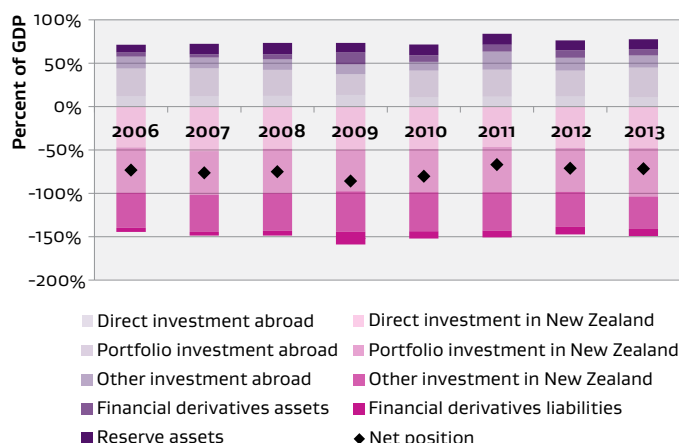
New Zealand also needs more high-growth, innovative businesses to increase economic growth. However, rapid business growth and innovation inherently involves a relatively high degree of risk, and it is often difficult for New Zealand businesses to raise sufficient risk capital.

The previous sections show the significant progress we've made in building our capital markets and in delivering our ambitious programme of Building Capital Markets actions. We will continue to make progress towards completing this programme.

However, in light of our progress, we intend to focus our future efforts on a smaller number of areas we see as particularly critical to further strengthen New Zealand's capital markets.

Components of New Zealand's net international investment position

Source: Statistics New Zealand



1. Rebuilding our financial reserves

Responsible management of the government's finances assists the efficient and effective functioning of capital markets in New Zealand and will help to ensure that we have buffers to manage any future shocks the economy faces. Over the past few years, the Government has been running deficits in response to the effects of the global financial crisis and Canterbury earthquake. These deficits have allowed government to maintain social expenditure during the recession.

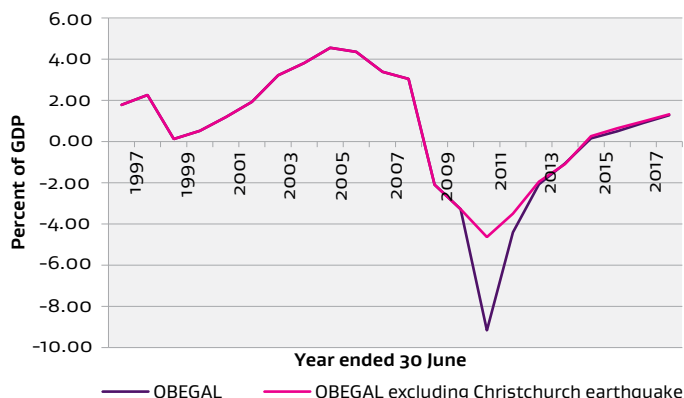
We therefore intend to **rebuild our financial reserves to get net core Crown debt to below 20 per cent of GDP by 2020**. The Government is on track to achieve this target, with net Crown debt projected to fall to 20 per cent of GDP in 2019/20.

We will also **continue to focus on efficient management of our operating balance** once we have returned to surplus in 2014/15. With the economic recovery gaining momentum, the Government

is committed to returning the operating balance excluding gains and losses (OBEGAL) to surplus by 2014/15 (subject to any shocks). The Government is on track to achieve this goal with the OBEGAL surplus forecast to be \$372 million in 2014/15.

Operating balance excluding gains and losses (OBEGAL)

Source: The Treasury, BEFU 2014



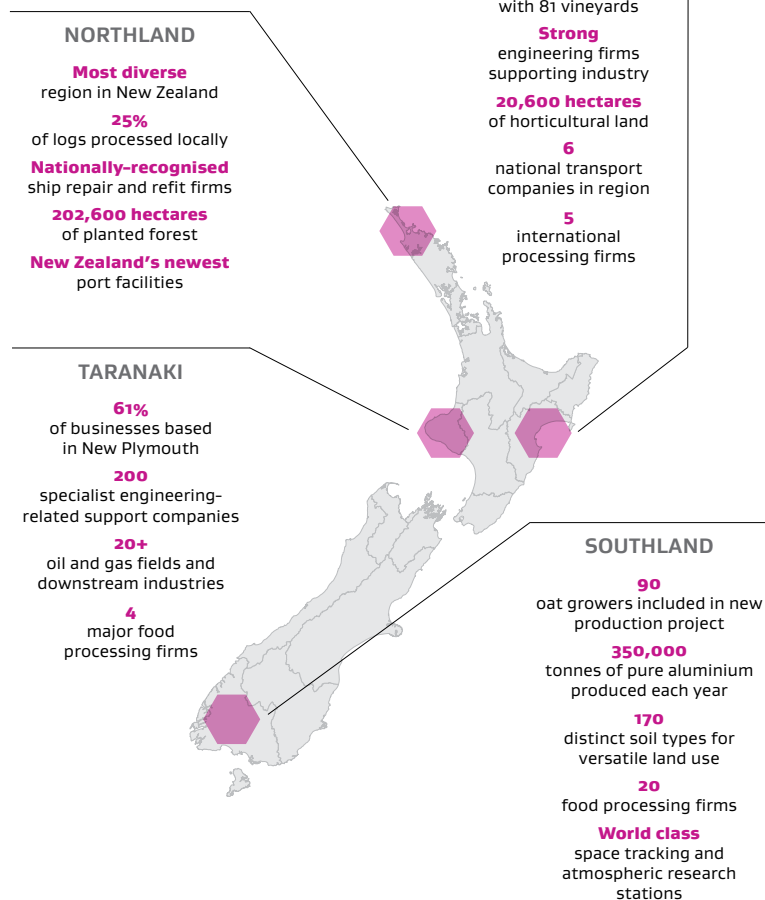
2. Establishing the NZTE Regional Investment Attraction programme

Strong flows of capital into New Zealand are needed for business to grow and engage in world markets. Encouraging more international firms to invest in New Zealand's regional economies is a key part of this.

We are therefore **establishing a new Regional Investment Attraction programme**, in which NZTE will work with regional stakeholders to create comprehensive investment profiles that outline the strengths of the particular regional economy, the opportunities for investment, and what the region can offer to investors. This initiative will link investment propositions in the priority sectors with those in the regions to ensure that top-sector growth opportunities for each region are promoted more effectively to international investors.

To help create and further develop these investment profiles, we are commissioning a number of Regional Growth Studies to evaluate growth opportunities in particular regions. These detailed, in-depth reports will identify areas of existing economic strength and where opportunities for further growth lie, with a particular focus on the primary sector.

Some of the regions as outlined in the Regional Investment Attraction programme



3. Implementing the Financial Markets Conduct Act

Robust regulatory settings give New Zealanders the opportunity to save and invest with confidence, encouraging efficiency in our capital markets by improving the regulatory framework within which investors operate, and providing better information through financial product disclosure. In turn, increased investor participation in capital markets gives companies access to a bigger pool of capital to grow their businesses.

The Government has already undertaken a major update of securities law, including passing the Financial Market Conduct Act in September 2013. We will continue our focus on fully **implementing the Financial Markets Conduct Act**.

The changes made by this Act will be transformative for our capital markets.

They are designed to support investor confidence in capital markets and streamline capital raising for businesses, while ensuring the cost of financial market regulation is minimised.

We are still early in the implementation phase of the Act. The first phase began on 1 April 2014 and involved general fair

dealing obligations and other key growth-focused initiatives. Phase two of the Act begins on 1 December 2014 and includes the new financial product disclosure requirements and the remainder of the Act. A schedule of the key changes in each phase of implementation is outlined below.

1 April 2014	<ul style="list-style-type: none"> FMA is now the primary regulator responsible for misleading or deceptive conduct and false or misleading representations in relation to financial products and services (other than credit contracts). FMA began assessing market services provider licence applications (including fund managers, discretionary investment management service providers, derivatives issuers, independent trustees of restricted schemes, crowd-funding and peer-to-peer lenders). Licensed crowd-funders and peer-to-peer lenders can now operate, offering new ways for firms to raise capital. Improvements now make it easier for firms to offer employee share schemes, primarily by reducing the disclosure requirements needed.
1 December 2014	<ul style="list-style-type: none"> New disclosure requirements come into force (see below for more information on this action). The offer and scheme registers are operational from this date, providing a publicly-searchable portal of additional and ongoing disclosure information. New governance standards apply, imposing statutory duties of care on licensed supervisors and on managers of managed investments schemes, setting the general good conduct duties and tone for the overall accountability framework.

Building Capital Markets

Implementing the new disclosure requirements under the Act will be a particular focus.

These new disclosure requirements are one of the key changes under the Act aimed at investor literacy, confidence and improved investor participation in financial markets. Disclosure to investors about financial products is a cornerstone of the Financial Markets Conduct Act. Well-functioning capital markets need

good information that is readily available. The disclosure should be meaningful and reliable to reduce information asymmetries between those disclosing the information and investors relying on the information to assist their decision-making.

For managed funds, the disclosure content is intended to be mostly prescribed to ensure that investment in managed funds is standardised and comparable across

providers. Managed funds are one of the most effective ways for retail investors to invest in financial markets. Investment in managed funds also has a flow-on effect to the rest of the economy: as investment in managed funds increases this provides a crucial channel through which capital is pooled and then flows on to firms. Regulations detailing the new disclosure requirements under the Financial Markets Conduct Act are being developed and will come into force from 1 December 2014.

4. Implementing the Credit Contracts and Financial Service Law Reform Bill

Another key action we will take to lift New Zealanders' confidence in our financial markets is **implementing the Credit Contracts and Financial Services Law Reform Bill**. The Bill passed its third reading in May this year. The Bill strengthens consumer credit laws to ensure that credit providers lend and manage credit contracts responsibly, and consumers are provided with increased protection from unscrupulous behaviour by lenders.

The amendments introduce responsible lending and incorporate the provisions of the Credit (Repossession) Act 1997 within an expanded Credit Contracts and Consumer Finance Act to provide a holistic approach to consumer credit legislation. Following Royal Assent, there will be a number of regulations to be implemented, including a new infringement notice regime and repossession agent licencing regime. In addition, we are developing a discussion document on the Responsible Lending Code for public consultation in mid-2014. All the provisions in the Bill, including the Responsible Lending Code, are required to be in force within 12 months of Royal Assent.

5. Supporting crowd funding and peer-to-peer lending

New Zealand needs more high-growth, innovative businesses to increase economic growth. And these businesses need access to sufficient risk capital.

We will create opportunities for new and innovative forms of capital raising by **supporting crowd funding and peer-to-peer lending**. We have recently enabled both these forms of capital raising under the Financial Markets Conduct Act 2013.

Crowd funding and peer-to-peer lending will be of particular benefit to small businesses and individuals who may not be able to source funding through more traditional methods.

These internet-based markets facilitate innovative ways for small businesses and individuals to raise money more efficiently. We remain committed to investigating opportunities to support early-stage and growth capital raising as these opportunities arise.

6. Attracting multinationals to make high-value investments in New Zealand research and development

We will help **attract multinationals to make high-value investments in R&D** that build on New Zealand's existing research strengths by working to identify and communicate where New Zealand has an international competitive advantage in R&D.

This includes implementing changes to Callaghan Innovation's business R&D Growth grants to make international firms willing to invest at least \$300,000 in R&D in New Zealand eligible for 20 per cent co-funding. This change will make New Zealand competitive with incentives offered in other countries, and will help attract international investment in R&D. We will also work to ensure overseas businesses are aware of this opportunity.

7. Delivering an Asia Region Funds Passport

We will continue work to **deliver an Asia Region Funds Passport** to allow a managed fund based in one jurisdiction in Asia to be offered more easily to investors in other participating jurisdictions. A similar passport initiative in Europe has been successful.

The Funds Passport is intended to provide New Zealanders and investors in the Asia region with access to a greater range of investment opportunities. It may also open up a new channel for international investment flows between New Zealand and participating economies in the Asia region, deepening the region's capital

markets and supporting the development and competitiveness of the region's fund management industry.

A consultation paper seeking feedback on detailed rules for the regime was released in April. It has been prepared in conjunction with Australia, Korea, Singapore, Thailand and the Philippines.



8. Delivering IRD's Business Transformation Programme

We will continue to **deliver New Zealand Inland Revenue's (IRD's) Business Transformation programme**, aimed at giving New Zealand taxpayers, particularly small-to-medium sized businesses, simpler and faster ways to deal with tax. The programme will modernise and simplify tax processes allowing taxpayers to seamlessly interact

with IRD in a digital environment. A significant aspect of the Business Transformation programme will be improving IRD's system so that business systems can talk to the IRD automatically.

The first stage of the programme, which is currently underway, will make it possible for firms to easily determine accurately their tax obligations and simplify PAYE and GST payments. It is envisaged that a business's payroll system will be able to be used to meet its PAYE information

obligations without the need to complete a separate form. Businesses will automatically fulfil their GST and PAYE obligations while they get on with running their businesses, making profits and creating jobs.

Subsequent changes will streamline income tax and business tax processes as well as the social policies that IRD administers, such as Working for Families tax credits.

9. Providing more capital raising options for small and medium-sized firms

We will continue to support and look for new ways to improve small and medium-sized firms' access to capital.

As discussed above, this includes crowd-funding and peer-to-peer lending, but there are additional growth-focused initiatives under the Financial Markets Conduct Act that assist SMEs in raising capital.

One such initiative is **improving Employee Share Schemes**. These changes, which came into force on 1 April 2014, reduce compliance costs to businesses offering employee share schemes, primarily by reducing disclosure

requirements for those businesses. This will be of particular benefit to small and medium-sized firms. Employee share schemes enable employees to take an ownership stake in the business they work for and allow businesses a simple means of retaining more capital to invest in new opportunities. Employee Share Schemes also enable firms to attract and retain talented and skilled employees to grow their business.

The Financial Markets Conduct Act also **clarifies and widens disclosure exemptions for investors in early-stage and private companies** – which will also particularly benefit SMEs. Exemptions include raising capital from experienced investors and investors that companies have a relationship with, and for small



offers of debt or equity (for example angel networks). In the past, it has been unclear for businesses as to whether or not they needed to prepare a prospectus when raising capital. In addition, some exemptions were unduly narrow and imposed unnecessary costs on businesses.

10. Encouraging new public growth markets

Alternative stock exchanges can lower the cost of capital raising for smaller and high-growth businesses.

The Financial Markets Conduct Act provides the framework for the development of alternative stock exchanges that could operate separately

to, or as a precursor for, listing on NZX's main board. Such a market might have reduced disclosure requirements and simpler listing rules, allowing smaller and high-growth businesses the opportunity to raise capital without the compliance costs that listing on the main board requires. If successful, a market with alternative listing rules may assist more small and medium-sized firms to raise capital, with

positive effects on economic growth.

NZX made a formal application for alternative market regulations for a proposed new market on 1 April. We are currently **assessing NZX's proposal under the Financial Markets Conduct Act 2013**. We are considering the application against the statutory criteria outlined in the Act.

11. Investigating differences in taxation treatment of savings vehicles

We will continue to focus on ways in which national savings might further be incentivised, thereby encouraging the expansion of New Zealanders' own investment portfolios and providing a crucial source of productive capital for New Zealand's businesses.

This includes **investigating differences**

in taxation treatment of different forms of savings vehicles, with a view to equalising treatment over time.

Differences in tax treatment from investing directly versus investing in managed funds were reduced significantly by the Portfolio Investment Entity ("PIE") and the Foreign Investment Fund ("FIF") reforms in 2007, which generally aligned the tax rates for investing directly versus investing through a managed fund, and reduced the differences in tax treatment

of investing in domestic and foreign shares. However, some differences remain, primarily the lower tax rate (28 per cent) for investing in a fund versus investing directly (33 per cent) for taxpayers on the highest personal tax rate. We will investigate whether this needs addressing, given how small the differences are since the 2007 reforms and, if it were to be addressed, what the best direction of reform would be.

Progress Indicators

The Government is continuing to focus on making substantial progress on the following Building Capital Markets actions. Actions relating to each of our priority areas of focus are highlighted. Actions new to the Building Capital Markets work programme are marked as [New].

KEY

- Complete
- Implementing
- In progress
- New project

	Action	Status	Lead agency	Also in	Comment
Better regulation to lift confidence in our financial markets	Priority area 3 - Deliver regulations under the Financial Markets Conduct (FMC) Act that require simplified financial product disclosures	In progress	MBIE		The necessary regulations under the FMC Act are in development. This part of the Act will come into force from 1 December 2014.
	Improve the integrity of New Zealand companies by requiring resident directors	In progress	MBIE		The Companies and Limited Partnerships Amendment Bill is awaiting the Committee of the Whole House stage.
	Enhance the stability of the banking system by implementing Basel III	Implementing	Tsy, RBNZ		Higher capital requirements for New Zealand banks have been in place since January 2013. The remaining RBNZ Basel III policies will be introduced throughout 2014/15.
	Introduce new macro-prudential tools to help manage financial system risks	Implementing	Tsy, RBNZ		A Memorandum of Understanding guiding the use of macro-prudential tools was signed by the Minister of Finance and the RBNZ in May 2013. On October 1, restrictions on high loan-to-value mortgage lending came into effect. The RBNZ is working with banks to design further tools.
	Priority area 4 - Introduce responsible lending requirements for consumer credit providers	Implementing	MBIE		The Credit Contracts and Financial Services Law Reform Bill passed its third reading in May. We are developing a discussion document on the Responsible Lending Code for public consultation in mid-2014. All the provisions in the Bill, including the Responsible Lending Code, are required to be in force within 12 months of Royal Assent.
Strengthening public equity markets	Priority area 10 - Investigate options for lower-cost public listing	Implementing	MBIE		MBIE has been investigating proposed markets with potential market operators. Regulations under the FMC Act may be developed to support any new low-cost markets where appropriate.
Lifting our national savings rate	Priority area 1 - Return government books to surplus and start paying down debt	In progress	Tsy		The May 2014 <i>Budget Economic and Fiscal Update</i> forecasts a return to surplus in 2014/15 and reductions in net debt from 2017/18.
	Priority area 11 - Investigate differences in taxation treatment of different forms of savings vehicles with a view to equalising treatment over time	In progress	Tsy, IRD		Differences in tax treatment from investing directly versus investing in managed funds were reduced significantly by the Portfolio Investment Entity ("PIE") and the Foreign Investment Fund ("FIF") reforms in 2007, which generally aligned the tax rates for investing directly versus investing through a managed fund, and reduced the differences in tax treatment of investing in domestic and foreign shares. However, some differences remain, primarily the lower tax rate (28 per cent) for investing in a fund versus investing directly (33 per cent) for taxpayers on the highest personal tax rate.
	Explore options for a one-off enrolment of all salary and wage earners not already in KiwiSaver	In progress	Tsy, IRD		Officials are exploring options for how this can be implemented once government books return to surplus and debt repayment is on track.

Building Capital Markets

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Supporting early-stage and growth capital	Make improvements to incubator programmes	■	MBIE	Innovation	The selection process for technology incubators that will have access to repayable grants is underway, with successful applicants announced in June 2014.
Encouraging efficient private capital markets	Priority area 9 – Provide more options for SMEs to raise capital	■	MBIE		The necessary regulations under the FMC Act are in development. The first stage of implementation began on 1 April. The rest of the FMC Act will come into force from 1 December 2014. There are some key growth-focused initiatives aimed at SMEs that came into force on 1 April. We will continue to support these initiatives and look for further opportunities to assist SMEs in raising capital.
	Priority area 5 – Enable crowd funding and peer-to-peer lending	■	MBIE		Crowd funding platforms and peer-to-peer lenders have been obtaining licences to operate from FMA since 1 April 2014. We are enthusiastic about the new capital raising opportunities now available for businesses and will look to support further work in this area where possible.
	Improve the operation of the housing market to better match supply with demand and keep house price inflation down	■	Tsy, DIA, MBIE, MfE	Natural Resources, Infrastructure	Progress includes establishing three tranches of special housing areas in Auckland; agreeing a housing accord with Christchurch City Council and investigating potential accords with seven other authorities to increase the supply of housing; recommendations to amend the anti-dumping duties regime and introduce tariff concessions to reduce the costs of construction materials; and the hearing of submissions on Local Government Act (2002) Amendment Bill to constrain housing development charges. Progress also continues to be made with the National Building Consent System. The work undertaken in this area is addressing housing affordability.
	Explore options to improve the utilisation and productivity of Māori assets	■	TPK, MBIE		Implementation of He kai kei aku ringa – The Crown-Māori Economic Growth Partnership is progressing with a focus on identifying opportunities that the Māori asset base offers.
	Deliver programmes to improve New Zealanders' financial and investor literacy	■	FMA, TPK, CFLRI		The Commission for Financial Literacy and Retirement Income has continued to work with the private sector, community groups, tertiary institutions, industry associations and other government agencies to plan and execute financial literacy programmes. Research undertaken by the Commission has continued to inform its actions and further the national discussion on priorities and effectiveness. In partnership with the FMA and eight private sector participants, the Commission developed an investor education framework and action plan in March 2013. An FMA stakeholder review has been completed with findings that will help develop a new approach and strategy to improve investor education.
Improve the management of Crown capital	Rebuild the Crown's balance sheet as a buffer against future adverse events	■	Tsy		The ratio of New Zealand's debt to GDP will be reduced once the government books are back in surplus.
	Reduce the Crown's risk exposures	■	Tsy		The risk taken on under the banking deposit guarantee scheme and AMI support package is being reduced. Work is underway to reduce the Crown's implicit exposures to the financial sector.
	Increase SOE performance and transparency	■	Tsy		The Crown Ownership Monitoring Unit has projects underway to improve value management of various Crown assets. Treasury has undertaken a review of the structure and functions of its commercial operations to accelerate the pace of change. The new commercial operations portfolio went 'live' on March 31 2014.
	Sharpen incentives on State agencies to use existing Crown capital well	■	Tsy		Partnerships have been formed between State agencies and Treasury to improve capital investment decision making. Treasury's Investment Statement 2014 confirms this as an area of focus. Recent activity includes a joint Treasury and Ministry of Health review of the Health Capital system settings, which includes work around capital prioritisation, asset management, project governance, management, implementation and the configuration of DHB balance sheets. A partnership group has also been formed for hospital facilities development on the West Coast.

Building Capital Markets

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Improve the management of Crown capital	Introduce private sector capital and disciplines through public-private partnerships	■	Tsy		The public-private partnership for Transmission Gully is progressing towards financial close in June 2014. Two new public-private procurements are underway. We are exploring opportunities to improve market engagement and better manage the pipeline of potential public-private partnership projects to support ongoing development of the market.
	Priority area 2 – Establish the NZTE Regional Investment Attraction Programme [New]	■	NZTE		All 14 EDANZ regions have been visited and investment profiles are at various stages of production, with a target for completion of 30 June.
Building international capital flows	Priority area 7 – Deliver an Asia Region Funds Passport to allow a managed fund based in one jurisdiction to be offered more easily to investors in other participating jurisdictions [New]	■	MBIE		A consultation paper was released by core countries on 16 April 2014.
	Encourage a more positive environment for international investment and explain the benefits to New Zealanders	■	Tsy, MFAT, NZTE, MBIE,		A report <i>International Direct Investment for Growth</i> is being prepared for publication. This is part of telling a positive story about these issues.
	Align business law between New Zealand and Australia	■	MBIE		Work by the Trans-Tasman Outcomes Implementation Group is ongoing and nine short-term Outcomes and four medium-term Outcomes are complete. We are also actively engaged with Australian officials on their Financial Services Inquiry (FSI) and Australian Competition policy review. A New Zealand observer for the FSI has been appointed and the Australian Competition Policy Review terms of reference and panel has been announced.
	Advanced mutual recognition of imputation and franking credits with Australia	■	Tsy, IRD		New Zealand and Australian governments have agreed that possible implementation of mutual recognition of imputation and franking credits will be considered in the Australian White Paper review of their tax system.
	Develop and implement NZ Inc. country and regional strategies	■	MFAT, NZTE	Export Markets, Innovation	Priority actions for 2013/14 have been agreed and are being implemented by agencies for the NZ Inc. India, China, Australia, ASEAN, and GCC strategies. Priority actions agreed by agencies for 2013/14 to advance progress towards achieving the goals of the China, India, Australia and ASEAN strategies are being implemented. The GCC strategy is being implemented.
	Investigate amending the overseas investment screening regime to treat NZX-listed companies with no more than 49 per cent foreign ownership or control as New Zealand companies	■	Tsy		Investigation into this issue is underway.
	Review investor, entrepreneur and worker policy settings with a view to attracting migrants with the right skills and capital to invest	■	MBIE	Skilled and Safe Workplaces, Export Markets	Cabinet agreed to business policy changes in December 2013. These changes came into effect in March 2014.
	Priority area 6 – Actively encourage more multi-national companies (MNCs) to conduct research in New Zealand [New]	■	MBIE	Innovation	A review has been completed of New Zealand's attractiveness factors for foreign investment in research and development, with potential strategies and policy changes to increase MNC investment identified.
	Priority area 8 – Deliver IRD's Business Transformation Programme [New]	■	IRD		The first stage of the programme, which is currently underway, focuses on improving the collection of PAYE and GST information from business. Subsequent changes will streamline income tax and business tax processes as well as the social policies that IRD administers, such as Working for Families tax credits.

The following actions have now been completed and have moved into “business as usual.”

	Action	Status	Lead agency	Also in	Comment
Better regulation to lift confidence in our financial markets	Introduce new requirements for financial services providers and advisors to increase investor confidence in the financial services industry	Completed	MBIE		
	Establish the Financial Markets Authority to promote and facilitate the development of fair, efficient and transparent financial markets	Completed	MBIE		
	License and monitor trustees to improve the credibility and accountability of the industry	Completed	MBIE		
	Amendments to enable funds domiciling	Completed	Tsy, IRD, MBIE	Export Markets	
	Ensure robust governance arrangements for publically offered financial products	Completed	MBIE		
Strengthening public equity markets	Pass the FMC Bill to make it easier for listed companies to raise capital	Completed	MBIE		The FMC Act has been passed into law. Parts of the Act came into force on 1 April 2014. The remainder of the Act begins coming into force from 1 December 2014.
	Make it easier for businesses to offer employee share schemes	Completed	MBIE		This part of the Act came into force on 1 April 2014.
	Enable Fonterra's Trading Among Farmers scheme	Completed	MPI, Tsy, MBIE		
	Pass the Financial Reporting Bill to reduce unnecessary financial reporting costs for businesses	Completed	MBIE		Most of the Financial Reporting Act came into force on 1 April 2014.
	Enable NZX to develop a dairy futures market	Completed	MBIE		
	Partially-list State-owned enterprises on the NZX exchange	Completed	Tsy		The recent float of Genesis Energy has brought to a close the Government's successful share offer programme. Total proceeds from share offers in Mighty River Power, Meridian Energy, Air New Zealand and Genesis Energy totalled \$4.7b.
Lifting our national savings rate to support investment	Enable trans-Tasman portability of retirement savings	Completed	IRD, Tsy		The portability scheme began on 1 July 2013.
	Introduce new disclosure rules for KiwiSaver so investors have better information to compare fund performance	Completed	MBIE		The KiwiSaver (Periodic Disclosure) Regulations were enacted in July 2013. The first disclosure statements were released in October 2013.
	Increase KiwiSaver minimum contribution rates	Completed	IRD, Tsy		Minimum employee and employer contribution rates increased to three per cent each in April 2013.
	Review the KiwiSaver default fund mandates to ensure the mandates are in the best interests of members	Completed	MBIE, Tsy, IRD		Announcements on the Review were made in October 2013.
Supporting early-stage and growth capital	Increase access to capital for small, high-growth businesses by supporting the New Zealand Venture Investment Fund	Completed	MBIE, NZTE		A further \$60m underwrite for the New Zealand Venture Investment Fund's programme was announced in February 2013.
	Deliver targeted services to help internationalising New Zealand firms raise capital	Completed	NZTE	Export Markets	NZTE launched the Better by Capital programme in July 2013.
	Enhance NZ Export Credit Office products and services	Completed	Tsy, MFAT	Export Markets	NZECO's loan and bond guarantee products have been broadened.
	Improvements to business R&D grants	Completed	MBIE		Callaghan Innovation's portal for R&D Project Grants opened on 26 August 2013. Applications for Growth Grants opened in late August 2013.

Building Capital Markets

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Encouraging efficient private capital markets	Improvements to the tax system in Budget 2010	Completed	IRD, Tsy		
	Investigate the development of a specialist exchange for co-operatives on NZX	Completed	MBIE		MBIE has proposed the initiative with relevant stakeholders, with the view to support opportunities in this area as they arise.
	Facilitate the formation of the Local Government Funding Agency	Completed	Tsy, DIA		
Improve the management of Crown capital	Introduce the Future Investment Fund to allocate capital from the process of the Government Share Offers	Completed	Tsy	Infrastructure	The sale of 49 per cent of Genesis has raised \$733m for the Future Investment Fund, bringing the total proceeds from the share offer programme to \$4.7b. That money is being spent on other public assets and infrastructure, particularly schools and hospitals, without the need to borrow overseas.
Building International capital flows	Deliver a compelling New Zealand story	Completed	TNZ, NZTE, Education NZ	Export Markets	New Zealand Story was launched in November 2013.
	Investigate amending the overseas investment screening regime to treat NZX-listed companies with no more than 49 per cent foreign ownership or control as New Zealand companies	Completed	Tsy		Treasury has provided advice on this issue.

Building Innovation



The Government has committed to the following high-level goal:

Creating the right business environment and incentives to encourage New Zealand's business sector to double their expenditure on R&D to more than one per cent of GDP

Innovation is essential to ongoing productivity growth and job creation. Innovation is also central to the overall target of increasing exports to 40 per cent of GDP by 2025. It enables firms to produce higher-value products and services, and produce them more efficiently, thus creating points of difference for commercial success.

Innovative businesses in New Zealand are more likely to report performance improvements in sales, profitability, productivity and market share than non-innovating businesses. Specifically, compared to the last financial year as at August 2013:

- 54 per cent of innovating businesses reported increased sales, compared to 41 per cent of non-innovators
- 43 per cent of innovating businesses reported increased productivity, compared to 28 per cent of non-innovators
- 43 per cent of innovating businesses reported increased profitability, compared to 33 per cent of non-innovators
- 32 per cent of innovating businesses reported increased market share, compared to 16 per cent of non-innovators.

One vital ingredient in a firm's capacity to innovate is its ability to self-generate R&D or access it from other sources.

New Zealand's overall expenditure on R&D has continued to grow, with total expenditure on R&D increasing by 10 per cent from \$2.39 billion to \$2.62 billion between 2010 and 2012.

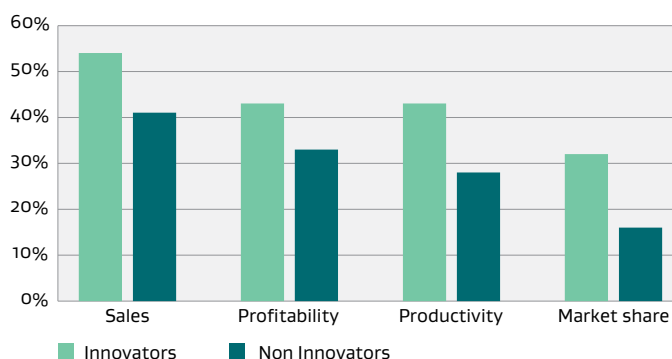
A major driver of the increase in the total level of R&D activity has been expenditure on R&D by businesses. Business expenditure increased from 0.51 per cent of GDP in 2010 to 0.58 per cent in 2012. Businesses themselves have continued to invest more, increasing funding of their own R&D by 17 per cent between 2010 and 2012. Increased government funding for business R&D also supported firms to undertake more R&D.

Recent data released in the *Business Operations Survey 2013* shows an additional seven per cent nominal growth in business expenditure on R&D between 2012 and 2013.

These statistics represent real progress towards the goal of encouraging the business sector to double their expenditure on R&D to more than one per cent of GDP. This is significant because R&D generated by firms is most closely linked to the development of new products and production techniques and is central to growing the capacity for, and intensity of, innovative activity. For example, a growing number of innovative firms in the ICT and high-tech manufacturing sectors are helping to maintain and grow exports in these sectors despite the high New Zealand dollar.

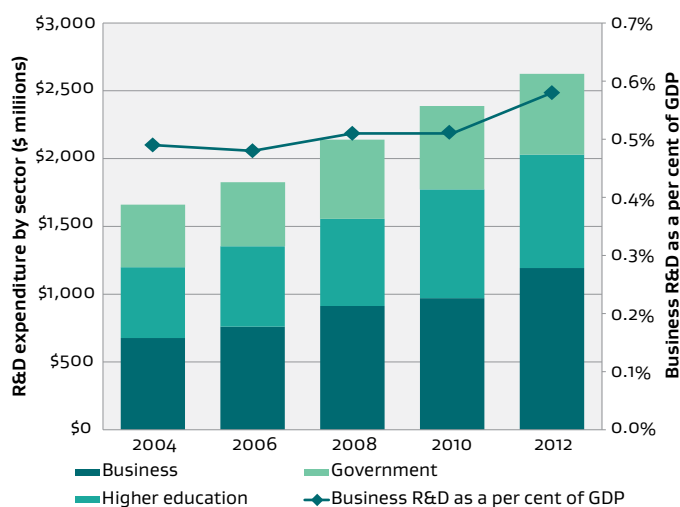
Per cent of businesses reporting increases against performance measures in 2012/13 financial year

Source: Innovation in New Zealand: 2013, Statistics New Zealand, 2014



Expenditure on R&D by sector, 2004-2012

Source: Statistics New Zealand R&D Survey 2012



Progress update

Half of the 56 initiatives to build innovation identified in the August 2012 *Building Innovation* progress report are now completed.

The remaining actions are either in progress or being implemented.

Seven actions have also been added to the Building Innovation work programme, of which two are new, four are in progress, and one is being implemented.

Building Innovation	All actions	New	In progress	Implementing	Completed
Status August 2012	56	14	25	10	7
Status June 2014	63	2	20	13	28

We have made some significant achievements against these initiatives.

Government's **investment in science and innovation** to support the generation and application of new knowledge has continued to increase. In 2013/14, the total government appropriation was \$1.35 billion and this is budgeted to rise to almost \$1.5 billion in 2015/16. Budget 2014 provides an additional \$56.8 million over three years for contestable funding, with increases to start in the 2015/16 financial year. Budget 2014 also includes \$53 million over four years to increase the Centres of Research Excellence (CoREs) fund to \$49.8 million per year from 2016/17.

As part of this effort, we have dedicated a **higher proportion of government investment in science and innovation to firm-led R&D** in order to leverage greater business sector research and development activity. Between 2010 and 2012, government funding for business R&D increased by almost 80 per cent to \$146 million. Firm-led R&D represented approximately 13 per cent of total government R&D investment in 2012 compared to eight per cent in 2010.

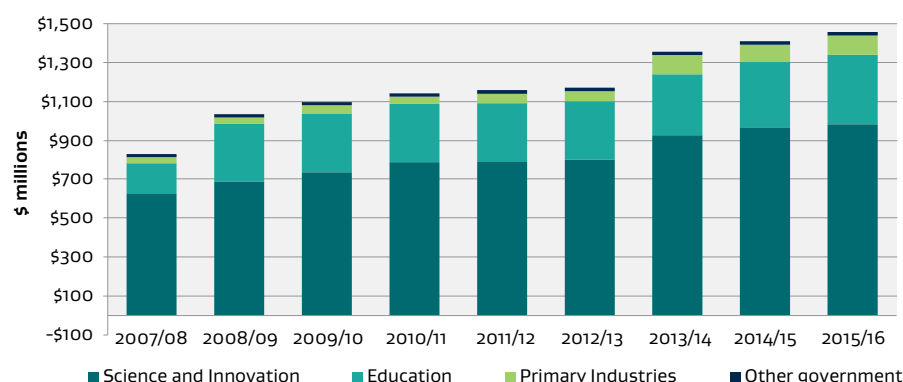
Callaghan Innovation has now been operating for over a year, and it is steadily rolling out its programmes and investments supporting firms in the manufacturing and services sectors. These efforts seek to improve firm competitiveness by improving science and technology-based innovation and commercialisation. For more details on this key initiative, see the Spotlight box on the following page.

Good early progress has been made in developing **innovation hubs and precincts** to catalyse innovation through clustering research providers, innovative private sector firms and start-ups. The Government has taken the opportunity to establish an Innovation Precinct within Christchurch's central city as part of the rebuild. A Health Precinct will also be established to integrate world-class healthcare, research and innovation, education and industry.

AgResearch, Lincoln University, Plant and Food, DairyNZ, and Landcare have continued to work together to develop the Lincoln Hub, a primary sector-focused innovation hub. Food HQ has been launched in Palmerston North, the Wynyard Innovation Precinct is underway in Auckland, and Callaghan Innovation is planning to revitalise its Gracefield campus as a high-value manufacturing innovation precinct in Lower Hutt.

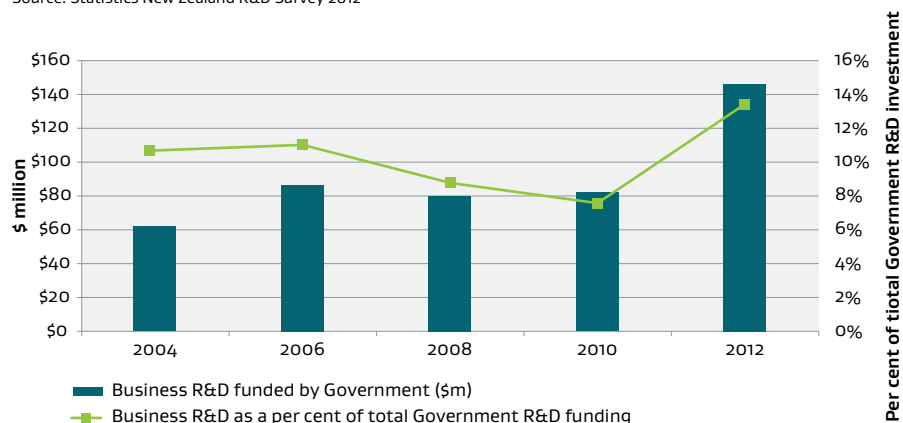
Total government investment in science and innovation

Source: Treasury



Government co-investment in business R&D

Source: Statistics New Zealand R&D Survey 2012



Building Innovation

In telecommunications developments, the **digital switch-over** was completed in December 2013. All areas now have digital television enabling more content to be broadcast at higher quality, using less radio spectrum. The frequencies freed can be used for next generation mobile and telecommunication services, which will help improve and strengthen the delivery of New Zealand telecommunications services. Allocation

of the spectrum to telecommunications companies is now underway.

Good progress continues to be made on the roll-out of the **ultra-fast and rural broadband initiatives**. Ultra-fast broadband is currently available in 28 New Zealand towns and cities, and more than 420,000 New Zealanders now have access to ultra-fast fibre. Over 187,000 rural homes and businesses are now able

to access new fixed wireless broadband, and over 66,000 rural homes and businesses are able to access improved fixed-line broadband.

The **Patents Act**, passed in August 2013, aligns New Zealand's patent settings more closely with those of our trading partners, and provides a simpler and more open environment for innovation to occur.

Spot light

Callaghan Innovation

Callaghan Innovation is charged with working across the whole innovation system to accelerate the commercialisation of innovation by firms in New Zealand. The government has committed \$166.6 million to its operation over the next four years. We have also provided \$141.5 million annually in co-funding for Callaghan Innovation's business R&D grants.

Over its first year of operation, significant progress has been made in rolling out a range of services and support to encourage and support businesses to turn their ideas into new products and services faster, and to connect them to the skills, resources and funding they need from concept through to commercialisation.

As at February 2014, Callaghan Innovation had worked with 230 businesses on 800 different R&D projects. Through the business R&D grant schemes it administers, over 621 businesses have received 837 grants worth about \$272 million. This includes 381 Project Grants

primarily targeted at firms with smaller R&D programmes and 40 Growth Grants to support the growth of large scale, proven R&D programmes. It also includes 343 Student Grants to provide support for New Zealand undergraduate and postgraduate students to gain and develop their technical skills in a commercial R&D environment while bringing capability into New Zealand businesses.

In May 2014, the latest Growth Grants - worth more than \$21 million over three years - were announced for another 15 high-tech companies.

Callaghan Innovation is forming links across New Zealand's innovation system, with strategic partnerships signed with nine organisations. About 55 Callaghan Innovation staff transferred to two new Victoria University research institutes located at the Callaghan Innovation's Gracefield innovation precinct in Lower Hutt in January 2014. This move is enabling Callaghan to focus more on near-to-market activities to meet the needs of Kiwi businesses.

Callaghan Innovation has taken joint ownership and funding responsibility of the FoodBowl (with Auckland Tourism, Events and Economic Development Limited). It is growing the number of companies using it to develop new products in the food and beverage sector.

It has also taken over the Government's incubator support programme and is establishing a new type of technology incubator to help more technology start-up businesses get off the ground.

Image below: With the help of government grants, Compac Sorting Equipment has developed fruit sorting and grading technology, including 3D imaging software and specialised sorter equipment, such as the pictured cherry sorter. Since mid-2013, Compac has sold \$10.5 million of small fruit sorters to New Zealand exporters and overseas businesses, including in the US and Spain.

The company that started out as a university project in a kiwifruit orchard in Kerikeri, now boasts the world's most advanced fruit blemish sorting technology and employs over 300 people.



Building Innovation

Implementation of the **National Science Challenges** is underway. The Government has committed \$316.5 million in new funding to support the 10 Challenges over ten years. Funding for the Challenges will also come from some maturing MBIE research contracts. Some Crown research institute core funding and Health Research Council funding aligns with the Challenge objectives. These various amounts make a grand total of over \$1.5 billion over ten years.

The launch of the first National Science Challenge, the High-Value Nutrition Challenge, was announced in April 2014. It will receive funding of up to \$30.6 million over five years. Indicative CRI core funding of up to \$97 million over ten years aligns with the objectives of

the High-Value Nutrition Challenge. The High-Value Nutrition Challenge consortium is the first example of how the Challenge process has brought researchers together to focus on the big science-based issues facing the country. Work is progressing on the other proposals in tranche one – The Deep South and Resilience to Nature's Challenges. Proposals for the remaining seven Challenges are currently being assessed by the Science Board. Independent assessment panels for tranche two Challenges will meet in June 2014.

The Primary Growth Partnership (PGP) is a government-industry initiative investing in significant programmes of primary industry research and

innovation. There are now 18 PGP programmes supporting value-chain innovation across the horticulture, pastoral, wool, seafood, viticulture, apiculture, dairy, forestry and red meat sectors. These unique partnerships between government and growers, processors and exporters are showing the signs of early success. The tenth PGP funding round closes in late June 2014, and further programmes may eventuate from this. The potential benefit to the wider economy from the PGP (from current and potential future programmes) has been estimated by the New Zealand Institute of Economic Research at approximately \$11 billion per annum from 2025.

Spot light

Interactive games industry

The video game industry has rapidly grown to be one of the core sectors of New Zealand's creative economy. According to research commissioned by the Interactive Games and Entertainment Association, New Zealanders spent \$133 million on games in retail stores and an estimated \$162 million on digital sales in 2013.

The disruptive growth in digital sales, via AppStores and broadband internet, has also led to a boom in exports of New Zealand-made game software. The New Zealand Game Developers Association (NZGDA) reports that revenue grew 86 per cent during the 2012/13 financial year to \$36.3 million. Industry employment has doubled in three years and there are now 500 full-time professional game developer positions.

Image below: *Turbo FAST*, developed and published by PikPok in Wellington, has been downloaded for mobile over 47 million times in over 190 countries, earning millions of dollars in revenue.

The majority of earnings are derived from exports of smartphone and online games – ideal weightless exports. Last year, New Zealand-made mobile games were downloaded over 130 million times. Apple chose to feature three New Zealand-made games in its Best of the App Store 2013 awards. *Path of Exile* by Grinding Gear Games has over five million customers and was awarded the Best PC Game of 2013 by PC Gamer magazine. *Bloons Tower Defence 5* by NinjaKiwi was a US Top 50 Grossing Paid iPhone game.

New Zealand game developers were early adopters of digital distribution allowing them to compete on the world stage. These firms have established an international reputation for producing high-quality games and have a loyal fan base. The key to their success has been to create innovative products, maintain ownership of the creative intellectual property and adopt innovative business models such as In-App Purchases.



Spot light

Primary Growth Partnership

Innovation from paddock to plate, ocean to table, slope to sawmill

Precision Seafood Harvesting

Imagine if every fish landed on a fishing boat was alive and in perfect condition while small fish, sharks and other species could be safely released underwater before a catch was lifted on board. This \$52 million, six-year programme is developing new sustainable fishing technology to bring this vision to reality. The potential economic and environmental benefits are significant and the programme is attracting international attention.

Highlights to date:

- Under design test conditions, the first trawl prototypes performed well against the objective of delivering low-fatigue, low-damage, high-value fish and are now being tested under commercial conditions.
- The programme is a finalist for a KiwiNet Research & Business Partnership Award.
- Underwater images of this revolutionary fishing technology show how New Zealand could change the global fishing industry.

Steepland Harvesting

“No worker on the slope, no hand on the chainsaw” is the vision of this six-year forestry programme. It is developing innovative tree-harvesting technologies that will improve productivity and worker safety on steep land.

Highlights to date:

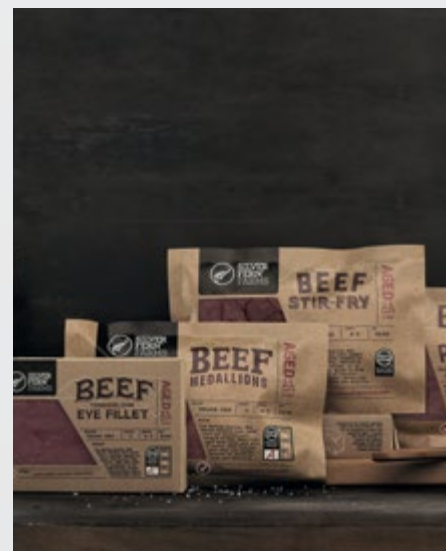
- Four ClimbMAX harvesters are operating safely and efficiently in Nelson, Hawke’s Bay and British Columbia, with a fifth currently under construction – all by a local engineering company in Nelson.
- An hydraulic-controlled hauler grapple has been redesigned for use on steep land – to suit New Zealand conditions.
- A new CutoverCam system uses wireless camera technology to provide clear high-resolution video footage of forestry operations on steep slopes—eliminating reliance on radio messages and sound signals from ground crews.

Farm IQ

The seven-year FarmIQ programme aims to create a demand-driven, integrated value chain for red meat. This consists of a suite of projects throughout the value chain, from on-farm production systems and genetics, to processing and analysis of market requirements.

Highlights to date:

- Electronic identification systems enabling individual animals to be tracked and recorded – from on the farm through to the processing plant – meaning performance can be analysed and improved, right there on the farm.
- A new retail range of premium grass-fed beef cuts was released into supermarkets on 3 March 2014 by Silver Fern Farms. The product is backed by the Eating Quality (EQ) ‘Master Grade’, developed as a result of New Zealand’s largest consumer testing of red meat eating quality.



Building Innovation

The **Performance-Based Research Fund** rewards and encourages excellent tertiary education research by assessing research quality, allocating funding based on results and publishing information on research performance. It is the key research fund for universities and other higher education organisations. Following a review of the fund, Cabinet agreed on changes to improve it, including measures to clarify the objectives of the fund, better value user perspectives of tertiary institutions' research quality and user-oriented research engagement, simplify the quality evaluation to reduce transaction costs for tertiary education organisations and researchers, and strengthen reporting on research performance. The package of changes will reduce compliance costs, while continuing to get measureable benefits in research output and quality.

A further change to the fund, which has been subject to further consultation with stakeholders, will increase the proportion of funding allocated based on external research income from 15 per cent to 20 per cent of the fund. This will better reward tertiary education organisations that earn external research income and strengthen incentives to actively seek out additional external research income.

The Government has implemented two

changes to optimise the performance of the **Centres of Research Excellence** (CoREs) following a review of the CoREs fund. The review found that the CoREs policy is supporting high-quality research in a tertiary context, with positive social and economic benefits to New Zealand. The two changes include a mission statement for CoREs that clearly sets out the purpose and characteristics of CoREs and a framework to strengthen performance.

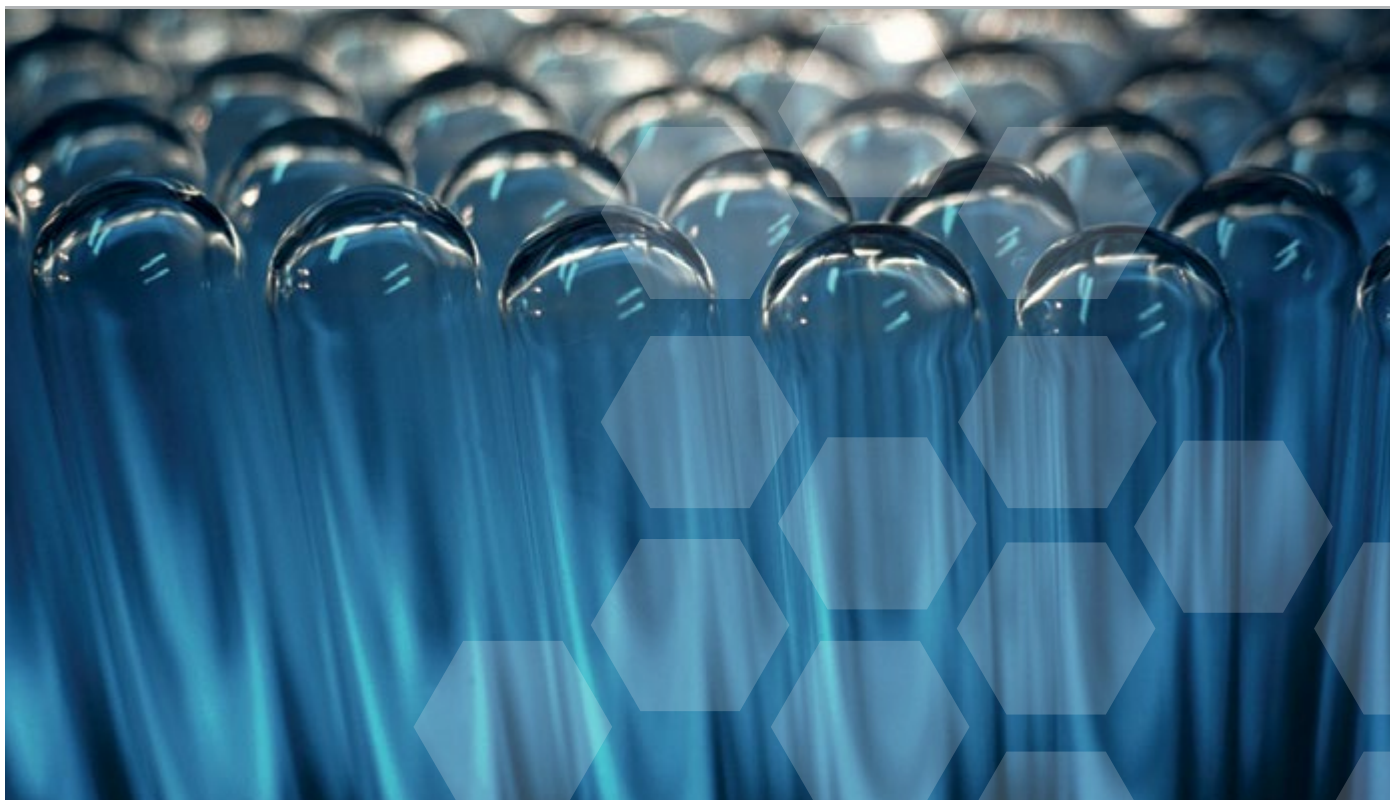
The Government has made significant progress on initiatives aimed at improving the business environment to support the growth of innovative firms. This includes work to **deliver 'Better Public Services for Business'** (BPS Result 9), which will reduce the cost to business of interacting with government and improve services in line with the best of the private sector.

At the heart of the Result 9 programme is the **establishment of the New Zealand Business Number (NZBN)** and associated primary data to enable the development of integrated digital services for business, both across government and the private sector. On 2 December 2013, the 1.1 million companies on the New Zealand Companies Office register were allocated a NZBN, and an average of 3,000 to 4,000 newly-incorporated companies have been

receiving NZBNs each month.

Work is already underway to integrate registration services for business. This began in February 2014 with a new Employer Registration service becoming available on the Companies Office website. Since the launch, more than 1,000 newly incorporated companies have used this service. The next steps are to integrate all registration services across Inland Revenue, MBIE and ACC so businesses will only need to supply key information once, saving time and expense.

We have also overhauled the online system for applying for and managing patents, launched a new service so that businesses can file their GST returns online, and made significant improvements to the Companies Office website to enable users to obtain relevant information or complete compliance obligations immediately so they can get back to business. In addition, we have continued to make progress on Inland Revenue's Business Transformation Project - a major 10-year project that aims to make it as easy as possible for New Zealanders to file and pay their taxes on time, receive their correct entitlements, and cut the costs of compliance.



Future direction

New Zealand faces some challenges in raising business expenditure on R&D. It has a relatively low share of R&D intensive industries and a small number of very large firms that undertake the bulk of business R&D effort internationally.

We will continue building on the progress that has been made to support New Zealand businesses to increase their investment in R&D from its current level at 0.58 per cent of GDP to our target of 1.0 per cent. We will also support firms to more effectively use this R&D as a source for innovation and the commercialisation of new products and services.

R&D expenditure by sector 2012

R&D expenditure by sector as percentage of government expenditure on R&D (GERD)		
	OECD Average	New Zealand
Business	68%	45%
Higher education	18%	32%
Government	12%	23%

Source: Statistics New Zealand Research and Development Survey 2012

New Zealand also makes a substantial investment in R&D through public research organisations, a higher proportion of total R&D investment than is common across the OECD - which makes this source of R&D an important ingredient for business innovation in New Zealand and places a premium on knowledge exchange between public research organisations and businesses.

There are examples throughout New Zealand where collaboration between business and public research organisations, including higher education institutions, is active and producing positive results. These are supported by the Tertiary Education Strategy, which emphasises the need for tertiary education organisations, industry, and research organisations to share expertise, transfer knowledge and progress joint research programmes to deliver greater impact. Such collaboration is also embedded in the missions and actions of our Crown research institutes, where active engagement with industry drives research relevance and leads to technology transfer and business commercialisation opportunities.

There remain further opportunities for New Zealand to improve connectivity between researchers in public research organisation and business - including the joint development of new products, processes or other innovations. There are also opportunities to better exploit the knowledge generated from the higher education sector for business innovation and commercial gains.



Incentivising growing rates of business expenditure on R&D, while supporting more active engagement and knowledge exchange between business and public research organisations, can improve the absorptive capacity of New Zealand firms to better use new knowledge and technologies. This in turn can lead to greater business innovation, growth and improved levels of productivity.

To improve rates of innovation in New Zealand, we need to keep developing a science system that better enables and supports business investment in innovation. Given our small scale and limited resources, we need to ensure we are getting optimal impact from public science investments. In addition, we need to ensure that more people in the workforce are equipped with the skills needed to participate in innovative activity, and that Government services are easily accessible by New Zealand businesses.

The previous sections in this report show the significant progress that has been made towards improving rates of innovation in New Zealand and delivering on our ambitious programme of Building Innovation actions.

In light of our progress, we intend to focus our future efforts on a smaller number of initiatives we see as particularly critical to accelerating growth of innovation in New Zealand.

Spot light

Auckland UniServices Limited

Auckland UniServices Limited is the innovation interface for the University of Auckland.

Auckland UniServices Limited is very successful at contracting research and transferring intellectual property from the University of Auckland to the public and private sectors, and is an exemplar of how research organisations and businesses partner together to achieve mutual benefit.

UniServices works alongside academic staff to identify, protect and develop discoveries with commercial potential, find business partners and commercialise intellectual property.

UniServices has an extensive portfolio of new technologies available for commercial licensing and spin-out companies for investment. These are based on over 400 new inventions and hundreds of new patents lodged in the last five years.

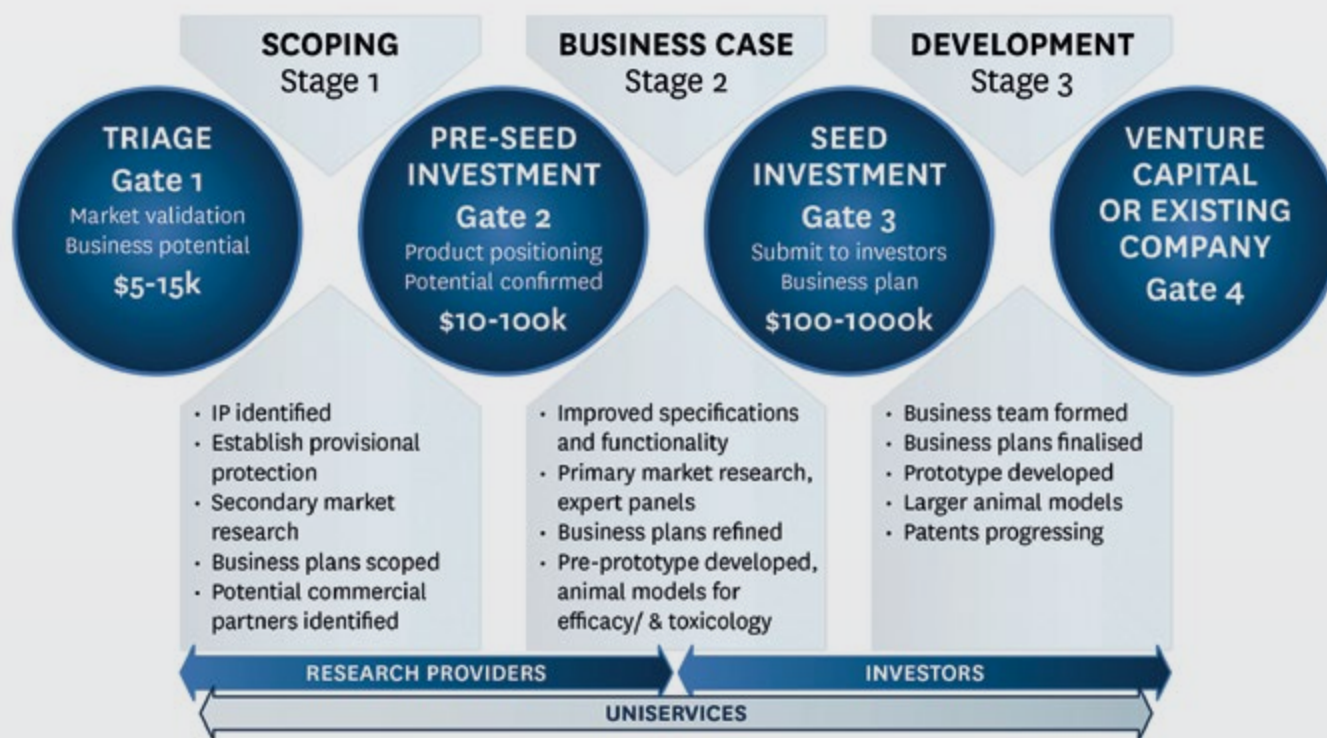
UniServices' national commercialisation programme, Return On Science, delivers professional commercialisation services to the rest of New

Zealand. In the last year, over 70 projects from 14 New Zealand universities and Crown research institutes, Government agencies and two private companies, have received specialist commercialisation advice from Return On Science.

UniServices by the numbers:

- › It has increased revenue by 102 per cent from 2005 to \$130 million in 2013.
- › Its cumulative revenue over the last 10 years is \$1 billion.
- › UniServices generated commercialisation income of \$15 million, from an investment of \$3.5 million in 2013.
- › In 2013, it made 88 Patent Applications and 21 Provisional Filings and issued 23 Patents.
- › UniServices has more than 700 employees, drawing on the expertise and knowledge of the 5,000 University of Auckland staff across eight faculties.

The UniServices/Return On Science commercialisation process



Building Innovation

1. Implementing changes to the tax treatment of R&D

It is important that the tax system does not discourage businesses from investing in vital research and development activities.

In Budget 2014, we announced a change to the tax treatment of R&D to **alleviate 'black-hole R&D' expenditure** – that is, R&D expenditure that is not immediately

deductible for tax purposes and that does not form part of an asset that can be depreciated over time. The changes will ensure that this R&D can either be depreciated over time, or taken as a one-off deduction when the asset is written off for accounting purposes. This will help to improve the neutrality of the tax system and make R&D investment more attractive.

We also announced the **introduction of**

'cashing-out' R&D tax losses for innovative start-ups. This programme will allow certain R&D-intensive companies that are not yet profitable to cash out their deduction from R&D expenditure as opposed to carrying it forward. This will help provide young innovative businesses that are cash-constrained with the resources they need to invest in further R&D and successful commercialisation.

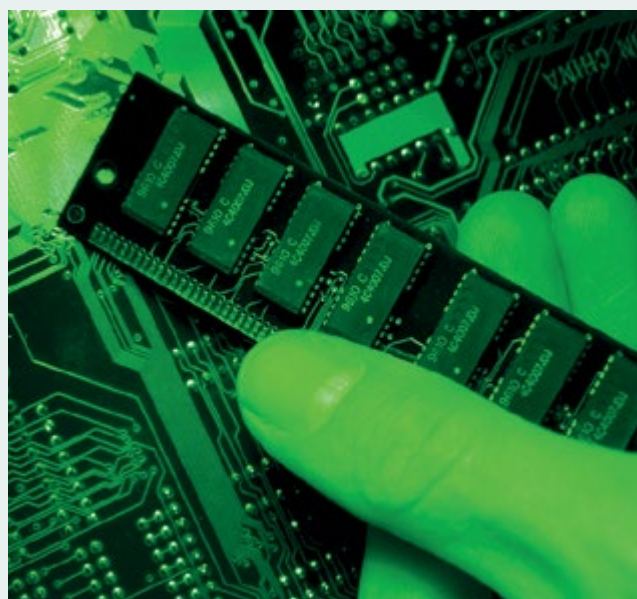
2. Implementing Callaghan Innovation's full suite of programmes

The Government is committed to encouraging Callaghan Innovation to progressively roll out and continuously improve the services and support it offers businesses. This will help incentivise and enable progress towards increasing business R&D activity.

This includes appointing **national technology networks managers** who have an in-depth understanding of all research and any developments in their areas of expertise.

This will help to catalyse greater connectivity and collaboration across the innovation systems and help industry, research institutions, and government to leverage each other's talents, knowledge creation and resources.

The first five networks are: information and communication technologies, sensing and automation technologies, advanced materials technologies, biotechnologies and food technologies.



3. Developing a National Statement of Science Investment

We have released a draft **National Statement of Science Investment** (NSSI) for public consultation. The NSSI will set out the Government's current and future priorities for its science investments. The priority objectives identified as areas for action over the next five to ten years will enable the science system to make a more significant contribution to, and impact on, increasing our rate of business innovation.

Directional changes relevant to business growth that are likely to be set out in the final statement include:

- improving the mechanisms used by government when investing in research funding to better ensure quality, value and impact
- directing investment towards research that is clearly relevant to New Zealand's economic, social and environmental needs
- focusing on measuring and assessing the impact of funded research
- making greater use of science investments to increase the scale of industry-led research
- supporting a more diversified economy by directing significant new investments towards high-growth, high-productivity and export-orientated sectors.

The publication of the final NSSI is scheduled for later in 2014.

4. Increasing and reforming contestable funding

The Ministry of Business, Innovation and Employment's contestable funds are an important government mechanism for investing in mainly mission-led research. They are distinct from other funds because Government sets priorities for them (effectively defining the mission), and these priorities can change from time to time. They can therefore respond flexibly to emerging opportunities.

We have **increased contestable research funding through Budget 2014 by \$56.8 million over three years from 2015/16** to support the achievement of a number of objectives. These objectives focus primarily on improving the quality and relevance of government-funded science and include better knowledge exchange between research institutions and business.

We also intend to **undertake reforms to contestable funding**, starting with the 2015 funding round, to align it with the proposed objectives set out in the draft NSSI, and increase its flexibility. This will help to ensure that government-funded science has a clear path to realising value and impact, funding is more flexible and supports new technologies and emerging priorities, and the application process is less complex and more efficient.

Building Innovation

5. Establishing new technology-focused incubators

Technology-focused incubators encourage the creation of more innovative and complex technology-based start-ups.

We are establishing a new type of **technology-focused incubator aimed at encouraging more innovative, complex**

technology-based start-ups. These are based on the successful Israeli model and will be privately-owned businesses focused on commercialising complex technology primarily sourced from publicly-funded research organisations, such as universities and Crown research institutes. This will help to remove much of the risk currently preventing private sector investment in early-stage, IP-rich start-ups.

The incubators will apply for Callaghan Innovation's Repayable Grants for Start-Ups programme which will provide repayable funding for start-ups to help them become investment-ready.

This more targeted and sophisticated approach to increasing the rate of formation and success of early-stage start-up firms will support the growth of emerging sectors and technologies.

6. Implementing the National Science Challenges

The ten National Science Challenges will align and focus New Zealand's research on large and complex issues by encouraging scientists from different institutions and across disciplines to achieve a common goal through collaboration. The first Challenge was launched in April 2014.

We are **progressing work towards the launch of the remaining nine National Science Challenges.**

We are **developing a comprehensive monitoring and evaluation framework**, which will be a cornerstone of the implementation of the Challenges. This framework will consider performance of the Challenge portfolio as a whole against the aims of the policy, as well as the performance of individual Challenges and Challenge components. Following Challenge reviews, funding may be reprioritised between Challenges or to other areas.



7. Boosting STEM skills

Science and technology drive innovation and economic growth. A high-performing and responsive innovation system requires a workforce with high levels of several skillsets, including knowledge of science, technology, engineering and maths (STEM). These knowledge and skill sets, and their related occupations, are important factors for growing the economy because they are linked to improving rates of innovation.

We are taking a three-pronged approach to improving the contribution of science and technology to business growth in New Zealand to include producing more learners and graduates with STEM skills and knowledge and improvements in our policy-making processes. This deliberate approach will focus on science in our schools, on related tertiary education provision, and on science in our communities.

We are undertaking a **Science in Society project**, which aims to increase the STEM competencies in greater numbers of learners in our compulsory education so they can better meet the needs of twenty-first century life and a changing labour market. It will also encourage and enable greater and more productive engagement with science and technology across all sectors of New Zealand society.

In tertiary education, we have **increased the funding rate for science and engineering over the last two Budgets, with an additional focus on agricultural sciences at Budget 2014.**



This has strengthened the incentives for tertiary education organisations to invest in these areas and commit to ongoing high-quality delivery. We are also working closely with tertiary education organisations to increase student enrolments in priority areas of engineering.

We are also **setting up new ICT Graduate Schools** to be based in close proximity to ICT firms in Auckland, Wellington and Christchurch. The programme will provide funding for education, research and collaborative initiatives to attract top students and academics and connect them with our high-value, high-tech firms. The schools will develop graduates with work-relevant and business-focused skills, provide more direct pathways from education into employment, and help grow New Zealand's stock of ICT talent.

8. Boosting primary sector productivity through the Primary Growth Partnership

We will continue to deliver the **Primary Growth Partnership (PGP) programme**, which aims to boost the productivity and profitability of the primary sector, and deliver long-term economic growth and sustainability across the primary sectors, from producer to consumer.

We are continuing to progress regular funding rounds with the intent of adding further programmes to the 18 announced as at 1 April 2014.

9. Increasing the number of Centres of Research Excellence

The Centres of Research Excellence (CoREs) Fund was established in 2001 to encourage the development of excellent tertiary education-based research that is collaborative, strategically-focused and creates significant knowledge transfer activities. CoREs provide research intensity and critical mass by consolidating high-performing researchers across different institutions.

Budget 2014 **boosts the CoREs Fund by \$53 million over four years**, increasing it to \$49.8 million per year from 2016/17.

The funding increase **provides for three additional Centres of Research Excellence from 2016**. This follows the recent announcement of the six CoREs which will receive funding from the 2013/14 contestable round. A further closed round will select the three additional CoREs, allowing applicants who were unsuccessful in the previous round to improve and resubmit their proposals.

In addition, **there will be another new CoRE focused on Māori research**.

A separate contestable process will be run to select and fund this CoRE.

The Budget 2014 funding boost will increase the number of CoREs from six to ten.

10. Completing the deployment of ultra-fast and rural broadband

Increasing access to faster broadband across New Zealand will increase the opportunity for, and encourage, innovation in New Zealand businesses.

In particular, ultra-fast broadband in regions will enable greater regional business connectivity, access to international networks, and the potential to create new online products and services from regional hubs.

We will **roll out ultrafast broadband to 75 per cent of New Zealanders by the end of 2019**. The Government has created a major public-private partnership to do this.

We will also continue the five-year **roll-out of the Rural Broadband initiative** with deployment by 2016.

By the end of 2019, between the two broadband programmes, at least 97.8 per cent of New Zealanders will have access to broadband capable of 5Mbps or better.

In May 2014, Whangarei became the first city to have the ultra-fast broadband infrastructure build complete. Over 21,000 end users in Whangarei are now able to connect to ultra-fast broadband, including 1,700 businesses, 200 healthcare providers, 26 schools and two hospitals.

Mobile broadband is also important, particularly for mobile workers and in parts of the country where fixed services are impractical. Roll-out of fourth-generation (4G) mobile services has commenced, starting with our largest population centres. The Government is allocating the 700 MHz (digital dividend) spectrum with conditions that will ensure that 90 per cent of New Zealanders will have access to 4G mobile services by 2019.



11. Improving the competition regime to protect consumers and encourage innovation

New Zealand's competition regime is designed to promote competition for the long-term benefit of consumers and to enable innovation to occur. We will systematically review key elements of this regime to ensure it achieves this objective and remains international best practice.

Specific actions we are taking in this priority area include **passing the Commerce (Cartels and Other Matters) Amendment Bill**, which is currently awaiting its second reading. This Bill will bring New Zealand's cartel laws into line with overseas jurisdictions by criminalising serious cartel behaviour and clarifying the law in relation to pro-competitive collaborative arrangements.

We will also **review the misuse of market power prohibition and related matters in response to the Productivity Commission's recent inquiries**. Because we are committed to better regulation and value for money, this review will also explore options for the removal or overhaul of regulatory provisions that may no longer be necessary or working effectively, including those for resale price maintenance and the cease and desist regime.

Progress Indicators

The Government is continuing to focus on making substantial progress on the following *Building Innovation* actions. Actions relating to our priority areas of focus are highlighted. Actions new to the Building Innovation work programme are marked as [New].

KEY

- Complete
- Implementing
- In progress
- New project

	Action	Status	Lead agency	Also in	Comment
Encouraging Business Innovation	Priority area 2 - Support the development of Callaghan Innovation	In progress	MBIE		<p>From July 2014, Callaghan Innovation will pilot a new programme focused on technology-based incubators. The incubators will apply for Callaghan Innovation's Repayable Grants for Start-Ups programme.</p> <p>In addition, national technology networks managers are being appointed. The first five networks are information and communication technologies, sensing and automation technologies, advanced materials technologies, biotechnologies and food technologies.</p> <p>Another area of focus will be to connect and collaborate across the innovation systems and help businesses, government and industries to work more closely together.</p>
	Priority area 9 - Support value chain innovation via the Primary Growth Partnership (PGP)	In progress	MPI	Natural Resources	Current PGP programmes will continue to build momentum and we will continue to progress regular funding rounds with the intent of adding further programmes to the 18 announced as at 1 April 2014.
	Priority area 5 - Identify and implement improvements to incubator settings, including examining international models	In progress	MBIE	Capital Markets	Callaghan Innovation recently invited applications from organisations and investors wishing to establish new technology-focused incubators with a view to having them identified by July this year. These incubators will also have access to Callaghan Innovation's new repayable grants programme (Budget 2013 provided \$31.3m over four years).
	Priority area 11 - Improve the competition regime to protect consumers [New]	New project	MBIE		We will systematically review key elements of the competition regime to ensure it promotes the long-term benefit of consumers and remains international best practice. We will be reviewing the misuse of market power prohibition and related matters in response to the Productivity Commission's recent inquiries.
	Maximise the competitiveness of the New Zealand business environment to encourage innovation	Implementing	MBIE		Legislative changes will help to create a competitive business environment and deter anti-competitive behaviour. The Commerce Commission (International Cooperation and Fees) Act was passed in October 2012, the Consumer Law Reform Bill was passed in December 2013 and the Commerce (Cartels and Other Matters) Amendment Bill is awaiting its second reading.
	Priority area 1 - Alleviate black hole R&D expenditure and introduce a R&D tax cash-out [New]	In progress	Treasury, IRD		Changes will take effect from the 2015/16 income year.
	Further leverage Better by Design Programme to encourage firms to undertake design-led innovation	Implementing	MBIE	Export Markets	New Zealand Trade and Enterprise has piloted and assessed a new service model. Scoping work for broader implementation of the new model is underway.
	Improve the standards infrastructure to support productivity and innovation	In progress	MBIE		<p>The Standards Bill is expected to be introduced to Parliament before September 2014.</p> <p>The Bill will establish an independent Standards Board responsible for approving standards, and transfer the standards development function to a new Standards Statutory Officer in MBIE.</p>

	Action	Status	Lead agency	Also in	Comment
Strengthening Research Institutions	Further develop core funding model for Crown research institutes to incentivise agreed performance	In progress	MBIE		Ongoing work is being progressed on developing improved monitoring and performance requirements for core funding. These will be developed so that they fit with the other changes currently underway in the funding process.
	Strengthen the governance of universities to ensure a stronger economic contribution to New Zealand	In progress	MoE	Skilled and Safe Workplaces	Legislative changes to university and wānanga governance are proceeding this year through Education Amendment Bill (No 2). The Bill was introduced to the House in March 2014 and the Education and Science Committee will report back to the House on 21 July. The proposed changes will allow both universities and wānanga to recruit the expertise needed to effectively respond to external challenges and their changing environment.
	Priority area 8 - Increase the number of Centres of Research Excellence (CoREs) [New]	In progress	MoE, TEC		Budget 2014 makes provision for additional CoREs by increasing the CoREs fund to \$49.8m per year from 2016/17. Three additional CoREs will be selected through a further competitive selection round, from applications that were unsuccessful in the 2013/14 selection round. A CoRE focusing specifically on Māori research will also be funded. This will increase the total number of CoREs to 10, increasing research intensity and critical mass and consolidating high-performing researchers in areas of strategic economic interest.
	Encourage ATI to work alongside polytechnics to provide local tech transfer services to SMEs	Implementing	MBIE		A key area of focus for Callaghan Innovation is delivering services to assist businesses access the equipment, facilities and expertise they require for innovation. Links to polytechnics were made in the establishment of Callaghan Innovation.
Boosting Public Science Investment	Priority area 6 - Launch the National Science Challenges to seek answers to core science questions New Zealand faces	In progress	MBIE		The 10 National Science Challenges were announced in May 2013. The Government has committed \$133.5m in new funding to support the Challenges over the next four years. The first Challenge (High Value Nutrition) was launched in April 2014. Work is progressing on the other proposals in tranche one—the Deep South and Resilience to Natures Challenges. Proposals for the remaining seven Challenges closed at the end of April.
	Increase the Performance-Based Research Fund to \$300 million per annum	Implementing	MoE		The Performance-Based Research Fund will be increased to \$300m a year by 2016.
	Review the operational settings of the Performance Based Research Fund	Implementing	MoE		The Government has reviewed the Performance-Based Research Fund and is now proceeding with changes to increase the efficiency and effectiveness of the fund. The changes will be fully implemented prior to the next Quality Evaluation in 2018. The Government is considering one further proposal to increase the proportion of Fund income allocated based on external research income (from 15 to 20 per cent of the fund). Consultation on this change took place in April and May 2014. A decision on the implementation of this change is expected in June 2014.
	Priority area 3 - Develop a National Statement of Science Investment	In progress	MBIE		The Government released its first draft National Statement of Science Investment on 28 May 2014 for public feedback. It sets out the current settings and proposed future priorities for Government's science investment. The consultation period runs until 22 August 2014.
	Priority area 4 - Increase and reform contestable funding [New]	In progress	MBIE		Government increased contestable research funding through Budget 2014 by \$56.8m over three years from 2015/16. The draft National Statement of Science Investment, which is currently out for consultation, sets out a proposed direction for reforms to contestable funding and seeks feedback on this.
	Continue to increase annual public science and innovation funding towards 0.8 per cent of GDP as fiscal conditions allow	Implementing	MBIE		Funding increases were announced as part of Budget 2013. Budget 2014 provides an additional \$56.8m over three years for contestable funding, with increases to begin in the 2015/16 financial year. The Government's investment in science and innovation is expected to rise to almost \$1.5b by 2015/16.
	Develop more effective performance monitoring of outcomes of public science investment	Implementing	MBIE		A high-level framework with around 15 performance indicators has been developed showing how science and innovation contribute to outcomes. It is currently being consulted on through the NSSI process. Work is currently underway to fill the information gaps revealed by this framework (for example, a measure of how closely science funding fits with the Government's strategic direction for it).

	Action	Status	Lead agency	Also in	Comment
Developing Innovation Infrastructure	Priority area 10 - Deliver faster broadband to 97.8 per cent of New Zealanders, with 75 per cent getting Ultra-Fast Broadband (UFB) by end of 2019	■	MBIE	Export Markets, Infrastructure	As at 31 March 2014, UFB was available in 28 New Zealand towns and cities, and more than 420,000 New Zealanders now have access to fibre. As at 31 March 2014, 31 per cent of New Zealanders in UFB areas had access.
	Priority area 10 - Roll out the Rural Broadband Initiative to deliver high quality broadband and increase connectivity	■	MBIE	Infrastructure	The five-year roll-out of the Rural Broadband initiative began in 2011. As at 31 March 2014, over 187,000 rural homes and businesses are now able to access fixed wireless broadband. Over 66,000 rural homes and businesses are able to access improved fixed-line broadband.
	Allocate funding for an anchor tenancy on a second trans-Pacific cable [New]	■	MBIE		The government, through REANNZ, has agreed to fund \$15m towards new capacity on a second trans-Tasman and trans-Pacific cable. The Government has commenced a procurement process for the anchor tenancy.
	Facilitate broadband uptake through e-education, e-health, e-government, e-business, e-development	■	MBIE		The Government announced in August 2013 that the Crown-owned company, Network for Learning, will develop and operate a managed network for schools. It will connect schools together via a secure data network and enable schools to access the internet over faster and more reliable connections. The first schools connected to the network in November 2013, with more than 700 schools expected to connect by the end of 2014. All schools will be able to connect to the managed network by the end of 2016. The establishment of a National Shared Care Records System is expected to be completed in 2014.
	Investigate and encourage the development of Innovation Parks	■	MBIE		Work is progressing on the Christchurch Innovation Precinct. A Chair has been appointed for the Lincoln Hub and a joint project manager for the Lincoln Hub capital investment. Food HQ has been launched in Palmerston North, the Wynyard Innovation Precinct is underway in Auckland, and Callaghan Innovation intends to revitalise its Gracefield campus as a high-value manufacturing innovation precinct in Lower Hutt.
Improving IP Settings	Create a single trans-Tasman patents examination regime with Australia to simplify patent applications	■	MBIE		A Bill to introduce necessary legislative amendments in Australia was tabled in March 2014 by the Australian Government. The corresponding New Zealand Bill is expected to be tabled in June 2014.
	Investigate whether the intellectual property settings of public institutions are optimal for technology transfer	■	MBIE		Work is underway within the broader context of improving technology transfer.
Growing the Innovation Workforce	Increase investment in engineering students at tertiary institutions and lift graduate numbers by 500 per annum by 2017	■	MoE	Safe and Skilled Workplaces	Budget 2012 provided an additional \$42m over four years for investment in engineering students. Budget 2013 provided an additional \$9m over four years. Compared with 2012, there were an additional 293 equivalent full-time students studying towards engineering qualifications in 2013.
	Collect and provide better information to students and the tertiary sector	■	MoE	Safe and Skilled Workplaces	The <i>Moving on up – What young people earn after their tertiary education</i> report was published in January 2013, and updated in October 2013. This complements the <i>Occupational Outlook</i> reports published in February 2013 and January 2014. A methodology for producing provider-level data on the employment outcomes of tertiary education has been trialled.
	Investigate highlighting innovation careers in science, design, engineering and maths to school students and their families	■	MBIE		A stocktake of efforts to highlight innovation careers in New Zealand has been completed. This project has been incorporated into the Science in Society project. This project responds to the Leadership Challenge the National Science Challenges Panel set for the Government to address underpinning science education, communication and literacy issues.
	Priority area 7 - Undertake the Science in Society project [New]	■	MBIE, MoE		The Science in Society project will focus on increasing the numbers of learners with STEM competencies to meet the needs of twenty-first century life and the labour market; and encouraging and enabling better engagement with science and technology across all sectors of New Zealand. A strategic plan will be published mid-2014.
	Priority area 7 - Set up ICT graduate schools [New]	■	TEC, MBIE	Safe and Skilled Workplaces	The new ICT graduate schools will bring industry, students and academics together to develop graduates with work-relevant and business-focused skills, provide more direct pathways from education into employment, and help grow New Zealand's stock of ICT talent.

Building Innovation

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Building International Linkages	Look for mutually-beneficial science investment opportunities with Singapore	■	MFAT, MBIE		Mapping of New Zealand foods for health R&D capability has been completed and meetings have been held with Singapore to identify and agree opportunities for collaboration in the Foods for Health area. Work on implementing recommendations is now in progress.
	Actively encourage more multinational companies (MNCs) to conduct research in New Zealand	■	MBIE	Capital Markets	A review has been completed of New Zealand's attractiveness factors for foreign investment, with potential strategies and policy changes to increase MNC investment identified.
	Establish mechanisms to secure commercial export opportunities on the basis of core Public Sector intellectual property and expertise	■	MFAT, MBIE	Export Markets	A structure for facilitating government commercial partnerships has been agreed. Pilot government-to-government commercial partnerships are underway.
	Design science and innovation components for upcoming NZ Inc. strategies with the EU, Australia, and the US	■	MBIE	Export Markets, Capital Markets	Science and innovation components for NZ Inc. strategies with the United States and Australia have been completed. The EU strategy is under development.

The following actions have now been completed and have moved into “business as usual.”

	Action	Status	Lead agency	Also in	Comment
Encouraging Business Innovation	Use expanded TechNZ co-funding to encourage business innovation	Completed	MBIE		Budget 2013 provided an additional \$98m over four years for business R&D grants. Through the new R&D Growth Grants, Project Grants and Student Grants administered by Callaghan Innovation, over 621 businesses have received 837 grants worth about \$272m.
	Increase the proportion of total public innovation investment dedicated to firm-led innovation	Completed	MBIE		In 2012, 13 per cent of total government funding for science and innovation was of business sector R&D compared to eight per cent in 2010.
	Replace R&D Tax Credits with targeted co-funding that incentivises measurable lift in firm R&D	Completed	MBIE		The R&D Tax Credit was repealed effective from the 2009/10 financial year. It has been replaced by new funding for R&D and revised R&D schemes.
	Investigate whether tax treatment of R&D is discouraging firm R&D	Completed	Treasury, IRD		Policy proposals to provide relief for ‘black hole’ business expenditure, and allow R&D intensive businesses to access their tax losses early have been agreed by Ministers.
	Simplify and modernise government procurement policy to encourage innovation and firm participation	Completed	MBIE	Better Public Services, Export Markets	The Next Generation Government Electronic Tenders Service is scheduled to go live in June 2014. Extension of the application for the government Rules of Sourcing to the wider State service (including District Health Boards, Crown entities and Crown research institutes) will improve the way government engages with SMEs through its procurement activity.
Strengthening Research Institutions	Implement core contract funding for eligible independent research institutes	Completed	MBIE		Capability funding for Independent Research Organisations (IROs) was included in the 2013 science investment round (for the Biological Industries and High Value Manufacturing and Services research funds). Successful IRO Capability Funding proposals commenced in October 2013. The Health Research Council of New Zealand will be running its own process for investing in health capability funding in IROs from the Health and Society Research Fund.
	Help businesses interact more effectively with research institutions	Completed	MBIE		The Pre-Seed Accelerator Fund has been established to provide publicly-funded research organisations with funding they can allocate for early-stage commercialisation of new ideas. Contracts with five research organisations have been signed in 2013. A National Network of Commercialisation Centres has been established to create an integrated approach to commercialisation, where those involved in commercialisation activities work together to create scale, enhance capability and improve collaboration.
	Review Centres of Research Excellence and evaluate opportunities for a flexible or a cross-institutional research model	Completed	MoE		The review has been completed and is being implemented. The changes include a mission statement for CoREs that incorporates the purpose and characteristics of CoREs, and a framework to strengthen performance.
	Ensure Centre for Agricultural Greenhouse Gas Research maximises progress in developing knowledge, practices and technologies that allow farmers to address agricultural emissions	Completed	MPI		A progress review was carried out in May 2013, three years since the opening of the Centre. The Centre will continue to operate in accordance with its agreed work programme, taking into account the recommendations of the progress review. To enhance progress and minimise the administrative requirements, the Centre has formed a closer partnership with the agricultural sector Pastoral Greenhouse Gas Research Consortium (PGGRC).

	Action	Status	Lead agency	Also in	Comment
Strengthening Research Institutions	Complete implementation of the Health Innovation Hub and ensure it meets needs of medical researchers	Completed	MBIE		<p>The Health Innovation Hub was established in 2013 as a partnership between four of New Zealand's biggest DHBs: Auckland, Canterbury, Counties Manukau and Waitemata.</p> <p>It works to help grow New Zealand's health technology industry and to support the adoption of innovations developed within the public and private health sector.</p> <p>The Health Innovation Hub is repositioning its offering to focus on industry-led rather than clinician-led innovation. This is in response to the longer-than-anticipated lead times for commercialisation outcomes and Hub revenue from clinician-led activities.</p>
	Complete the development and utilisation of the Food Innovation Network	Completed	MBIE		<p>Callaghan Innovation has now taken over responsibility for the Food Innovation Network as a core component of its engagement with the food processing sector. Callaghan Innovation is engaging with Food Waikato and New Zealand Food Innovation South Island on their investment plans.</p>
Delivering Innovation Infrastructure	Manage the digital switch-over and next generation mobile services	Completed	MBIE	Infrastructure	<p>The digital switch-over was completed in December 2013. All areas now have digital television. Progress is being made to utilise the spectrum that has been made available for use in new technologies. Allocation of the spectrum to telecommunications companies is now underway.</p>
	Secure New Zealand's role alongside Australia in the Square Kilometre Array project	Completed	MBIE		<p>The Government has been working with science and industry groups in New Zealand to identify opportunities for organisations to participate in the Square Kilometre Array pre-construction project. New Zealand science and industry organisations are now successfully contributing expertise through co-funding arrangements with the Government.</p>
	Investing in core science infrastructure	Completed	MBIE		<p>The Government has made significant investments in key high-performing research infrastructure. This includes funding for operations of the Australian Synchrotron to 2016 and of the RV Tangaroa to cover a shortfall in operational funding for two years to June 2014.</p>
	Implement a cyber-security strategy, establish a National Cyber Security Centre to protect against cyber threats, and raise awareness of cyber security issues	Completed	MBIE	Infrastructure	<p>As part of its core business, the new National Cyber Policy Office works closely with New Zealand businesses on cyber security issues.</p>
	Work with Australia to establish and maintain shared high-cost science infrastructure (e.g. Australian Synchrotron)	Completed	MBIE		<p>New Zealand Government's contribution to the operation of the Australian Synchrotron for the three year period to June 2016 has been agreed. A Crown Funding Agreement has been finalised with the New Zealand Synchrotron Group (NZSG). Agreements between the Australian Nuclear Science and Technology Organisation and NZSG have been finalised.</p>
Improving Intellectual Property Settings	Complete the passage of the Patents Bill to more closely align NZ's patent settings with trading partners	Completed	MBIE		<p>The Patents Act was passed in August 2013.</p>
	Review Trade Mark regulations and implementation of the Madrid protocol	Completed	MBIE		<p>The Trade Marks Regulations 2003 have been reviewed and amendments came into force in December 2012 and April 2013. Trade Marks (International Registration) Regulations 2012 implement the Madrid Protocol in New Zealand and came into force in December 2012. New Zealand businesses are continuing to make good use of the Madrid Protocol, with 277 different new Zealand businesses using the international trade mark system to protect their brands overseas. There have been over 400 international trade mark applications filed by these New Zealand businesses since New Zealand joined the system, up from 200 at the end of 2013.</p>
	Explore opportunities for government to improve the environment for firms' use of intellectual property	Completed	MBIE		<p>A number of the opportunities identified have been implemented as separate actions under the Business Growth Agenda (for example, passing the Patents Act and tax treatment of R&D). These are being accompanied by initiatives aimed at improving business capability around identifying, protecting and managing IP and other intellectual assets.</p>

	Action	Status	Lead agency	Also in	Comment
Growing the Innovation Workforce	Lift the profile of science through the appointment of the Prime Minister's Chief Science Advisor	Completed	MBIE		Professor Sir Peter Gluckman was appointed as the first Prime Minister's Chief Science Advisor in 2009.
	Complete a stocktake of post-PhD employment opportunities in NZ and make policy changes if required	Completed	MBIE		A stocktake has been completed and policy changes have been explored.
	Institute the Rutherford Fellowships to provide greater opportunities for early stage researchers	Completed	MBIE		The Rutherford Discovery fellowships were established in 2010 to develop the leadership potential of early and mid-career scientists and researchers. A further 10 fellowships were announced in September 2013, bringing the total number receiving financial support to 40. Recipients of 2014 fellowships will be announced in September 2014. This year will be the fifth year that the fellowships have been awarded.
	Highlight the role of entrepreneurship in business innovation through annual Prime Minister's Business Scholarships	Completed	MBIE		The Prime Minister's Business Scholarships were launched in 2010. The recipients of last year's 10 scholarships studied at prestigious international institutions such as Stanford, INSEAD (The Business School For The World), Harvard, and the London Business School. Applications for 2014 scholarships closed in April.
	Establish the annual Prime Minister's Science Prizes to acknowledge and reward scientific achievement	Completed	MBIE		The Prime Minister's Science Prizes were introduced in 2009. They have been awarded annually since.
	Maintain internationally competitive personal tax rates that encourage highly-skilled workers to work from New Zealand	Completed	Treasury, IRD		Budget 2010 reduced all personal tax rates, including the top rate from 38 per cent to 33 per cent, as part of a wider tax package that also reduced the company tax rate and increased GST. Trends in international personal tax rates are being kept under review.
Building International Linkages	Establish a small advanced economies group to leverage opportunities for innovation and growth	Completed	MFAT, MBIE		The Small Advanced Economies group (Singapore, Israel, Finland, Denmark and New Zealand) met in November 2012 in Auckland, in November 2013 in Denmark and in May 2014 in Singapore. The discussion at the forums has focused on how small countries can position themselves for economic growth.
	Work to achieve research and innovation opportunities identified in the China country strategy	Completed	MBIE		Lead sector entities have been contracted and the first projects have commenced.
	Continue to actively support the Global Research Alliance on Agricultural Greenhouse Gases, including through the New Zealand Fund for Global Partnerships in Livestock Emissions Research	Completed	MPI		Targeted activities in support of the Alliance were completed in November 2013. Cabinet has agreed to extend the Alliance appropriation out to 2019 to enable a third funding round. The first expert assessment stage has been completed for the third round of the New Zealand Fund for Global Partnerships in Livestock Emissions Research.

04

Building Skilled and Safe Workplaces



The Government has committed to the following high-level goal:

Materially lift New Zealand's long-run productivity growth rate while maintaining our high rate of labour force participation

New Zealand is a small nation with relatively open borders. For New Zealand to lift its economic growth and productivity and meet its aspirations, people and businesses need to realise their potential. This means we need to raise our level of educational achievement and attract more talented people to work here.

Data from the March 2014 quarter of the Household Labour Force Survey indicates that the economic recovery is translating into an improved labour market. Employment growth is also no longer concentrated in a small number of regions or sectors. Total employment increased by 22,000 over the March 2014 quarter, and by 84,000 over the year. This represents the largest annual employment increase since December 2004.

Most regions saw their unemployment rate either drop or remain unchanged over the year. The difference between the North Island and South Island unemployment rates, however, remains high. The South Island unemployment rate is 3.9 per cent, down from 4.5 per cent a year ago. The North Island unemployment rate is seven per cent, down from 7.2 per cent a year ago.

We have seen a significant rise in employment for Māori and Pasifika. Pasifika employment numbers increased by 7,900, while Māori employment rose by 14,500.

We are also seeing more New Zealanders choosing to participate in the labour market. The labour force participation rate is now at 69.3 per cent, which is its highest level since the series began in 1986.

Our labour productivity is also improving. In the year ended March 2013, New Zealand's labour productivity increased by 2.1 per cent. This is higher than the average annual increase of 1.6 per cent between 1996 and 2013. The increase reflected both an increase of 1.2 per cent in multifactor productivity – a complex measure of factors including skills, costs, and value added per worker – and a 0.9 per cent growth in the amount of capital available per worker.

Migration trends continue to be positive, as more people are choosing to move to New Zealand than those opting to head overseas. There was a net gain of 34,400 people in the year to April 2014, one of the highest in the last decade. The monthly net gain of 4,100 people in April was the second-highest net gain on record.

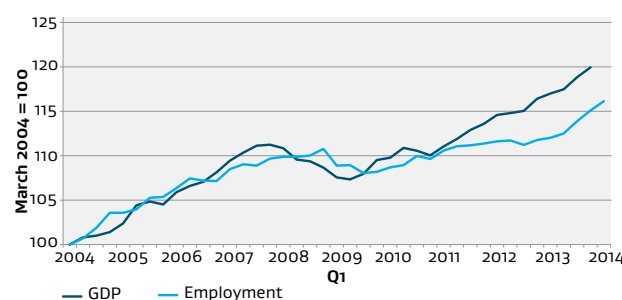
In particular, fewer New Zealanders are leaving to live in Australia and more New Zealanders are returning from Australia. There was a seasonally-adjusted monthly net loss of 200 people to Australia in April 2014, the lowest on record. This was well below the record high net loss of 4,300 people to Australia in February 2001. Departures to Australia are expected to remain low throughout the year while annual net migration is forecasted to exceed 40,000 by September 2014.

Through the Building Skilled and Safe Workplaces stream of the BGA, the Government is bringing together a set of ambitious targets and initiatives that will lift New Zealanders' skills and

qualifications, reduce long-term unemployment and improve workplace safety. These initiatives also highlight the work the Government is doing to break the welfare dependency cycle and improve outcomes for families.

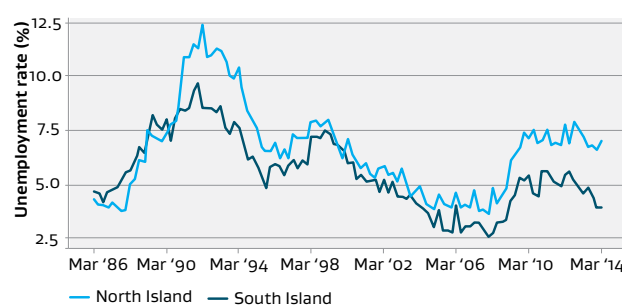
Quarterly GDP and employment index

Source: Statistics New Zealand



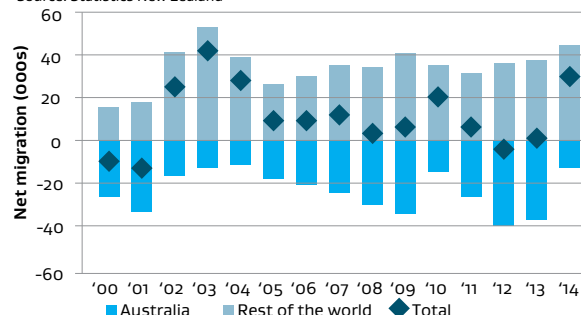
Unemployment rates for North Island and South Island

Source: Statistics New Zealand



Net permanent and long-term migration to Australia and the rest of the world (Annual - March years)

Source: Statistics New Zealand



Progress update

The Government remains committed to successfully completing the 62 initiatives to build skilled and safe workplaces identified in the October 2012 *Building Skilled and Safe Workplaces* progress report.

More than half of these original actions have now been completed, and the remaining actions are either in progress or being implemented.

Ten actions have also been added to the Building Skilled and Safe Workplaces work programme, of which three are new, five are in progress, and two are being implemented.

Building Skilled and Safe Workplaces	All actions	New	In progress	Implementing	Completed
Status October 2012	62	1	26	18	17
Status June 2014	72	3	18	18	33

The most vital ingredient for building a skilled workplace is a strong education system. New Zealand's education system is performing well by international standards. We have high levels of education participation and attainment. The tertiary education system is delivering more graduates at higher levels of qualification than ever before. In 2012, a total of 162,000 qualifications were completed, and the number of domestic students completing bachelors' degrees was the highest ever at 25,400, up 23 per cent since 2010. More young people are also moving from school to degree level study (from 13,600 in 2007 to 16,500 in 2012).

We have continued to make significant progress towards achieving our **target of ensuring 85 per cent of 18-year-olds will have achieved NCEA Level 2 or**

an equivalent qualification in 2017.

In 2013, 79.7 per cent of 18-year-old school leavers achieved NCEA Level 2, compared with 77.2 per cent in 2012. This is an increase of 2.5 percentage points between 2012 and 2013. This means that approximately 1,500 more¹ 18-year-old leavers had NCEA Level 2 in 2012 than if the achievement rate had remained the same.

The recently-published *Youth Guarantee Monitoring Report* also showed that the **Youth Guarantee programmes** are providing more choices for young people about where and what they can learn. Around 1,000 more young people remained in education at age 17 and more young people achieved NCEA Level 2 because of Youth Guarantee programmes.

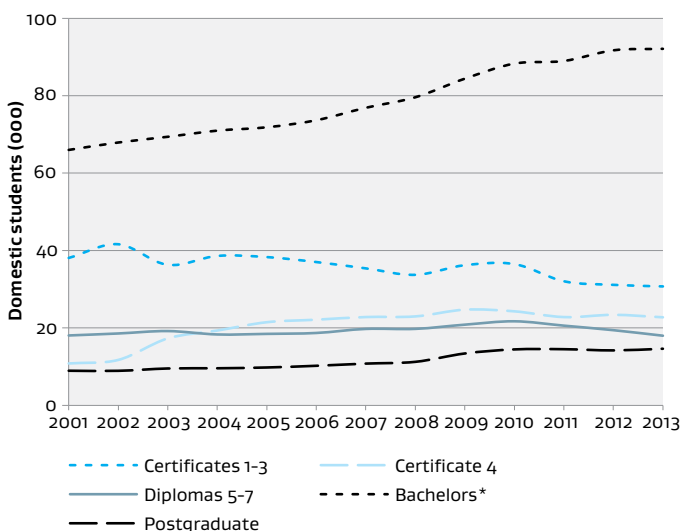
The Government has made major improvements towards a **more result-focused education system**. We are investing in educational success in the compulsory sector, by resourcing and promoting professional leadership in every school. This will achieve a significant step up in our system's performance for all students.

We have improved the value for money of tertiary education by setting better performance incentives on providers and students. We have also focused the system towards higher-level study. In addition, we have significantly improved the information available for students about the performance of providers and the employment outcomes of their study.

¹ Based on provisional data subject to confirmed final NZQA results. All 2013 forecasts are based on the estimated leaver data and total student population achievement rates.

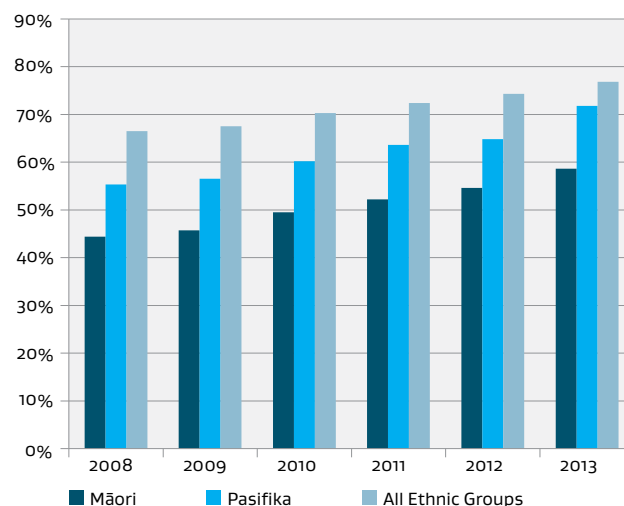
Domestic students aged 18 to 24 years in formal study by qualification level

Source: Ministry of Education



Percentage of school leavers with NCEA Level 2 or above

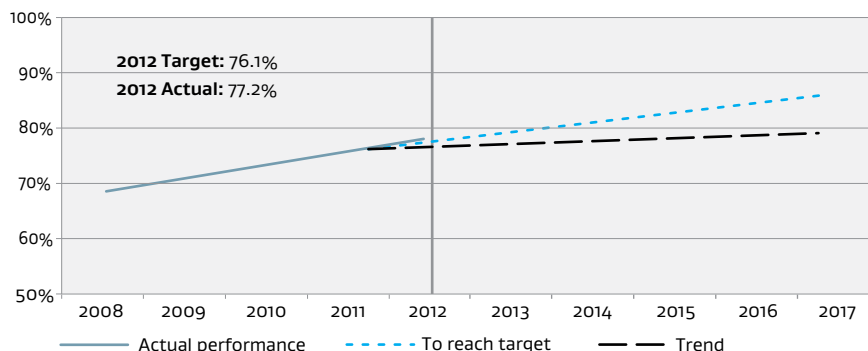
Source: Ministry of Education



Building Skilled and Safe Workplaces

NCEA Level 2 or equivalent attainment by 18-year-olds

Source: Ministry of Education



We have improved the performance of workplace-based industry training and focused the lower levels of the mainstream tertiary system on foundation skills. In addition, we have cut low-value tertiary expenditure, particularly in student support, and used some of the savings to fund priority provision.

These changes are beginning to deliver results. Overall completion rates are rising in provider-based education and industry training. More young people are moving from school to degree-level study; more Māori and Pasifika 18 and 19-year-olds are enrolling in bachelors' degrees; and more people are completing level four qualifications by age 25.

We have made significant progress in implementing the new **Māori and Pasifika Trades Training Initiative**. Partnerships, or consortia, have been selected from across New Zealand to enter contract negotiations to deliver this initiative. These partnerships are made up of key businesses and employers, tertiary education organisations and Māori iwi and/or Pasifika groups and organisations. These partners are expected to leverage their relationships, resources and skills to focus on innovative and coordinated approaches to connect Māori and Pasifika with training, support and employment that meet employer needs and the needs of learners.

Consortia were initially selected in late 2013, with seven funding agreements signed, and negotiations advanced with a further five consortia. The TEC is also negotiating funding with these consortia to provide additional support to learners in these programmes. Several consortia are currently delivering training, with the remaining consortia due to start delivering by August this year. Selected consortia vary by size and composition depending on member organisations, targeted industries and the region they are in. Budget 2013 allocated funding for a total of 1,700 places in 2014, and a further 3,000 places in 2015.

The Government has also just announced the first four organisations to receive direct government funding through the Industry Training Fund direct funding pilot. By opening up the Industry Training Fund, employers are now able to provide on-the-job training specifically tailored to their business. It differentiates them from other types of tertiary education offered by polytechnics and private training establishments, while still giving trainees formal qualifications that are transferrable.



Spotlight

Occupation Outlook

The *Occupation Outlook* is designed to be one of the first places for young people and their families to look when making decisions on subject choices and future careers. It contains education, employment and income information on 50 occupations. These 50 were chosen for a range of factors, including size, popularity, and potential for future growth.

This annual report brings together the latest information from employers, industries, the education sector and labour market analysts

in a format that makes it easy to compare career prospects across different occupations.

This year's report shows that there are strong demands in all skilled occupations as the economy recovers. In particular, the construction sector, engineering, ICT, science and the primary sector are expected to experience most of the growth.

There are also two special features in this year's report: one on career prospects in the construction industry, and one on careers

with STEM (science, technology, engineering and mathematics).

The report is available on the MBIE – Labour website – at www.dol.govt.nz.

We have also released an Occupation Outlook App that gives young people and their families instant and easy access to the latest career information – see www.dol.govt.nz/publications/lmr/occupational-outlook/.

50 KEY OCCUPATIONS

Occupation Outlook gives you the lowdown on 50 key occupations in New Zealand

These occupations were chosen for a range of factors, including their size, popularity, and potential for future growth. Each occupation report provides a summary on career prospects, bringing together information on:



Expected future demand for the occupation



Current study fees and average salary expected



Qualifications needed and valued by employers



Where to study/train



Licensing and registration (where relevant)



Number of people completing qualifications



Job vacancy trends



Potential career paths

We are seeing a continuing **reduction of people on benefits**. There were 295,320 people on benefits in the March 2014 quarter, over 14,800 fewer compared to March 2012. This decrease includes over 8,600 fewer sole parent beneficiaries and 6,800 fewer recipients of Job Seeker Support. The decrease in beneficiary numbers has also translated to a significant reduction in welfare liability and benefit payments.

The 2013 welfare liability valuation showed that benefit payments were \$180 million lower than expected for the year and there was a \$10.3 billion reduction in the overall welfare liability, which dropped from \$86.8 billion to \$76.5 billion. Of the projected liability reduction, \$4.4 billion is due to Work and

Income actively exceeding expectations by getting more people (especially sole parents) off a benefit for longer and fewer people coming onto benefits. The latest labour market statistics are showing signs that we are successful in getting more sole parents to participate in the labour market. The employment rate for single mothers is currently at 54.9 per cent, the second highest level since the series began in 1986. This rate is 7.6 percentage points higher than that recorded in March 2013.

We have also made significant gains on **reducing the number of young beneficiaries and ensuring more are in education and training**. Overall, youth numbers on benefit have been declining since 2009. While this was slow

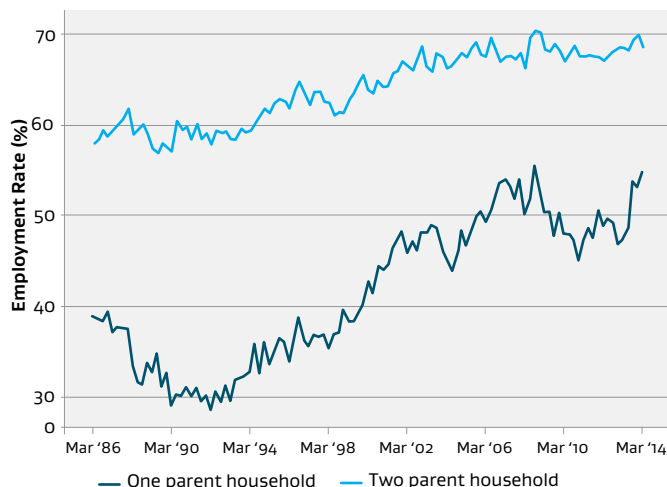
at first, most young people have left benefit since late 2011/early 2012. As many as 24,439 young people were in receipt of a main benefit during the peak of the Global Financial Crisis (GFC) impact. This has reduced to 15,912 as at February 2014.

In addition, the Youth Service, introduced in August 2012 as a first step in welfare reform, is on track to improve outcomes for vulnerable young people across New Zealand. The Youth Service provides intensive support to help young people to return to or remain in full-time education, training, or work-based learning. Numbers receiving support through the Youth Service have steadily increased since its introduction. As at 31 March 2014, 12,341 young people across

Building Skilled and Safe Workplaces

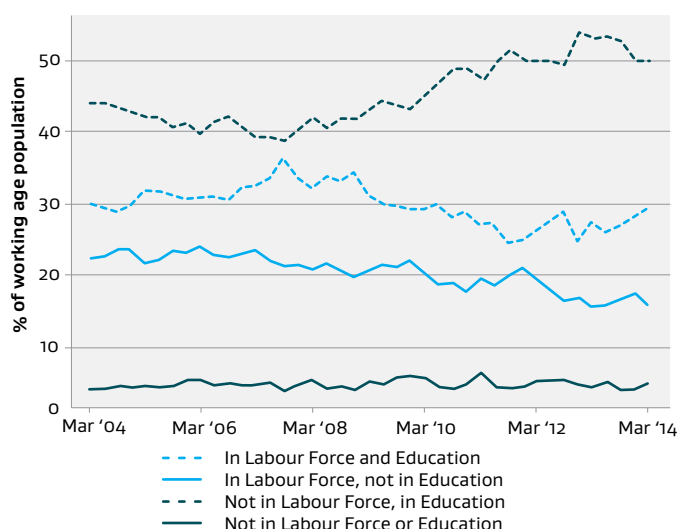
Employment rates for mothers with dependent children by household type

Source: Statistics New Zealand



Education and labour market participation of 15 to 19-year olds

Source: Ministry of Education



New Zealand were enrolled with the Youth Service as compared to 6,552 in March 2013. Two thirds of those enrolled with the Youth Service are now engaged in full-time education or training.

We are **continuing to strengthen our support for the Canterbury rebuild**.

We have just announced the \$3k to Christchurch package to assist beneficiaries to take up work in Christchurch. The Government is providing further support for the Canterbury rebuild with \$3.5 million of new funding in Budget 2014 to assist beneficiaries to take up work in Christchurch. The one-off \$3,000 payment will help beneficiaries with the move to Canterbury, sorting accommodation, clothing, tools and any other purchases they might need to make when getting settled.

The Government has continued to work towards **more targeted business and investment migration**, recently announcing the new business migration policies as a result of a review undertaken over the course of 2013. The review was prompted by concerns that the Long Term Business Visa was leading to large numbers of migrants setting up low-value businesses, generating low incomes for the owners with few growth prospects. The new policies are based around a points system. Points are given based on business experience, age, creation of new jobs, ability to export, and innovation. The policies are designed

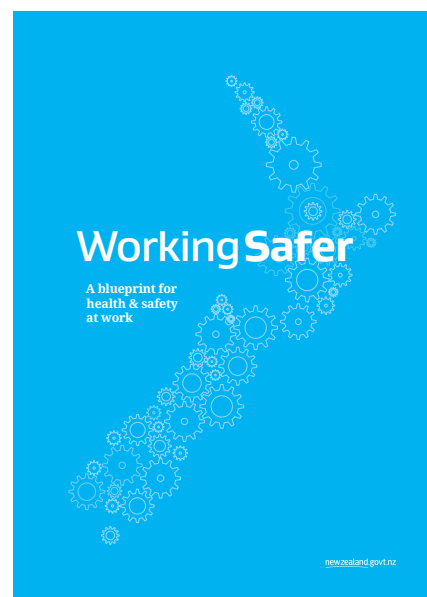
not to exclude but to pull up applicants so they can create more ambitious and productive businesses. We have also made some changes to the investment migration settings to further encourage investment into New Zealand's productive sector, and to increase the fiscal contribution of investor migrants generally.

Improving workplace safety is fundamental to having a motivated, engaged and productive workforce. Each year about 75 people are killed at work, and there are conservative estimates of 600 to 900 deaths from work-related diseases such as asbestosis and various cancers. Around one in 10 workers are harmed each year, with about 200,000 claims being made to the Accident Compensation Corporation for costs associated with work-related injuries and illnesses.

The Government's goal is to achieve at least a 25 per cent reduction in work-related fatalities and injuries by 2020. In 2012, the Government established the Independent Taskforce on Workplace Health and Safety to advise on possible ways to meet our goal of reducing the rate of fatalities and serious injuries in the workplace.

The Government has considered the recommendations of the Taskforce and our response – *Working Safer* – outlines the programme of change necessary to improve health and safety at work.

Working Safer represents the most significant reform of New Zealand's workplace health and safety system in 20 years. It aims to help foster a New Zealand culture that recognises that health and safety is not a burden but an investment in good business practice, improved productivity and reliability, and an engaged workforce. To achieve this step change in performance, the Government has set up a stand-alone workplace health and safety Crown agency – WorkSafe New Zealand – to deliver this major package of reform (see the Spotlight box on the following page for more information).





Establishment of WorkSafe New Zealand

In December 2013, the Government established WorkSafe New Zealand, a stand-alone Crown agency with its own independent governance board, as part of its reform of the New Zealand workplace health and safety system to reduce workplace death and injuries. The creation of a stand-alone health and safety regulatory agency was a key recommendation of both the Royal Commission on the Pike River Coal Mine Tragedy and the Independent Taskforce on Workplace Health and Safety.

WorkSafe New Zealand signals a new era. With a single-minded focus on workplace health and safety issues, the agency provides a single point of accountability and seeks to play a leadership role in improving New Zealand's health and safety performance.

WorkSafe New Zealand will use a broader range of tools to embed and promote good workplace health and safety practice, including enforcement, education, harm reduction programmes, and other incentives. This means:

- businesses will find it easier to work with WorkSafe New Zealand and to understand their health and safety obligations
- more support for business from inspectors, who will make more proactive visits
- a greater focus on prevention, better guidance and support for businesses and workers
- improved information and support for currently hard-to-reach groups of employers and workers.

WORKSAFE
NEW ZEALAND

PATHWAY TO OUTCOMES

EVERYONE WHO GOES TO WORK COMES HOME HEALTHY AND SAFE



Future direction

New Zealand is expected to be one of the few advanced economies to experience strong growth over the next few years. Our focus is to ensure that growth continues to lead to higher employment, increasing incomes, consumer demand and workforce capacity, and can feed back into further growth in the economy.

Our education system will be instrumental in translating this projected growth into higher employment and productivity.

On average, our students are strong performers in literacy, mathematics and science in the OECD Programme for International Student Assessment at age 15. New Zealand's recent PISA results show that New Zealand 15-year-olds who came through the education system between 2001 and 2012 are continuing to score above the OECD average in all three topics.

However, New Zealand's ranking on the OECD scale is lower than the last PISA report, particularly for maths and science.

1. Investing in teacher quality to lift the achievement of young people

Our view is that school is the best place to achieve the foundation skills that are necessary for success in later years. Our top students are doing as well as students anywhere in the world but there is a big gap between our top-performing students and those who aren't doing so well. We recognise that we need to do better to raise achievement across the board. This is because achieving at least a NCEA Level Two qualification puts a young person on a pathway towards a successful working career.

We think that helping the profession to build quality and consistency of teaching and leadership across the system will result in improved educational achievement for New Zealand young people. In Budget 2014, we have **invested \$359 million in education over the next four years to support teachers and principals to lift educational performance for young New Zealanders.**

Four new teaching and leadership roles will be created in schools - Executive Principals, Expert Teachers, Lead Teachers, and Change Principals. These changes are designed to enhance teaching and leadership in the schooling system to raise student achievement in our schools. These new roles reward the best teachers and principals as well as enabling greater sharing of best practices. It is intended all these new roles will be entirely in place by 2017.

Further, while we are seeing improvements, too many young people are still leaving school without a qualification that will take them onto meaningful further training, study or employment.

More broadly, recent rapid growth in higher education throughout the world, and the resulting increased international competition for higher-skilled jobs, will mean our students will need to be better prepared than ever.

The previous sections show the significant progress we have made in delivering on our ambitious programme of actions towards helping build skilled and safe workplaces. We will continue to make progress towards completing this programme.

However, in light of this progress, we intend to focus our future efforts on a smaller number of areas we see as particularly critical to further lift labour participation and productivity.

2. Setting up new ICT Graduate Schools

A key element of our Tertiary Strategy is ensuring businesses have access to skilled employees. In particular, over the past 10 years, employment in ICT occupations has grown at nearly triple the rate of the increase in total employment. The advertised vacancies for ICT sales professionals have increased by 136 per cent in the past year. This strong demand is likely to continue over the next five years. Tertiary education enrolment data indicates that the education system is responding to demand for more ICT graduates, especially at higher levels. Despite this, firms continue to report that they are facing difficulties in accessing workers with the skills they need.

To help respond to this strong demand, we are **setting up new ICT Graduate Schools** in Auckland, Christchurch and Wellington. In Christchurch the school will be based in the new Christchurch Innovation Precinct.

The programme will provide funding for education, research and collaborative initiatives to attract top students and academics and connect them with our high-value, high-tech firms. The schools will develop graduates with work-relevant and business-focused skills, provide more direct pathways from education into employment, and help grow New Zealand's stock of ICT talent.

Implementation and delivery of the ICT graduate schools will be determined through a tender process. All successful bids will be required to include initiatives that will grow the number of ICT students to fill the agreed programme numbers. A panel of ICT industry and education and innovation system experts will be used to judge the bids.

In addition, we will target some of the Tertiary Education Commission's investments towards growing broader ICT provision that is valued by industry, and that will support the ICT Graduate School programme.

We will also work with industry and other key stakeholders to develop a programme of initiatives to promote ICT careers and increase the pipeline of ICT students.



Building Skilled and Safe Workplaces

3. Implementing the new Tertiary Education Strategy

The performance of New Zealand's tertiary education system is critical to the supply of skills to our economy. We need to increase the level of skills in our workforce to support New Zealand's economic growth. A higher-skilled workforce supports better innovation and productivity. For most young people, achieving a tertiary qualification is a crucial milestone towards a successful working career. It serves as a passport to success for individuals in our society and supports wider economic growth and prosperity.

Increased qualification levels have delivered productivity gains, but there are opportunities to further lift the productivity returns on our investment in tertiary education. This means tertiary education institutions need to create opportunities for industry involvement in planning and delivering education. Employers also need to ensure effective skills utilisation in workplaces.

The **new Tertiary Education Strategy** builds on the substantial gains we have made in recent years to lift educational

achievement. The Strategy supports a shift to a more outcome-focused and engaged tertiary education system, with strong links to industry, community and the global economy. This includes focusing on employment, the relationship between people's tertiary education and their earnings following study, and access to skilled employees for business as critical outcomes.

The Strategy highlights the need to build international relationships that contribute to improved competitiveness, support business and innovation through development of relevant skills and research, continue to improve the quality and relevance of tertiary education and research, and improve outcomes for all. The first steps to achieving these shifts are outlined in the Strategy's six priorities:

- **Priority 1:** Delivering skills for industry
- **Priority 2:** Getting at-risk young people into a career
- **Priority 3:** Boosting achievement of Māori and Pasifika
- **Priority 4:** Improving adult literacy and numeracy



- **Priority 5:** Strengthening research-based institutions
- **Priority 6:** Growing international linkages.

To help deliver the vision set out in the Strategy, Budget 2014 provides \$198.6 million of operating funding for new investment in tertiary education. Around \$83 million of that will be used to lift tuition subsidies in science (an 8.5 per cent increase), and agriculture (an 8.5 per cent increase), as well as selected health sciences.

We will also **continue to consider changes required to deliver the Strategy and better monitor the agencies responsible for its implementation.**

4. Completing the welfare reform programme and getting more people into work

The Government's Welfare Reforms are refocusing the welfare system. The system now encourages independence and personal responsibility, primarily through paid employment, and contributes to better social and economic outcomes. Our goal is to reduce the number of people continuously receiving Jobseeker Support for more than 12

months by 30 per cent, from 78,000 in April 2012 to 55,000 by June 2017. This goal would see over 20,000 fewer people reliant on a Jobseeker benefit in the long term by June 2017. Progress will be monitored using two key measures – the number of people continuously receiving Jobseeker support for more than 12 months, and a reduction in the forward liability of the benefit system.

The Welfare Reform programme is underpinned by an 'investment approach' to reduce long-term benefit

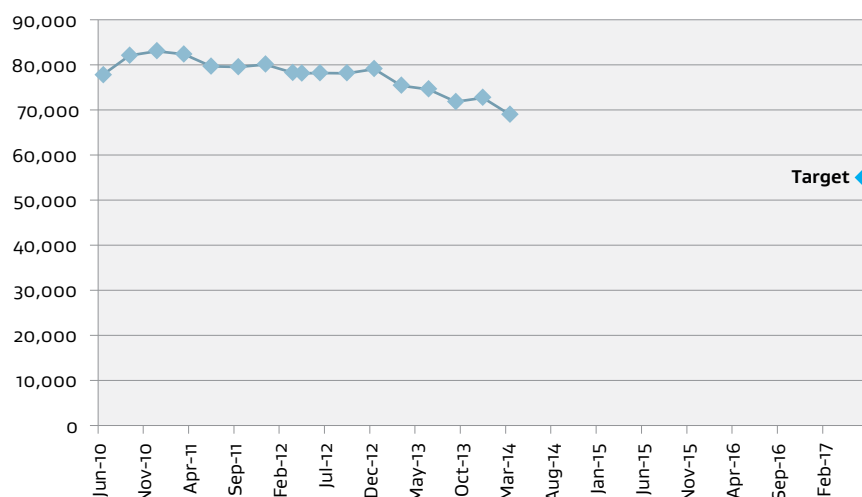
receipt. This means using evidence to drive ongoing improvements in the performance of employment and work-readiness investments and to better manage the future liability in the benefit system.

We are **taking an integrated investment management approach to some welfare expenditure** based on a new, ground-breaking Return on Investment (ROI) framework, which looks at the government's return on investment from improved employment outcomes.

The Ministry of Social Development will trial new approaches based on the ROI framework to learn to work better to improve outcomes for those with highly-complex needs and prevent long-term benefit receipt. There will also be continued consideration of the potential to reinvest benefit savings in approaches that are proven to be effective in improving social and economic outcomes and reducing future costs.

We will also focus on **delivering the new 'work-focused case management' service and the purchase of services for those who are at risk of long-term dependency**, but who have realistic potential to gain work over the short term.

Number of people continuously receiving Jobseeker Support for over 12 months
Source: Ministry of Social Development



5. Investing in more apprenticeships and vocational skills

Individuals with higher qualifications tend to have better economic and social outcomes than those with low qualifications. Across developed countries, an extra year of education is associated with increased individual earnings of between five and 15 per cent.

To help give more New Zealanders the vocational skills that will set them up for their working lives, while meeting the needs of the growing economy, the Government has extended the **Apprenticeship Reboot** scheme. The Apprenticeship Reboot is part of an overhaul of the apprenticeship scheme to get more apprentices qualified and more in priority trades. The scheme provides a subsidy of \$1,000 towards the cost of tools and off-job course costs, or \$2,000 for those in priority trades. Employers are also eligible for an equal payment. Continuing high demand for the Apprenticeship Reboot means the Government has decided to spend up to \$20 million in Budget 2014 for an extra 6,000 places. This brings total funding for the scheme to \$69.4 million and the total number of places to 20,000.

We are also **making further investments in foundation education** in both a secondary and tertiary setting. Fees-free foundational education is available to students under 25 with the introduction of the age expansion of Youth Guarantee to 18 and 19-year-olds, and with Student Achievement Component courses at levels 1 and 2 for 20 to 24-year-olds being fees-free.

We will also **develop the sixth Vocational Pathway – the Creative Industries pathway** – which will be made available during 2014. The establishment of the creative industries pathway means that all 400 jobs on the Careers NZ website will be matched to one or more of the Vocational Pathways, bringing additional clarity and purpose to NCEA 2 qualifications to both learners and employers.



6. Encouraging eligible sole parents into higher education

There is longstanding evidence that having a level four qualification or higher can significantly improve a person's outcomes and, the higher the qualifications, the more outcomes improve. This is particularly the case for sole parent beneficiaries. Evidence indicates that recipients of the Sole Parent Support benefit who have a NCEA level four qualification spend an average of around three-and-a-half years less time on a benefit compared to those with no qualifications, and have an average liability \$42,000 lower. Sole parents with a degree-level qualification spend around seven-and-a-half years less on benefit, with an average liability \$88,000 lower.

Nevertheless, the differences in levels of financial support between the systems, and difficulties transitioning between them, may influence otherwise motivated sole parents not to enter the student system, and to apply for a benefit instead.

We are therefore **aligning the level of overall financial support for sole parents receiving a student allowance with that for sole parents receiving a benefit** and ensuring that sole parents' child support arrangements are not disrupted if they need benefit support over the summer break. We are also **removing the one week benefit stand-down in the summer break for sole parent students**.

We expect that these changes will lead more sole parents who would otherwise be on a benefit to enter the student support system instead.

7. Implementing the new health and safety framework in New Zealand

The Working Safer initiative announced last year represented the most significant reform of New Zealand's workplace health and safety system in 20 years. It aims to help foster a New Zealand culture that recognises that health and safety is not a burden but an investment in good business practice, improved productivity and reliability, and an engaged workforce. The Government's target is to reduce work-related fatalities and serious injury by at least 10 per cent by 2016 and 25 per cent by 2020.

The **Health and Safety Reform Bill** has been introduced to Parliament, representing a major change to New Zealand's health and safety system. The **new Health and Safety at Work Act** will have a strong emphasis on reducing levels of prescriptive regulation and ensuring a performance-based rather than a compliance-based approach. The performance-based approach allocates duties to the people who are best placed to manage them and it also makes it easier to create the extensive body of regulations and guidance needed to effectively implement the changes.

In addition, recognising employers with good workplace health and safety practices is a key part of the Government's health and safety changes. The Government has therefore announced a **new Safety Star Rating Scheme** to provide a robust assessment of health and safety culture, supporting businesses that want to implement good practices.

As part of this, we are engaging with health and safety stakeholders to design a Safety Star Rating Scheme Health and Safety Assessment tool and scheme. The preliminary Health and Safety assessment tool and scheme design will be developed by mid-2014 and the implementation plan will be available by December 2014.

Building Skilled and Safe Workplaces

8. Reducing the casualty rate within the forestry sector and other high-risk occupations

Improving outcomes for forestry workers – in particular, Māori and Pacific Island workers who experience higher rates of serious injury and deaths at work – will be critical. Over the medium term, the new Health and Safety at Work Act will clarify how health and safety duties apply across more complex supply chains and non-traditional working relationships, both of which are commonplace in the forestry sector.

We will also undertake a number of actions to improve outcomes, particularly within the forestry sector, including **undertaking a review of the Approved Code of Practice for Safety and Health in Forest Operations 2012** to clarify current responsibilities of principals and contractors.

Other initiatives include:

- delivering the Safer Forest Harvesting Project, which targets risk factors and identified harms within the whole forest harvesting sector
- making a focused effort on ensuring forestry principals are meeting their legal duties and exerting more influence up the supply chain
- working with the forestry industry to deliver a programme of initiatives that will educate and promote awareness of health and safety issues within the sector.

The Government is also supporting the Independent Forestry Safety Review Panel, which is investigating the high rate of serious injuries and fatalities in the New Zealand forestry sector and recommending practical steps for change.

9. Toughening employment standards requirements and increasing the size of the Labour Inspectorate

We are working to **enhance the regulatory regime for employment standards** to address migrant exploitation and other breaches of standards. This includes developing options for stronger sanctions and improved enforcement (including identifying and investigating breaches). Consultation on these options is expected to begin in June 2014.

The Government is also focused on ensuring that the Canterbury rebuild and recovery meets employment, quality and safety standards. We are therefore **providing increased resourcing for the Labour Inspectorate in Canterbury**. This increased resourcing provides primarily for additional investigation and enforcement activities, and an audit programme focused on risk of serious exploitation. It also provides for joint activities with Immigration New Zealand, including joint intelligence and analysis, and a comprehensive education campaign.

10. Completing the Employment Relations Act changes to improve fairness in collective bargaining

The **Employment Relations Amendment Bill** implements the Government's policies aimed at increasing flexibility and fairness in New Zealand's employment relations framework.

The Bill proposes changes to a number of areas of the Employment Relations Act. The key changes are:

- making modifications to the collective bargaining framework including returning to the original position of the duty of good faith in the Employment Relations Act, whereby a concluded collective agreement is not required; enabling employers to opt out of being a party to bargaining for multi-employer collective agreements; and removing the 30-day rule for new employees who are not union members
- providing that, in response to a partial strike, employers will have the additional choice of either reducing an employee's pay by a proportionate amount or deducting a fixed percentage of wages
- changing the flexible work provisions to acknowledge that the workplace needs to better reflect modern lifestyles, including extending the right to request flexible working arrangements to all employees
- making refinements to the continuity of employment provisions in Part 6A of the Employment Relations Act that seek to deal with operational issues businesses have reported with Part 6A, along with the introduction of an exemption for small to medium-sized businesses from certain parts of Part 6A to reduce compliance costs for small to medium sized enterprises
- setting timeframe and form requirements for decisions by the Employment Relations Authority.



Progress Indicators

The Government is continuing to focus on making substantial progress on the following *Skilled and Safe Workplaces* actions. Actions relating to our priority areas of focus are highlighted. Actions new to the Building Skilled and Safe Workplaces work programme are marked as [New].

KEY

- Complete
- Implementing
- In progress
- New project

	Action	Status	Lead agency	Also in	Comment
Lifting the Achievement of Young People	Work intensively with schools and stakeholders to improve teaching and lift achievement, especially for Māori, Pasifika and those at risk of dropping out	Implementing	MoE		Partnerships have been established with 30 per cent of schools to increase NCEA Level 2 outcomes this year. Work is underway to improve NCEA Level 2 outcomes and the targeting of individual learners. 141 target schools have been chosen on the basis of total roll (i.e. large schools) performance (achievement and retention) and proportion of the roll that is Māori or Pasifika. 137 of the 141 focus schools have been visited to support the identification of at-risk learners. A total of 2,290 at-risk learners from 95 focus schools have now been identified, with individual learning plans and tracking tools in place to monitor progress towards achievement of NCEA Level 2.
	Strengthen accountability in schools by setting clearer expectations about what they will do to lift achievement	Implementing	MoE		95 focus schools have been identified, with individual learning plans and tracking tools in place to monitor the progress of 2,290 students towards achievement of NCEA Level 2.
	Review the Careers Information system to enable young learners to make better-informed choices, particularly at points of transition	Implementing	MoE		The National Education Guidelines are currently being reviewed to include the goal of successful transitions for students post-school, clarifying expectations in schools' planning guidelines that schools will use student destination information, producing school-leaver destination reports and aligning MoE Guidelines and Career NZ benchmarks.
	Review the role of Te Kura/The Correspondence School to ensure that it is able to fully respond to the needs of its learners	In progress	MoE		This action is supplemented by the Te Aho o Te Kura Pounamu Partnership Pilot, which was announced by the Minister of Education on 9 March 2014. The initiative is a four-year pilot of a new approach to supporting the engagement and achievement of at-risk learners referred to Te Kura (the Correspondence School). It offers students face-to-face support and a job placement/work shadowing opportunity based on students' interests.
	Improve the engagement and retention of learners through policies relating to attendance, exclusions and alternative education	In progress	MoE		We are building our understanding of the range of in- and out-of school supports for at-risk learners, to position us to assess the coherency and value for money of the current range of interventions, and identify options for change. A pilot for providing additional support for teen parents in mainstream school settings is now in implementation.
	Priority area 1 – Invest in teacher quality to lift the achievement of young people [New]	New project	MoE		Four new teaching and leadership roles will be created in schools – Executive Principals, Expert Teachers, Lead Teachers, and Change Principals. These changes are designed to enhance the teaching and leadership in the schooling system to raise student achievement in our schools.
	Invest in foundation education through the expansion of Youth Guarantee [New]	In progress	MoE		Fees-free foundational education is now available to all foundation students under 25 with the introduction of the age expansion of Youth Guarantee to 18 and 19- year-olds.

Building Skilled and Safe Workplaces

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Strengthening Tertiary Education	Support Canterbury public tertiary institutions to recover their position in the tertiary system and help lead the Canterbury recovery	■	TEC		Government has approved up to \$260m of capital funding for the University of Canterbury to support the re-development of their science and engineering facilities. Government has also approved capital funding of \$18.9m for Christchurch Polytechnic Institute of Technology (CPIT) to expand their trades training facilities to help meet the demand for skilled workers for the Canterbury rebuild. In addition, the Government has agreed in principle to support the redevelopment of Lincoln University's science facilities. Lincoln submitted a business case for this support during May 2014.
	Embed literacy and numeracy in all foundation qualifications and training, to ensure foundation level education lifts foundation skills	■	TEC		Use of the Literacy and Numeracy for Adults Assessment Tool is now mandatory in ITPs, PTEs, TEOs and ITOs for all foundation level 1 to 2 provision, and highly recommended at level 3. Providers must be delivering courses with embedded literacy and numeracy in foundation levels 1 to 3 across all provision.
	Publish employment outcome information and likely industry demand indicators, to better inform prospective students about study choices	■	MoE, TEC, MBIE	Innovation	The <i>Moving on up – What young people earn after their tertiary education</i> report was published in January 2013, and updated in October 2013. This complements the <i>Occupational Outlook</i> reports published in February 2013 and January 2014. A methodology for producing provider-level data on the employment outcomes of tertiary education has been trialled.
	Investigate options to strengthen university governance to encourage greater responsiveness to skill needs and economic opportunities	■	MoE	Innovation	Legislation is currently in front of the Select Committee and is due to be reported back on 21 July 2014.
	Investigate allowing more flexibility for high quality public and private providers to adjust offerings and grow their institutions	■	MoE, TEC & MBIE		Budget 2013 decisions have been taken and announced. We will continue to investigate allowing more flexibility for high-quality public and private providers to adjust offerings and grow their institutions.
	Priority area 2 - Set up new ICT Graduate Schools [New]	■	MBIE, TEC	Innovation	The new ICT graduate schools will bring industry, students and academics together to develop graduates with work-relevant and business-focused skills, provide more direct pathways from education into employment, and help grow New Zealand's stock of ICT talent.
	Priority area 3 - Implement the New Tertiary Education Strategy [New]	■	MoE, MBIE, TEC		The new Tertiary Education Strategy was launched in March 2014. We will continue to consider changes required to deliver the strategy and direct resources to help lift labour market outcomes for students.
Delivering Vocational Education and Training that Lifts Skills	Complete the targeted review of qualifications at levels 1 to 6 to reduce the number of qualifications and simplify pathways for trainees and employers	■	NZQA		We are continuing with the mandatory review on qualifications listed on the New Zealand Qualification Framework (NZQF). The initial round of reviews underway are to reduce duplication and proliferation, and ensure listed qualifications meet the NZQF requirements and are fit for purpose.
	Provide additional places for construction-related trades training for the Canterbury rebuild, and trial new flexible study/work options	■	TEC		In 2011, Institutes of Technology and Polytechnics (ITPs) reprioritised their provision from within their existing funding allocations and delivered around 1,180 EFTS above their original planned volumes for trades training. Additional funding allocations were made to the ITPs and private training establishments in 2012 and 2013, mainly from the Skills for Canterbury contingency. These tertiary education organisations delivered 1,195 (2012) and 1,087 (2013) EFTS above the 2011 baseline. This includes provision under the He Toki and the Pasifika Trades Training initiatives. The additional allocations for 2014 are estimated at 1,470 EFTS, with allocations under the new Māori and Pasifika Trades Training initiative still to be confirmed.
	Priority area 5 - Invest in more apprenticeships and vocational skills [New]	■	MoE, TEC		There is continuing strong demand for the Apprenticeship Reboot scheme, with 11,000 trainees signed up for the scheme to date, and commitment of a further \$20m for an additional 6,000 apprentices. This brings the total funding for the scheme to \$69.3m, and the total number of places to 20,000.

Building Skilled and Safe Workplaces

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

Action	Status	Lead agency	Also in	Comment
Delivering Vocational Education and Training that Lifts Skills	Develop dedicated Māori and Pasifika trades training initiatives to increase their participation and improve their progression and earnings potential	TEC		MBIE has signed funding agreements for seven consortia and TEC is in the process of agreeing funding for the tertiary education organisations involved. These consortia are currently operational. A further five consortia are in funding negotiations with TEC and MBIE for delivery in the second half of 2014. Several consortia are currently delivering training, with the further consortia due to start delivering by August this year.
	Encourage Industry Training Organisation mergers to lift scale, improve performance and reduce complexity	TEC		The number of ITOs has reduced from 32 at 1 July 2012 to 13 as at 1 January 2014.
	Keep investing in intensive low-literacy, language and numeracy skills training for workers	TEC		TEC is implementing Budget 2013 initiatives to allocate new funding. In addition, the transfer of the Skills Highway programme from MBIE to TEC will enhance advisory support to industry and providers.
	Develop the sixth Vocational Pathway [New]	MoE		The establishment of the creative industries pathways means that all 400 jobs on the Careers NZ website will be matched to one or more of the Vocational Pathways, bringing additional clarity and purpose to NCEA 2 qualifications to both learners and employers.
Moving People off Benefits and into Work	Priority area 4 - Take an investment approach to focus services for the greatest impact, including trialling innovative approaches	MSD		The Investment Approach Framework has been agreed, the Investment Approach tools developed, and the accountability and funding framework is in place. A third valuation (as at June 2013) showed a \$10.3b reduction in lifetime liability compared to the previous valuation as at 30 June 2012. Budget 2014 has allocated funding to implement trials, the first of which is expected to begin in November 2014.
	Deliver the New Zealand Refugee Resettlement Strategy with a view to getting better education and employment outcomes for refugees	MBIE		Baseline data for the Strategy's success indicators has been established and monitoring is in place. The preliminary implementation phase January to June 2013 has been completed, the 2013/14 inter-agency implementation programme agreed, and the national contract for resettlement services is in place.
	Priority area 6 - Encourage eligible sole parents into higher education [New]	MSD		We plan to align the level of overall financial support for sole parents receiving a student allowance with that for sole parents receiving a benefit, ensure that their child support arrangements are not disrupted if they require benefit support in the summer, and remove the one-week benefit stand down in the summer break.
Making Workplaces Safer	Work with industry to implement sector and occupational health action plans which address specific workplace harms of significance	MBIE		All plans are being implemented. MBIE, WorkSafe NZ, and ACC are working to implement a more joined-up approach to injury prevention in the workplace.
	Implement the findings from the Ministerial Inquiry into Foreign Charter Vessels to strengthen monitoring and enforcement of working conditions	MBIE, MPI		The new immigration rules and Code of Practice are in force. The Fisheries Amendment Bill is expected to be passed in 2014.
	Priority area 7 - Introduce a safety star rating system for employers to acknowledge and showcase best practice in workplace injury prevention	MBIE, ACC		A joint ACC, MBIE and WorkSafe project team will be established in October 2014. This project is reliant on changes to the ACC Act and the implementation of the new Workplace Health and Safety legislation, regulations and guidance before the safety star rating scheme can be established. A preliminary high-level design for the scheme was presented to Ministers in late November 2013. The project is continuing to progress the scheme design and prepare for a proof of concept.
	Work to manage the risks to people and the environment from hazardous substances in the workplace under the Hazardous Substances and New Organisms Act 1996	MBIE		We are implementing Cabinet decisions made in July 2013 through the Health and Safety at Work Bill and regulations development.
	Priority area 7 - Implement the new legislative framework for health and safety in New Zealand [New]	WorkSafe		Our particular emphasis is to reduce levels of prescriptive regulation and ensuring a performance-based rather than a compliance-based approach.

Building Skilled and Safe Workplaces

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Making Workplaces Safer	Priority area 8 - Reduce the casualty rate within the forestry sector and other high risk occupations [New]	In progress	WorkSafe		WorkSafe New Zealand is currently leading a number of initiatives to improve the health and safety of forestry workers. The Government is also supporting the Independent Forestry Review Panel to address the high rates of serious injuries and fatalities in the forestry sector.
	Priority area 9 - Toughen the employment standards requirements and increase the size of the labour inspectorate	In progress	MBIE		Options for stronger sanctions, improved enforcement (including identifying and investigating breaches), and information and advice have been developed. Consultation on these options is expected to begin in June 2014.
Attracting Skilled Migrants and Investors	Review investor, entrepreneur and worker policy settings with a view to attracting migrants with the right skills and capital to invest	In progress	MBIE	Capital Markets	Changes to business policy settings were implemented in March 2014. We are currently reviewing investment policy settings.
	Develop an immigration/labour market package targeted to support the rebuild of Christchurch including the establishment of a Skills and Employment Hub	Implementing	MBIE		Funding for operation of Skills and Employment Hub through to 2014/15 has been approved (subject to the result of an interim evaluation in August). The Canterbury Skills Shortage List has been established and is being reviewed quarterly. Engagements with key sectors are underway on helping develop actions to support economic development including skills, employment and labour issues.
	Use newly-adopted policy and regulatory tools to oversee the international student market, to ensure that students receive what they are entitled to	Implementing	MoE, NZQA		The Code Office was transferred across to NZQA on 1 August 2013.
	Implement the Immigration Global Management System so that New Zealand has a world class system of effective and efficient border controls	In progress	MBIE	Export Markets	Drafting instructions for changing legislation to allow the transfer of the Code Administrator role have been provided to the Parliamentary Council Office.
	Review the Essential Skills in Demand lists, to examine their effectiveness in addressing skills shortages in the short- and long-term	In progress	MBIE		The eligibility calculator has been delivered. Delivery of online student, other online visa types and identity components is underway. The student visa online application has been built and is undergoing comprehensive technical testing and user acceptance testing before sign-off for go-live.
Making the Job Market More Responsive	Priority area 10 - Grant employees the right to request flexible working arrangements, and allow parties to agree, without having to go through a formal process	In progress	MBIE		The Bill is expected to enter the committee stage shortly. The implementation date is expected to be four months after the enactment of the Bill.
	Priority area 10 - Improve the collective bargaining process to reduce bureaucracy and costs to all parties	In progress	MBIE		The Bill is expected to enter the committee stage shortly. The implementation date is expected to be four months after the enactment of the Bill.
	Priority area 10 - Complete the Review of Part 6A of the Employment Relations Act, to reduce uncertainty for employers	In progress	MBIE		The Bill is expected to enter the committee stage shortly. The implementation date is expected to be four months after the enactment of the Bill.

The following actions have now been completed and have moved into “business as usual.”

	Action	Status	Lead agency	Also in	Comment
Lifting the Achievement of Young People	Lift the number of Youth Guarantee places to support 16 and 17 year-olds staying in education longer	Completed	MoE, TEC		There were 8,428 Youth Guarantee places available for the 2013 academic year – up from approximately 7,300 in 2012. Youth Guarantee age eligibility has been extended to include 18 to 19-year-olds.
	Strengthen the accountability of Youth Guarantee providers to improve outcomes for 16 and 17 year-olds	Completed	MoE, TEC		New education performance indicators were in place for the 2013 academic year for Youth Guarantee fees-free provision. There is ongoing work to strengthen settings for secondary to tertiary programmes to align with accountability settings for other fees-free tertiary education.
	Expand trades and service academies to increase the supply of flexible school-based provision available to young learners	Completed	MoE, TEC		There were 3,700 places available for the 2013 academic year – up from approximately 2,300 in 2012. There is ongoing work on how to make secondary to tertiary programmes more widely available and easily accessible for schools.
Strengthening Tertiary Education	Purchase additional tertiary places as required to meet demand across the sector, including in engineering	Completed	MoE, TEC	Innovation	As part of the \$130m in new funding initiatives for tertiary education announced in Budget 2013, the Government is investing an additional \$17.9m in science tuition and \$9.3 million in engineering tuition, an increase of two per cent funding per full-time equivalent. The TEC continues to work with providers to lift the number of engineering graduates.
	Complete the introduction of performance-linked funding to focus providers on achieving results for students	Completed	TEC		Tertiary Education Organisations have been advised of their indicative performance-linked funding adjustments for Student Achievement Component funding in 2013, with approximately \$3m available for redistribution.
	Target foundation level tertiary education to those without a level 2 qualification, and encourage progression to higher levels	Completed	TEC		The Tertiary Education Commission (TEC) allocated about a third (\$37m) of levels 1 and 2 Student Achievement Component funding via a new competitive process in 2012. This was in addition to around \$70m of levels 1 and 2 funding that the TEC allocated through standard plan-based investment. This funding was targeted at learners lacking prior qualifications.
	Publish performance indicators for tertiary providers relating to course and qualifications completions, and learner progression and retention	Completed	MoE, TEC		The 2012 Education Performance Indicators were released in July 2012, and show continued strong performance by tertiary providers for their students.
	Remove differences in funding treatment between public and private providers to encourage competitive innovation across the sector	Completed	MoE, TEC		As a part of Budget 2013 initiatives, tuition subsidies between public and private providers are being equalised through the provision of \$28.7m in extra funding for private training establishments over the next four years.
Delivering Vocational Education and Training that Lifts Skills	Introduce clear vocational pathways for senior secondary students and foundation learners, to provide clear options for those seeking vocational careers	Completed	MoE, NZQA		Five Level 1 and 2 Vocational Pathways have been defined and released. 425 Assessment resources are now linked to Vocational Pathways. The planning tools for students and families are also online.
	Complete the Industry Training Review to create a durable system that lifts performance and qualification levels for all trainees	Completed	MoE, TEC		We have completed the review. Policy changes to industry training have been announced and TEC has implemented new policy setting.

Building Skilled and Safe Workplaces

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Moving People off Benefits and into Work	Redesign the benefit system, including new benefit categories from July 2013, to make it simpler, with clearer expectations regarding availability for work	Completed	MSD		The legislation has been passed. Welfare reform changes have been implemented from 15 July 2013.
	Consolidate Work and Income's employment assistance programmes through Job Streams to increase flexibility and reduce compliance for employers	Completed	MSD		We have increased the maximum payment to \$21,060, giving more flexibility for businesses.
	Implement new pre-employment drug test requirements for beneficiaries with work expectations	Completed	MSD		The legislation has been passed, and will be implemented from 15 July 2013.
	Make financial assistance for young people conditional on further education, training or work-based learning	Completed	MSD		A decreased proportion of young people were granted a main benefit within three months of exiting the Youth Service. An increased proportion of participants are in full-time education, approved training or work-based learning, leading to at least a NCEA Level 2 qualification.
	Share information to quickly identify young people at risk of coming on to a benefit	Completed	MSD		Up to 14,000 at-risk young people are receiving Youth Services at any one time.
	Support Youth Service to ensure that at-risk young people are better supported to re-engage in education and training	Completed	MSD		A decreased proportion of young people were granted a main benefit within three months of exiting the Youth Service. An increased proportion of participants, who are in full-time education, approved training or work-based learning, leading to at least a NCEA Level 2 qualification.
	Intensive case management for 16 and 17 year-olds and 16 to 18 year-old sole parents to ensure that support across the welfare and education sectors is aligned	Completed	MSD		A decreased proportion of young people were granted a main benefit within three months of exiting the Youth Service. An increased proportion of participants, who are in full-time education, approved training or work-based learning, leading to at least a NCEA Level 2 qualification.
	Introduce stronger work preparation expectations, requiring people to take reasonable steps to prepare for work	Completed	MSD		The legislation has been passed, and was implemented from 15 July 2013.
	Intensive case management for sole parents – getting them the skills and support to be work ready and available	Completed	MSD		At least 75 per cent of the sole parents affected by the 15 October 2012 policy changes are being transitioned to receive an active service.
	Maintain 1500 Limited Service Volunteer (LSV) programme places for young people aged 18-24 to improve their motivation and skills to obtain employment	Completed	MSD		1,500 places were made available in the programme over the year. New initiatives that may improve effectiveness include: more links with employers, introduction of literacy and numeracy in LSV, and plans to introduce driver licence training. Work and Income are trialling new approaches – a trial/questionnaire to address client needs and to monitor and address dropout; video conferencing with employers; and use of Facebook. Feedback from NZDF indicates higher-liability clients are now being referred.
Making Workplaces Safer	Increase the capability and number of front-line health and safety inspectors	Completed	MBIE		A new service delivery model for health and safety inspectors is operational. We are recruiting and training new inspectors.
	Develop the High Hazards Unit to improve workplace safety in mining and petroleum	Completed	MBIE		The Unit has been established and we are planning for implementing Working Safer changes, including an approach to major hazard facilities risk landscape mapping.
	Work with the independent taskforce conducting an in-depth review of New Zealand's workplace health and safety regime	Completed	MBIE		We are implementing Working Safer.
	Keep ACC levies as low as possible while ensuring ACC remains solvent and performs its tasks well	Completed	MBIE, ACC		Implementation of Cabinet decisions on the 2014/15 levy rates is underway.
	Introduce experience rating and no-claims bonuses for employers and the self-employed to incentivise better workplace safety practices	Completed	MBIE, ACC		We have introduced experience rating and no-claims bonuses for employers and the self-employed to encourage employers to invest in safe workplace culture, which will protect employees and help employers contain their levy costs.

Building Skilled and Safe Workplaces

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Attracting Skilled Migrants and Investors	Introduce the Silver Fern Visa to provide employers with greater access to young skilled migrants		MBIE		We have introduced the Silver Fern Job Search Visa which allows people to enter New Zealand for nine months to search for skilled employment.
Making the Job Market More Responsive	Implement the new starting out wage to lower the barriers to work for our youngest workers and least-experienced workers		MBIE		The starting-out wage was introduced on 1 May 2013 replacing the new entrants wage and training wage for under-20s to help young people gain a foothold in the labour market.
	Keep increasing the minimum wage over time to protect the real incomes of low-paid workers while minimising job losses		MBIE		We have increased the minimum wage to \$14.25 to ensure a balance between protecting low-paid workers and ensuring jobs are not lost as the economic recovery gains pace.
	Introduce a voluntary 90-day trial period to encourage businesses to take on new staff and give new employees an opportunity to enter the workforce		MBIE		A voluntary 90-day trial period for new employees has been established.
	Allow employees a choice to trade one of their four weeks' annual leave for cash		MBIE		Employees are now able to trade one of their four weeks' annual leave for cash.
	Reform the personal grievance system to reduce delays, costs and vexatious claims		MBIE		Reforms to the personal grievance system have been implemented.
	Review how allegations of constructive dismissal can be better managed, to speed up the resolution and reduce the costs to all parties		MBIE		The review of constructive dismissal found that there was little or no evidence that constructive dismissal is causing problems, because of the high thresholds of evidence required.
	Ensure that we maintain New Zealand attractiveness as a global destination for film production		MBIE		The Government has introduced changes to screen incentive schemes to encourage more television production being made in New Zealand and build on our world-class reputation for high-quality post production work, and innovative digital and visual effects.

Building Natural Resources



The Government has committed to the following high-level goal:

The quality of our natural resource base improves over time, while sustaining the growth needed from key sectors to meet our 40 per cent exports to GDP target

New Zealand's rich endowment of natural resources supports both economic growth and our overall wellbeing in a multitude of ways:

- New Zealand's land, oceans and supporting ecosystems support production of food, fibre, and fuel for use and export
- our rivers, fed by abundant rainfall, provide water for residential and industrial use, as well as the majority of our electricity
- New Zealand has extensive petroleum and mineral wealth (which is largely unexplored), and renewable energy sources (hydro, geothermal and wind)
- the experience of New Zealand's 'great outdoors' is a critical factor in attracting foreign tourists – our second largest export industry
- the natural environment is a core part of this country's national identity; even though Kiwis are largely city-dwellers, we retain a strong attachment to our land, waterways and flora and fauna
- connection to and kaitiakitanga of the land and waterways is fundamental to Māori
- some types of resources and natural processes are essential for wider ecological and human health – for example, forests that offset carbon emissions and control erosion.

This resource base is especially important for our export sector, with primary exports accounting for over 50 per cent of goods and services exports. Resource-based exports will therefore be central to achieving the Government's target of doubling exports in real terms by 2025.

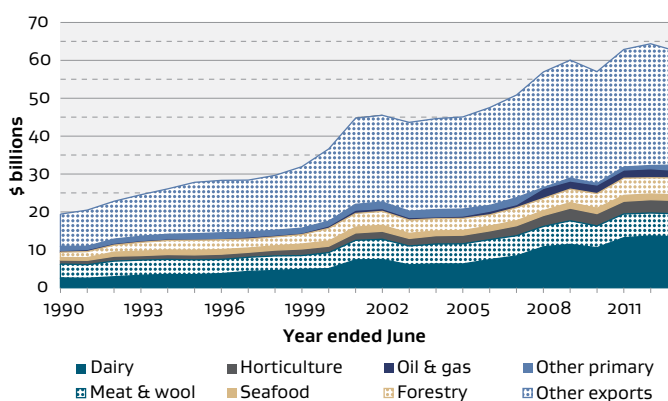
The last 24 years have seen sustained growth in resource-based exports, with average growth at 4.8 per cent per year, and the strongest growth in dairy products (7.4 per cent per year). Horticulture has also sustained strong growth over the period (5.9 per cent per year), and oil and gas exports have trebled over the last decade.

Patterns of production of oil and gas display marked trends. The giant Maui field has been the dominant source of petrochemicals for most of our history. But the development of other fields in recent times has seen the level of oil production as high as at the peak of Maui, and gas production nearly as high.

We are working to ensure that, while New Zealand maximizes the value it derives from natural resources, this is done according to robust environmental and safety standards that secure the benefits of our resources for both current and future generations.

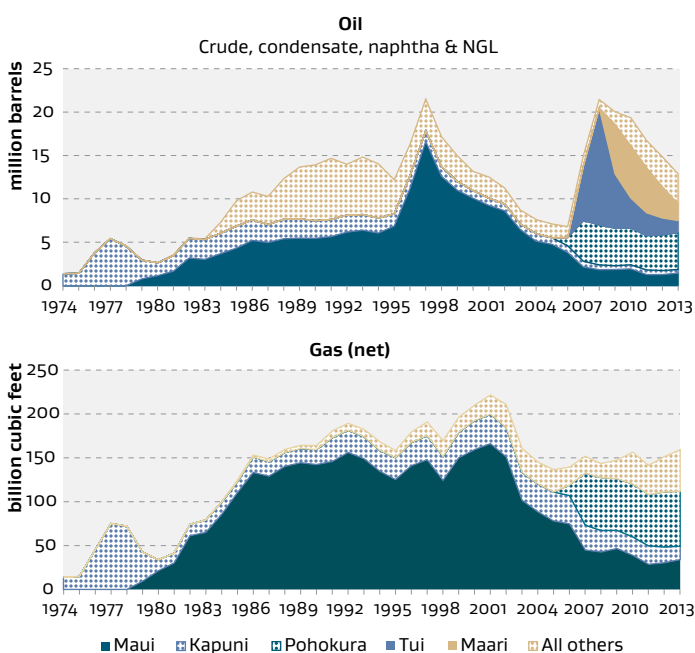
Annual primary and other exports, 1990 to 2013

Source: Statistics New Zealand, Ministry for Primary Industries



Annual oil and gas production by field, 1974 to 2013

Source: Ministry of Business, Innovation & Employment



Building Natural Resources

The complexity of our ecosystems and resource usage often means that measuring whether we set and meet appropriate environmental standards will not be straightforward. In many areas, a mixed picture emerges.

One example is the quality of fresh water in our rivers. The adjacent chart shows the proportion of monitored sites where this has been deteriorating, improving or stable, looking at six different measures over a ten-year period.

For four of the six measures, there are more sites improving than deteriorating; and, for all measures, the most common condition is stable.

The energy and greenhouse gas intensity of New Zealand's economy decreased. Even though we use more energy and emit more greenhouse gases than we did in 1995, the increase has been less than economic growth – that is, energy use and greenhouse gas emissions per million dollars of real GDP have fallen.

Overall energy demand increased by less than one per cent during the year to December 2013, which compares with an increase in real GDP of 2.7 per cent for the year, and shows that New Zealand is becoming less energy-intensive.

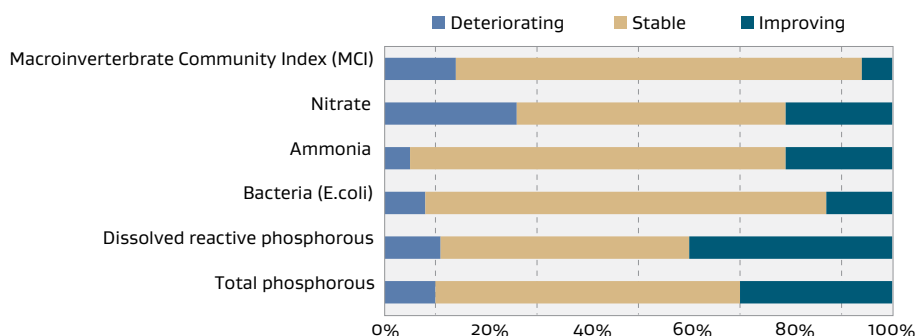
The share of renewables in electricity generation increased to 75 per cent in 2013, up from 73 per cent the previous year, reflecting new geothermal generation plants and the mothballing of a coal and gas-fired unit at Huntly power station. And in the last quarter of 2013, wind and geothermal electricity were over 20 per cent of total electricity generation.

These changes also delivered a reduction of 15 per cent in greenhouse gas emissions from electricity for the year. For the December quarter, these emissions were the lowest in 17 years.

The picture for biodiversity is less positive, with numbers of all measured native species considerably below their pre-human levels. There is a mixed picture in recent times, with some species stabilising and others continuing to fall. We will continue to work in partnership with local councils, businesses and other key groups to help protect our native species.

River condition trends - Summary of 10-year trend analysis

Source: Ministry for the Environment; published in Statistics New Zealand progress indicators Tupurunga Aotearoa

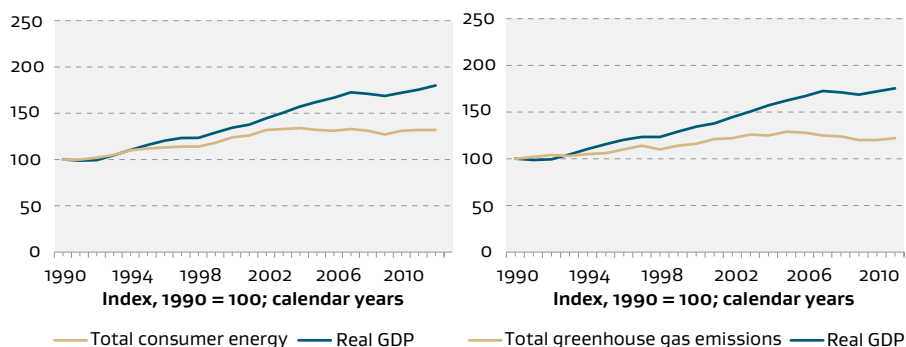


Regional councils and the National Institute of Water and Atmospheric Research collect data at over 300 sites across the country. Trends were calculated using data collected from 1999 to 2012. Using data for a 10-year period ensures that any detected trend is more likely a result of a genuine pattern, rather than from short-term events like heavy rainfall.

Trend analysis groups the sites into those that are improving, stable, or deteriorating. An improving or deteriorating trend is one that is statistically significant and ecologically meaningful. 'Improving' means the trend is towards a more natural state, while a 'deteriorating' trend is towards a more modified state.

Total greenhouse gas emissions and energy use, 1990 to 2012

Sources: Ministry of Business, Innovation & Employment, Ministry for the Environment and Statistics New Zealand; published in Statistics New Zealand progress indicators Tupurunga Aotearoa

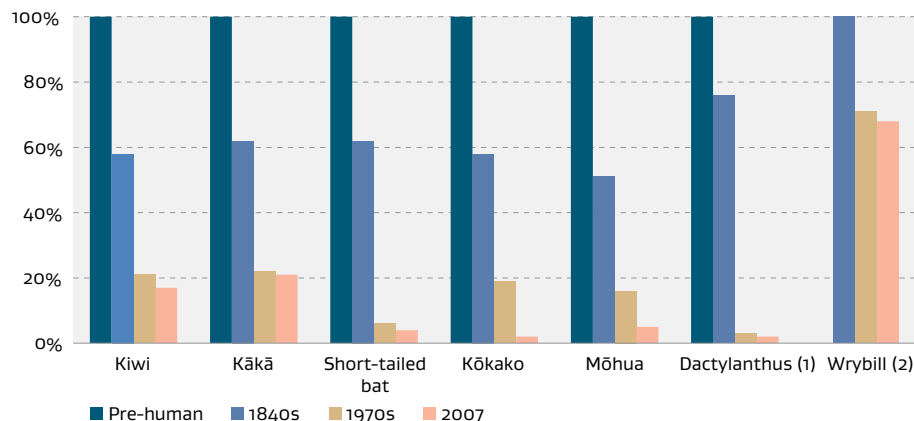


"Total consumer energy" is the amount of energy consumed by final users, excluding energy used or lost in the process of transforming energy into other forms and bringing energy to final consumers.

"Total greenhouse gas emissions" are gross emissions of carbon dioxide, methane, nitrous oxide, sulphur hexafluoride, hydrofluorocarbons, and perfluorocarbons, converted into carbon dioxide equivalents; excluding emissions and removals from land use, land-use change and forestry (LULUCF).

Distribution of selected native species - Proportion of pre-human range by selected time periods

Source: Ministry for the Environment; published in Statistics New Zealand progress indicators Tupurunga Aotearoa



1. Native wood rose (threatened species)

2. Base distribution for Wrybill is the estimated range in the 1900s.

These are indicator species, in that the distribution of them (in the total hectares in which each species can be found) provides information on the state of New Zealand's native habitats. This is a practical way of assessing changes in New Zealand's biodiversity, e.g. changes to ecosystems or the presence of pests. The species were selected based on their usefulness as indicators, their habitat requirements, data availability, and their threat level.

Progress update

The Government remains committed to successfully completing the 49 actions to build natural resources that were set out in the December 2012 *Building Natural Resources* progress report.

Nearly half of these original actions are now completed, and the remaining actions are either in progress or being implemented. Many of these are significant initiatives that will be delivered over a number of years.

Seven actions have also been added to the Building Natural Resources work programme, of which four are new, and three are in progress.

Building Natural Resources	All actions	New	In progress	Implementing	Completed
Status December 2012	49	8	26	13	2
Status June 2014	59	4	25	8	22

We have made some significant achievements over this time.

We are well advanced with **freshwater reforms** to improve water quality and increase the value and economic return from freshwater assets, with the introduction of the amendments to the *National Policy Statement for Freshwater Management*. This includes the release of the proposed National Objectives Framework to support the setting of sustainable quality and quantity limits. Final decisions on this are expected in mid 2014.

We have worked with the Electricity Networks Association, to commission a Smart Grid Forum to advance the development of **smart electricity networks** in New Zealand. For more details on this key initiative, see the Spotlight box below.

The new framework to manage responsible economic development of New Zealand's **Exclusive Economic Zone (EEZ)** comes fully into effect from 28 June 2014. Regulations governing oil and gas exploration in the EEZ are now in force, providing certainty for industry about the process for granting marine consents for this activity.

We have made an extensive global investment in **marketing the potential of New Zealand's oil, gas and minerals**, while strengthening the rules that manage health and safety, and the environmental risks of exploration and extraction. The petroleum competitive tender process (Block Offer) is now into

its third year and ensures proactive, strategic management of our petroleum resources. The 2013 Block Offer awarded ten offshore and onshore permits, which collectively represent approximately \$62 million in committed exploration expenditure, and could lead to further work worth up to \$720 million.

The 2014 Block Offer for oil and gas exploration was announced on 2 April 2014, with 405,000 square kilometres available for bidding in five offshore and three onshore areas. Bidding on these areas continues until the tender closes on 25 September, and permits will be awarded in December.

We have undertaken a number of initiatives to partner with Māori to **improve the productivity of Māori land**. These initiatives, led by the Ministry for Primary Industries, include:

- making funding programmes such as the Sustainable Farming Fund and Primary Growth Partnership more accessible to Māori
- working collaboratively with Māori on regional prototype projects that aim to identify the best ways to improve the productivity of Māori land
- increasing our sponsorship of the Ahuwhenua Trophy (a nationwide competition recognising excellence in Māori farming).

We have funded 86 projects to promote waste minimisation through the **Waste Minimisation Fund**. For more details on this key initiative, see the Spotlight on page 86.

In November 2012, the Parliamentary Commissioner for the Environment (PCE) published her interim report into **extracting oil and gas by hydraulic**

fracturing ('fracking'). In response to this, on 27 March 2014, we published guidelines for councils on fracking: *Managing Environmental Effects of Onshore Petroleum Development Activities (Including Hydraulic Fracturing)*. The guidelines were developed in conjunction with councils, EPA, MBIE and other agencies.

The Ministry for the Environment (MfE) will be monitoring the guidelines' effectiveness over 2014/15.

The Commissioner's final report on fracking was published on 4 June 2014. The Government has welcomed the report as a useful contribution to the discussion on how best to manage the environmental effects of onshore petroleum development, including hydraulic fracturing, and will analyse and consider its recommendations.

The Government set a target of **upgrading 230,000 homes with insulation** through the *Warm Up New Zealand: Heat Smart* programme. We have already exceeded this target, with almost 239,000 insulation retrofits completed by the end of April 2014, and are expecting to exceed 240,000 retrofits by the time the programme ends in June 2014.

An additional \$100 million has been allocated over three years to the *Warm Up New Zealand: Healthy Homes* programme, to insulate homes occupied by low-income households with health risks arising from cold, damp housing. By the end of April 2014, over 14,000 retrofits had been completed, taking the total number of homes insulated under the two programmes to over 253,000.

Building Natural Resources

Between 2008 and 2014, the Government is investing approximately \$42 million in **research and innovation for biofuels**, a potential growth area for New Zealand. In addition, the Government has committed \$6.75 million in the 'Stump to Pump' Primary Growth Partnership programme with Z Energy and Norske Skog to determine the commercial viability of making advanced biofuel from forestry waste. Recently, Z Energy also announced its decision to invest in a plant in Auckland to make biodiesel from tallow.

Geothermal energy continues to grow as an important energy source in New Zealand. In 2013, geothermal contributed

14 per cent of total electricity generation. There are further opportunities for direct use of geothermal heat in commercial and industrial applications: as there are significant Māori land holdings in geothermal-rich areas, a number of these opportunities align with He Kai Kei Aku Ringa (the Crown- Māori Economic Growth Partnership). The Government is using the He Kai Kei Aku Ringa framework to engage resource owners and to facilitate further development.

The **Subantarctic Islands Marine Reserves Act 2014** was passed in February 2014. The Act creates three new marine reserves at Antipodes, Bounty and Campbell Islands. The Act helps to

protect some of the world's least modified environments, which were afforded World Heritage Status in 1998. At the same time, we have implemented complementary marine protected areas, using fisheries management measures within the remainder of the territorial sea around the Bounty Islands and Campbell Island. The Act resulted from a collaborative stakeholder-led process. Those affected by, or with an interest in, the implementation of the marine reserves were involved in the decision-making.

The **Kaikōura (Te Tai-o-Marokura) Marine Management Bill** was introduced in March 2014. The Bill

Spot light

'Smart' electricity networks

'Smart' grids/networks are a global phenomenon set to transform the way electricity systems work.

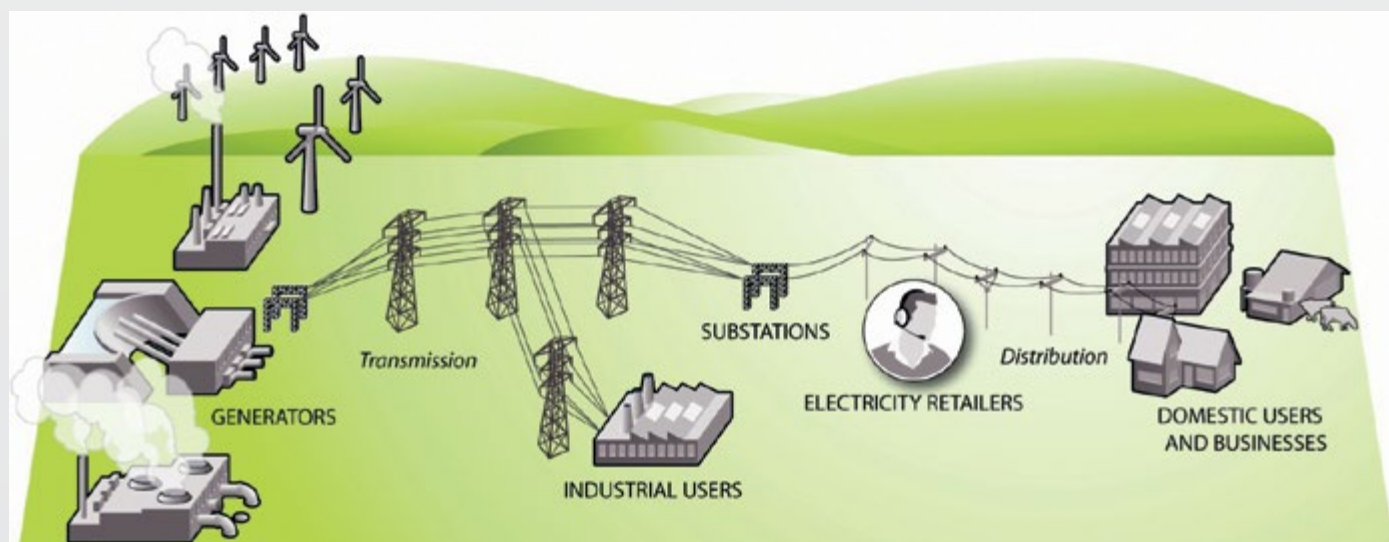
Globally, investment in distribution automation, demand response, home energy management and smart electric vehicle charging is increasing. These technologies can be used in New Zealand to improve the efficiency of our electricity system in the future and ensure the best use is made of our energy resources.

For example, one barrier to increased use of renewables such as wind energy is their intermittent availability; widespread use of smart grids will leave us better-placed to integrate increasing amounts of intermittent energy into our electricity supply.

Recognising these potential benefits, the Government, with the support of the Electricity Networks Association, has commissioned a Smart Grid Forum. The Forum brings together relevant parties from business, scientific and academic circles, with policy makers, regulators

and consumers. Its objective is to advance the development of smart electricity networks in New Zealand through information sharing and dialogue, supported by analysis and by focused workstreams where appropriate.

New Zealand already has 1,067,411 customer connection points fitted with smart meters (as at 30 April 2014), and this has been increasing by about 16,000 per month over the last six months. Unlike most other countries, where the roll-out of smart meters has been directed centrally, New Zealand's investment is led by the market: competing retailers, seeking to differentiate their services, have already installed smart meters in over half of all consumer premises. The Smart Grid Forum aims to build on the success of this approach, using market mechanisms to discover how new technology can enable customers to access new options for their energy supply, including lower cost alternatives to the status quo.



Building Natural Resources

proposes the establishment of a new marine reserve, whale and fur seal sanctuary; five customary fishing areas; and revised amateur fishing regulations. This comprehensive package of conservation and fisheries tools will benefit Kaikōura's whale, dolphin, seal, albatross, rock lobster, shellfish and finfish populations, as well as helping to sustain its \$134 million-a-year tourism industry. It has been delivered through a community-led process involving a group with representatives drawn from local iwi, recreational, commercial and charter fishers, and boating and conservation groups. The Bill has been sent to the Local Government and Environment Select Committee for public submissions.

The Department of Conservation (DOC) is continuing to foster its existing **commercial and non-commercial conservation partnerships**. As well as continuing to grow its current partnerships, DOC will be working to realise new partnership opportunities. At a national level, DOC's current partnerships include Air New Zealand, Fonterra, Mitre 10, Dulux, Blacks Fasteners, Kathmandu, Genesis Energy, New Zealand Aluminium Smelters Ltd and Solid Energy.

In addition, we recently signed an **Accord with the recently-established \$100 million NEXT Foundation**. The

philanthropic foundation has been established to invest in high-impact New Zealand-based environmental and education projects. Its founders have previously invested in conservation projects on Rotoroa Island in the Hauraki Gulf and Project Janszoon's 30-year ecological restoration of the Abel Tasman National Park, which will be one of the first projects to benefit from the Accord. The NEXT Foundation has a vision of creating a legacy of environmental and education excellence for the benefit of future generations of New Zealanders. It will make a commitment of approximately \$5 to \$15 million each year, over a 10-year period.

Indicators to measure progress towards greening economic growth are being developed through the **Environmental Reporting Bill** that was introduced in February 2014 and incorporates a draft environmental reporting framework. This legislation mandates the Ministry for the Environment and Statistics New Zealand to co-produce comprehensive, coherent reports on the condition of our natural resources as well as pressures on the environment.

The Bill will ensure national environmental information is independent, high-quality and frequent. The environmental reporting framework will provide comprehensive information

on five key environmental domains – air, climate and atmosphere, freshwater, marine and land – with biodiversity as a theme across all the domains. One environmental domain report will be released every six months, and a comprehensive synthesis report covering all environmental domains will be released every three years.

A key government initiative is the **Primary Growth Partnership (PGP)** which is designed to lift private sector investment in primary sector innovation. As noted above, through the 'Stump to Pump' PGP programme Z Energy and Norske Skog are partnering with government to investigate the feasibility of generating value from forestry waste by converting it to liquid biofuels. Stump to Pump aims to determine the commercial viability of establishing a modular test plant to do this. If established, such a test plant would cost \$80 to 100 million and could process around 50,000 tonnes of forest waste per annum into sustainable transport fuel. It would diversify the use of forestry waste and progress the commercialisation of biofuel technology. Successful commercialisation of this technology could generate up to \$1 billion per year by 2033 in economic benefit for New Zealand.

Spot light

The Waste Minimisation Fund

The Waste Minimisation Fund (WMF) has been funded through the waste disposal levy since 2010. It has already funded 86 projects undertaken by firms, councils and other organisations, to promote or achieve waste minimisation, which would otherwise have been unlikely to take place.

These have included several innovative projects, such as:

- Ecostock, which received \$180,000 in 2011/12 to install a depacking plant in Auckland to separate waste food from its packaging. It currently processes at least 40,000 tonnes of waste per year, creating an additional 23 full-time positions since installing the plant. The waste is turned into high-energy palatable stock food for cows, calves, poultry and pigs.

- Envirocomp, which provides the first composting service for nappies, incontinence and sanitary waste in New Zealand, using a HotRot composting system installed in Christchurch and in Wellington with the aid of a \$700,000 WMF grant in 2011/12 (following an earlier grant to conduct a feasibility study). Envirocomp has recently opened a composting plant in the UK that can compost 6.5 million nappies each year.

In the 2013 funding round, sixteen applicants have now been invited to submit project plans for up to \$7.9 million of funding. If these projects go ahead, we would see new recycling infrastructure established in New Zealand and new wastes being used as fuels, as well as the expansion of a range of composting and recycling plants.



Future direction

Global circumstances continue to provide huge opportunities for this country, with the world's population forecast to grow to 9.6 billion people by 2050. This includes an increasing share of affluent consumers wanting safe, high-quality sustainably-produced goods. A growing world population will also intensify pressures on a range of resources with which New Zealand is well provided – productive land, fresh water, marine resources and renewable energy.

Taking up these opportunities, within the limits of responsible environmental management, is critical for New Zealand's economic success, given both the high proportion of our economy based on natural resources; and the importance of our natural environment as a core part of our national identity.

The linkages between good environmental management and positive economic outcomes are clearly illustrated by New Zealand's clean, green 'brand'. Ensuring positive external perceptions of New Zealand will be increasingly important in international markets, especially the markets for high-value goods and services in which we aim to compete.

Part of this is that New Zealand should be seen to be a good global citizen, contributing to international efforts to mitigate climate change and lower greenhouse gas emissions by transitioning to a low-emissions economy. New Zealand continues to actively engage in international climate change negotiations and has announced an unconditional 2020 emissions reduction target of five per cent below 1990 levels in support of our negotiating position.

Honouring these commitments will require us to leverage our renewable energy resource base and world-leading agricultural productivity, as well as removing barriers to investment in lower-emissions practices.

The previous sections highlight the significant progress we've made in the natural resources area, and in delivering our ambitious programme of actions. We will continue to work hard to complete this programme.

However, in the light of this progress, we intend to focus our future efforts on a smaller number of areas that we see as critical to get the best value out of New Zealand's natural resources in the future.

1. Increasing value from, and improving the quality of, our fresh water

Fresh water is New Zealand's most important natural asset. In a world of increasing water scarcity, we are well-endowed with water for residential, industrial and agricultural use, electricity generation, and recreation. However, if we wish to secure the greatest value from our waterways, and maintain (or in some cases remedy) their environmental quality and preserve their cultural values, we need to get better at how we manage increasing and competing demands for water.

As outlined earlier in this section, significant progress has already been made in reforming management of fresh water.

We are developing a policy work programme to **improve the frameworks and tools available to help councils and communities maximise the economic benefits achievable** within the limits set in their regional plans while addressing iwi/Māori rights and interests.

This will be complemented by ongoing work to:

- undertake the science programme needed to support further population of the National Objectives Framework in 2016 and 2019
- provide further modelling of the impacts of water planning choices in specific regions
- improve monitoring of water outcomes to support environmental reporting and facilitate evaluation of the freshwater reforms
- support councils through guidance and engagement about how to implement accounting for freshwater takes and discharges, and collaborative planning models
- fund community freshwater quality initiatives
- support investment in irrigation in order to improve agricultural productivity.

These changes will be supported by making \$20 million available over four years for freshwater and environmental initiatives through Budget 2014. Around \$12 million in extra funding will be spent over the next four years to help councils and communities improve the way they plan and make decisions about managing their local freshwater resources.

In addition, the Government has established the Te Mana o te Wai Fund, in partnership with the Māori Party, with \$5 million made available over two years. This will help communities to restore their local freshwater bodies through initiatives such as planting, riparian buffers, the use of nitrate inhibitors, and establishing artificial or constructed wetlands.

The Government is also investing a further \$3 million to implement Resource Management Act reforms.



Building Natural Resources

2. Improving our environmental reporting

One foundation for enhanced environmental outcomes is better understanding and information about the resources we have. The choices and tradeoffs we make should always be based on the best available information on the state of our ecosystems, trends in them, underlying drivers, and the consequences in terms of ecological, economic, health,

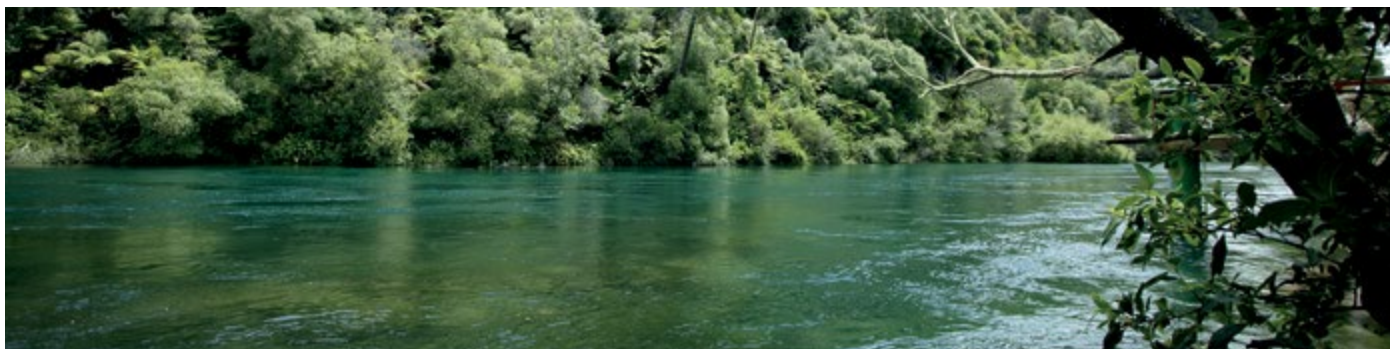
cultural and recreational impacts.

As noted in the Progress Update section, we introduced an **Environmental Reporting Bill** in February 2014.

Development of the framework has involved the review of existing domestic and international environmental reporting frameworks, and testing with stakeholders. The first report using this framework - on air quality - was published on 16 May 2014.

We are also **working on a number of projects that will ensure environmental information is consistently monitored and that datasets are nationally representative.**

Some of these initiatives will also provide information on processes, primarily for the Resource Management Act and tools under it. Together, these projects help improve our understanding of the environmental system, in particular for fresh water.



3. Making further reforms to the Resource Management Act

The ways in which we go about managing our resources can be as important as the goals we set. Good regulation facilitates good decisions about the best way to use resources, including changing their use as circumstances change; and supports their being used efficiently, not wastefully.

In addition, environmental regulation needs to be enduring and transparent, in order to provide certainty and predictability about how natural resources can (and cannot) be used. This certainty and predictability is essential for high-quality investment decisions by businesses, public sector organisations and households.

The Government has already made important changes to the Resource Management Act, including speeding up

consent processes, enabling regionally-important decisions to go directly to the Environment Court, and improving the quality of analysis that councils use to make decisions.

Nevertheless, we believe that we can do better in how we manage environmental and economic outcomes for New Zealand, and this Act is critical to achieving that.

We are therefore **making further changes to the Resource Management Act** to make it easier to use, and provide greater certainty and predictability for businesses and communities. In particular, these changes will:

- provide national guidance on resource management that is understandable, relevant and timely
- develop the new planning template for councils to use in the creation of their single resource management plan per district (or other agreed area)

- improve the resource consent process to ensure resource consents are proportional and the notification, submission and appeals process is understandable.

The changes to the Act (including freshwater reform) will change the way planning and consenting is undertaken at a local level, so a significant focus will be required by central and local government to ensure successful implementation. Provision of national guidance will be developed through a transparent process that will ensure that Councils, businesses and other stakeholders will have greater certainty about national priorities, which in turn drive local plan requirements.

Environmental outcomes will also be improved through planned changes to the Local Government Act 2002 to increase the focus of local authorities on operating more efficiently and effectively, including new requirements relating to infrastructure planning.



4. Accelerating petroleum and minerals exploration through a new data acquisition programme

Greater understanding of our petroleum and minerals resources aids in stimulating competitive interest in specific geological areas.

We are therefore **investing \$8 million over four years in a range of pre-commercial data acquisition projects.**

The provision of basic data such as seismic and aeromagnetic information, exploration well information and regional geological studies can contribute significantly to the perception of geological prospectivity of a particular area. Such geoscientific data is central to attracting investors to exploration opportunities in New Zealand, in order to accelerate development and increase the level of royalty receipts.

Building Natural Resources

5. Combatting kauri dieback

Healthy, functioning ecosystems provide a diverse array of benefits to New Zealanders. Kauri forest, in particular, is recognised for its special ecological characteristics and high cultural importance.

However, kauri are under threat because of kauri dieback, which is caused by a fungus-like organism called *Phytophthora “taxon Agathis”* (PTA). This organism can kill kauri of all ages. It therefore has the potential for very significant negative impacts on kauri and associated ecosystems.

A programme to combat PTA was established in 2009, involving central government and regional councils and

tāngata whenua from the upper North Island.

The Government is investing \$15.8 million of new operating funding and \$10.7 million of new capital funding over the next four years to ramp up measures to protect New Zealand’s kauri forests from the disease.

This includes **expanding the scientific research and engagement and behaviour change work already underway**.

We will also **continue the programme of track infrastructure upgrades and target a broader range of factors that cause the spread of PTA** (such as pigs and machinery).



6. Improving the productivity of Māori land by reforming the Te Ture Whenua Māori Act 1993

There is considerable potential to expand production from the Māori asset base, particularly in the primary sector which makes up most Māori assets. A report commissioned by the Ministry for Primary Industries in 2013, *Growing the Productive Base of Māori Freehold Land*, estimated that lifting productivity of Māori freehold land to average industry benchmarks could result in a considerable increase in contribution to GDP.

However, there are barriers in the current legislation that aren’t necessarily conducive to making the best use of Māori land. In May 2012, a panel of experts was tasked with

identifying suggestions on how to improve the Te Ture Whenua Māori Act 1993, the principal statute governing Māori land, for the benefit of Māori land owners.

The Panel developed an integrated package of five propositions designed to improve the likelihood of utilisation of Māori land through the empowerment of Māori land owners. This was subject to extensive consultation with Māori in 2013. The Associate Minister of Māori Affairs released the Panel’s report in April 2014.

A **new Te Ture Whenua Māori Bill** will be introduced later in 2014 that will repeal and replace the existing Act. The key features of the bill will include:

- allowing engaged owners to make governance and utilisation decisions

without needing approval by the Māori Land Court

- continued safeguards to support the retention of Māori land
- provisions allowing for external managers to administer under-utilised blocks pending owner engagement
- a clearer framework for Māori land governance entities such as trusts and incorporations
- greater emphasis on mediation
- the Māori Land Court remaining an accessible forum for Māori land issues but with fewer matters needing Court involvement
- options for dealing with fragmentation.

7. Increasing productivity and reducing carbon emissions through new energy efficiency projects

As part of our work to help New Zealand businesses position themselves to be competitive in an increasingly carbon-conscious global economy, we are supporting businesses to make technological and behavioural changes that will both improve their productivity and reduce their greenhouse gas emissions.

This is also consistent with our contribution to global efforts to mitigate climate change.



Building Natural Resources

We are **implementing a new \$5.35 million package of energy efficiency projects to improve business productivity, save money and reduce carbon emissions**. The four initiatives to be run by the Energy Efficiency and Conservation Authority (EECA) over three years will use information campaigns, energy audits, training workshops and industry partnerships to deliver:

- energy efficiency improvements in meat and dairy plants
- increased uptake of fuel-efficient tyres
- an expansion of the existing heavy vehicle fuel efficiency programme

8. Promoting product stewardship

Product stewardship is when responsibility for the environmental effects that products can cause towards the end of their lifecycle is shared among all sectors involved with the product. This can help in minimising waste disposed of in landfills and in using resources more efficiently.

As well as allocating the whole-of-life costs of these products to where they can be best managed, product stewardship can offer additional productivity benefits and market opportunities for firms that can find innovative ways to deal with difficult types of waste disposal.

Over the last five years, the Minister for the Environment has accredited 11 voluntary product stewardship schemes.

A discussion document was released on 21 May 2014, discussing **whether the Government should intervene further to improve the management of product waste streams**.

This has arisen from a concern that current market prices for landfill and recycled products do not support adequate investment to process potentially harmful waste responsibly. Overseas, mandated product stewardship has provided an effective platform to overcome such barriers. This is an option that needs to be considered, but it is important to design any New Zealand schemes carefully to avoid added costs or other unintended consequences.

The discussion document focuses on four areas: electronic and electrical waste (e-waste); tyres; agrichemicals and their containers; and refrigerants.

- a renewable energy 'hub' for business heat.

We expect these initiatives will save just under 30,000 tonnes of carbon emissions per year, leave businesses and households up to \$30 million better off over the lifetime of the investments, and ultimately catalyse energy efficiency and carbon saving in other sectors and regions.

The Government expects its investment to be significantly augmented by contributions from third parties, including businesses and industry groups.

9. Supporting primary sector growth in key regions

New Zealand's future economic prosperity will depend on growth in both urban and non-urban regions. Outside the major metropolitan areas, successful regional economies are highly dependent on a thriving primary sector – industries like agriculture, forestry, fishing, horticulture and viticulture, and petroleum and minerals, as well as the raft of other enterprises and industries that support them.

We have begun a programme of regional growth studies, aimed at cataloguing significant economic opportunities in regions facing economic challenges (particularly those with existing

We will also **continue with work to define a new direction for EECA's existing business programmes**.

We have been engaging with large commercial and industrial energy users to better understand the priority given to energy efficiency. This will inform refinement of existing programmes and, potentially, development of new programmes to support businesses.

This is the most recent in a number of initiatives to promote the transition to a low-emissions economy. These initiatives include the Emissions Trading Scheme, along with other measures to complement and reinforce it.

specialisations in primary sectors). This work is intended to build growth from more efficient resource use, and to foster growth and investment based on regional sectoral strengths. The studies will also inform NZTE's Regional Investment Attraction Programme, which aims to attract investment into regions to support development and ultimately to provide employment. The first study for the Gisborne/Hawkes Bay region arose out of discussions with councils in that area in 2013, and was released in April 2014.

We will **complete three regional growth studies for the Northland, Bay of Plenty and Manawatu-Wanganui regions** by the end of 2014. These studies will be carried out in partnership with the regions.

10. Freeing up land supply in urban areas to provide more housing

In response to the Productivity Commission's 2012 report on housing affordability, the Government introduced a comprehensive work programme to address a number of factors that affect the cost of housing, including the supply of land.

The supply of residential land has been too slow to expand in the face of strong housing demand in recent years. This has increased housing costs through both higher land prices, and limiting the ability of developers to keep construction costs down by building at scale.

Significant progress toward addressing the supply of land for housing has been enabled through the introduction of the Housing Accords and Special Housing Areas Act 2013 (HASHA).

The HASHA was passed in September 2013 and allows territorial authorities and central government to enter into housing accords in regions or districts where significant housing supply and

affordability issues have been identified. Under an accord, Government and councils can work together to free up land supply, and councils can recommend "Special Housing Areas" within their territorial boundaries. Within a Special Housing Area, the Act can be used to consider any application for a qualifying development and any associated infrastructure, replacing the provisions of the Resource Management Act and streamlining consenting processes for residential developments.

An accord with Auckland Council was agreed in May 2013 and recognised when the HASHA passed into law. Under the Auckland Housing Accord, 63 Special Housing Areas have been announced to date, expected to bring on-stream an additional 30,000 homes over the next 12 years.

A further Accord, focusing on the provision of social and affordable housing, has been agreed with the Christchurch City Council, and negotiations are underway with a number of other councils.

Progress Indicators

The Government is continuing to focus on making substantial progress on the following *Building Natural Resources actions*. Actions relating to our priority areas of focus are highlighted. Actions new to the Building Natural Resources work programme are marked as [New].

KEY

- Complete
- Implementing
- In progress
- New project

	Action	Status	Lead agency	Also in	Comment
Increasing value from freshwater assets	Priority area 1 - Set effective objectives and limits for water quality and quantity and timeframes for adoption	In progress	MfE, MPI		Consultation on the proposed amendment to the National Policy Statement for Freshwater Management (including the National Objectives Framework) closed in February 2014. Final decisions on this are expected in mid-2014.
	Priority area 1 - Improve the governance and allocation of fresh water	In progress	MfE, MPI		An optional collaborative planning process (to be included in the proposed Resource Management Reform Bill) will also support better management of fresh water. Government intends to pursue further reform for managing water quality and quantity as part of the next steps of reform.
	Priority area 1 - Ensure that freshwater management decisions support both economic growth and environmental performance	In progress	MfE, MPI		The planned freshwater reforms, and broader resource management reforms, contain a range of measures to encourage higher-quality decision-making, informed by analysis of economic and environmental implications and opportunities. During 2014 officials will build the evidence base to support this.
	Invest up to \$400m to encourage irrigation and water storage development	Implementing	Crown Irrigation Investments Ltd, Treasury and MPI	Infrastructure	The Crown-owned company became operational on 1 July 2013. The Company is engaging with potential investment partners.
	Work with iwi to ensure that iwi/Māori rights and interests in water are appropriately recognised	In progress	MfE, MPI		Ministers and the Freshwater Iwi Leaders Group continue to engage on water reform, with wider consultation with Māori as each reform initiative is developed. The resolution of rights and interests will be woven through the different aspects of the reforms.
Making the most of our abundant energy and minerals potential	Undertake competitive mineral tenders to explore, develop and produce minerals in a safe and environmentally responsible way	Implementing	MBIE		Permits were offered for the Northland 2012 Minerals Tender in June 2013. In May 2014, a permit was awarded as a result of the New Zealand Epithermal Gold tender (which covers an area between Taupō and the Bay of Plenty). Bids for the Platinum New Zealand tender (over areas of the South Island) are currently being assessed and the results are expected to be announced later this year.
	Priority area 4 - Further build our knowledge about New Zealand's petroleum and minerals resources through significant investment in research	Implementing	MBIE		A model to expand our knowledge base is being developed and a resource delineation strategy is under development. We are investing \$8m over four years in a range of pre-commercial data acquisition projects.
	Ensure market incentives and the regulatory framework support further investment in appropriate renewable energy projects by removing unnecessary regulatory barriers	Implementing	MBIE, MfE, EECA		Progress is being made in implementing a number of activities, in particular: <ul style="list-style-type: none"> further reforming the Resource Management Act to streamline the process for projects to obtain resource consents liaising with industry stakeholders to identify and, where appropriate, address or remove any unnecessary regulatory or information barriers supporting, through EECA, the development of new demand/supply clusters in the wood energy market, thereby increasing the supply and use of wood as a heating fuel (displacing coal/gas).

Building Natural Resources

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Building growth from more efficient land and resource use	Set time limits and speed up consent processes under the Resource Management Act	■	MfE		A new six-month consenting process has been enabled through the 2013 Resource Management Amendment Act, with accompanying regulations under development. The process will be in force in March 2015 at the latest (possibly earlier by Order in Council). The yet-to-be-introduced Resource Management Bill includes changes to consenting, including a fast track process for simpler consents.
	Priority area 3 - Streamline the regional planning process	■	MfE		The yet-to-be-introduced Resource Management Bill includes changes to the planning process which will create an incentive for councils to work together in the development of their plans. Along with the requirement to create a single plan per district (or other agreed area), new plan development processes are being created, to encourage greater community participation and upfront decision making,
	Accelerate primary industry technology transfer and embed best practice knowledge	■	MPI		A pan-sector picture of future primary industries skills needs is underway. Ongoing work is being undertaken with Primary Growth Partnership (PGP) programmes to ascertain and support the most successful ways of enabling technology transfer.
	Priority area 9 – Supporting primary sector growth in the regions [New]	■			We have begun a programme of regional growth studies. A study on the Gisborne/Hawkes Bay region was released in April 2014, and a study on Northland is underway. We plan to commission two further studies this year, for completion by the end of 2014.
	Priority area 3 - Develop new planning template for Councils to use in the creation of their single resource management plan per district (or other agreed area)	■	MfE		Initial discussions on the development of a new planning template have been held with Councils and initial scoping is underway. Progress of the template is dependent on the Resource Management Bill (which is yet to be introduced).
	Priority area 3 - Provide national guidance on resource management that is understandable, relevant and timely	■	MfE		National guidance is being scoped in respect of natural hazards and urban land supply. In addition, a process to determine future topics for national direction is being developed.
	Priority area 3 - Improve the resource consent process to ensure resource consents are proportional and the notification, submission and appeals process is understandable	■	MfE		The Resource Management Bill (yet to be introduced) includes changes to the consenting process which will seek to improve the consent, notification, submission and appeals process making it easier to use and relative to the activity being undertaken.
	Priority area 10 – Free up land supply in urban areas to provide more housing [New]	■	MBIE	Infrastructure, Capital Markets	Land supply has been identified as a key issue for affordable housing. The Housing Accord and Special Housing Areas Act passed in 2013 created a framework for further housing developments with councils, by enabling streamlined consenting processes for residential developments in Special Housing Areas (SHAs). So far, the Government has agreed accords with Auckland Council and Christchurch City Council, and negotiations are underway with a number of other councils. To date, Auckland has had three tranches of SHAs established under the Act.
	Change the Local Government Act 2002 to focus local authorities on operating more efficiently and effectively	■	DIA		The Local Government Act 2002 Amendment Bill (No 3) was reported back to the House on 12 May 2014, after submissions were considered by the Local Government and Environment Select Committee. The Committee of the whole House stage was completed on 29 May 2014, and the Bill is expected to receive its third reading and be passed by 1 July 2014.
	Pass legislation to substantially reform the regulatory regime for the safety and suitability of food	■	MPI	Export Markets	The Food Act 2014 was passed by Parliament on 27 May 2014. When the majority of the new Act comes fully into force, which will be 1 March 2016 at the latest, it will replace the Food Act 1981. Over the next 21 months, MPI will be developing regulations, tools and guidance.

Building Natural Resources

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Building growth from more efficient land and resource use	Priority area 2 - Enhance environmental information [New]	■	MfE		A number of projects are underway that will ensure environmental information is consistently monitored and that datasets are nationally representative. Some of these initiatives will also provide information on processes, primarily for the RMA and tools under it. Together, these projects help improve our understanding of the environmental system, in particular for freshwater.
	Priority area 8 - Promote product stewardship [New]	■	MfE		There are 11 accredited voluntary product stewardship schemes where sectors take responsibility for environmental effects that products can cause towards the end of their lifecycle. A discussion document was released on 21 May 2014, discussing whether the Government should further intervene to improve the management of some product waste streams: electronic and electrical waste (e-waste); tyres; agrichemicals and their containers; and refrigerants.
Maintaining and advancing biodiversity	Grow the number of new business opportunities on public conservation land, such as species tourism, in order to deliver increased economic prosperity and conservation gain	■	DOC	Export Markets	DOC will continue to identify and implement partnership agreements with businesses that wish to invest in conservation. Effective, planned account management of the largest existing concessionaires is a key element for growing conservation, and implementation of effective account management is a priority over the coming six months.
	Engage with local councils to improve coordination and more effectively manage biodiversity and ecosystem services	■	DOC		DOC's new Partnerships Group is actively engaging with a number of regional councils to strengthen existing relationships and identify opportunities to expand conservation. Work is also being undertaken to rationalise management of recreation assets in one of the regions and to review DOC's engagement (e.g. input into regional plans) in RMA processes.
	Priority area 5 - Combat Kauri dieback [New]	■	DoC, MPI		Actions to reduce the impact of kauri dieback (caused by a fungus-like organism called PTA, which threatens kauri and associated ecosystems) include: <ul style="list-style-type: none">• information and education• track closures and upgrading track infrastructure• scientific research into PTA• mapping and surveillance activities to determine the distribution of PTA. Future work may involve expanding the above actions.
Harnessing Māori resources' productive potential	Work with Māori to identify and promote best practice governance models for collectively held resources	■	MBIE, TPK, MPI	Recs. 14 and 22 - He Kai Kei Aku Ringa	To complement the introduction of the Te Ture Whenua Māori Bill, agencies will support Māori land owners to establish an appropriate form of governance from the enhanced suite of options in the new Bill.
	Partner with Māori, and other primary industry participants, to enable initiatives to advance the productivity of Māori agribusinesses	■	MPI	Rec 17 - He Kai Kei Aku Ringa	Initiatives to partner with Māori to improve the productivity of Māori land include: <ul style="list-style-type: none">• making funding programmes such as the Sustainable Farming Fund and Primary Growth Partnership more accessible to Māori.• working collaboratively with Māori on regional prototype projects to identify the best ways to improve the productivity of Māori land; and• increasing sponsorship of the Ahuwhenua Trophy (recognising excellence in Māori farming). MPI will explore whether to develop an ongoing development programme at a national level which will build on the current progress being made on the Māori Agribusiness regional prototype projects.
	Establish a Forum with Māori and the private sector to discuss opportunities related to natural resources	■	MBIE, MPI, MfE, TPK	Rec 16 - He Kai Kei Aku Ringa	Discussions are underway to progress this action.
	Achieve improved Māori participation in natural resource management	■	MfE, MPI		The Resource Management Bill (yet to be introduced) includes changes to clarify the role of iwi/hapū in planning, including the requirement for councils to invite iwi/hapū to enter into an agreement on how the councils and iwi/hapū will work together through the planning process. The changes also set clear expectations on councils to involve iwi/hapū in the planning process.

Building Natural Resources

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Harnessing Māori resources' productive potential	Investigate the development of an investment fund for commercial discovery processes from Māori collectively owned assets	■	MBIE, MPI	Goal 5 – He Kai Kei Aku Ringa	Initial discussions are underway to progress this action.
	Priority area 6 - Review Te Ture Whenua Māori Act 1993 to unlock the economic potential of Māori land for its beneficiaries, while preserving its cultural significance for future generations	■	TPK, MPI		Cabinet has agreed to the implementation of proposals to improve the utilisation of Māori land through the proposed introduction of a Te Ture Whenua Māori Bill in 2014. The Bill will increase the suite of governance structures from which Māori land owners can choose.
Realising greater value from our marine and aquaculture resources	Implement the aquaculture reforms to enable the industry to become a \$1b contributor to the economy	■	MPI		Seventy-three consents have been approved for 182ha of new or extended marine farm space. Thirty-six further applications for 579ha are to be decided. Initial stakeholder engagement on land-based aquaculture review has been completed. Proposals to reform planning frameworks are under consideration. Forecasting work to underpin delivery of the Māori aquaculture settlement is progressing well.
	Investigate ways to get the best use from our resources including reducing structural and statutory impediments to governing our marine space	■	MPI, DOC, MfE, MBIE		Scoping work has now been completed. Next steps will be considered by Ministers later in 2014.
	Explore opportunities to increase the productivity and efficiency of the wild capture fisheries sector	■	MPI		Scoping work is underway.
	Investigate options for graduated marine protection	■	DOC		Officials are considering options for a graduated approach to marine protection.
Transitioning to a low emissions economy	Engage constructively in international negotiations on climate change	■	MfE, MPI, MFAT		New Zealand has participated in international meetings under the UNFCCC's Durban Platform and Subsidiary Bodies. Preparation is proceeding for New Zealand's post-2020 target, to be lodged as part of the new Durban Platform Agreement in 2015. New Zealand organised and hosted the 'Blue Skies Dialogue' Ambassadors' meeting on the future global climate change agreement in August 2013.
	Explore measures to work alongside the Emissions Trading Scheme (ETS) to reduce New Zealand's emissions	■	MfE		The Government is continuing with work on other measures alongside the ETS that will help reduce greenhouse gas emissions in the long term, while improving productivity.
	Priority area 7 - Increase productivity and reduce carbon emissions through new energy efficiency projects [New]	■	MBIE, EECA		A new \$5.35m package of energy efficiency projects will improve business productivity, save money and reduce carbon emissions. The projects will use information campaigns, energy audits, training workshops and industry partnerships to deliver energy efficiency improvements in the transport sector and energy efficiency improvements and fuel switching by industry.
	Insulate 46,000 homes through Warm Up New Zealand: Healthy Homes [New]	■	MBIE	Infrastructure	A new three-year insulation programme will deliver around 46,000 warmer, drier and healthier homes. The programme is targeted at households that have a Community Services Card and are at high health risk. By the end of April 2014, over 14,000 of the 16,000 retrofits targeted for this financial year had been completed.

The following actions have now been completed and have moved into “business as usual”.

	Action	Status	Lead agency	Also in	Comment
Increasing value from freshwater assets	Implement the Fresh Start for Fresh Water Clean-up Fund investing in major projects to restore waterways affected by historical pollution	Completed	MfE	Infrastructure	The fund has made investments in six projects.
	Establish a new Irrigation Acceleration Fund to support the development of irrigation Schemes	Completed	MPI	Infrastructure	<p>The Irrigation Acceleration Fund has been operational since September 2011. To date, funding of \$27.8m has been committed to support 15 projects, which collectively provide the potential for approximately 250,000 ha of new irrigation area. Other projects are at the concept development stage.</p> <p>Work on three of these projects includes the upgrade of water distribution infrastructure. These projects have the potential to deliver water and energy use efficiency initiatives across approximately 80,00ha of existing irrigated area.</p>
Making the most of our abundant energy and minerals potential	Capture the upside of our energy and minerals potential, and manage the risks responsibly	Completed	MBIE		<p>The amended Crown Minerals Act 1991, Minerals Programmes and Regulations came into effect in May 2013. The revised Health and Safety in Employment (Petroleum Exploration and Extraction) Regulations are also in place.</p> <p>Further work is being done on oil spill response; the Government announced in December 2013 that it is providing more than \$2m over three years to fund a package of work by Maritime New Zealand.</p>
	Introduce a competitive new system for processing permits for oil and gas exploration	Completed	MBIE		Ten permits were awarded in the 2013 Block Offer, which includes five onshore and five offshore permits. Consultation for the 2014 Block Offer was completed in November 2013, the offer opened on 2 April 2014, and permits will be awarded in late 2014. The competitive tender process is now part of business as usual for New Zealand Petroleum & Minerals.
	Respond to the Parliamentary Commissioner for the Environment's (PCE) interim report on hydraulic fracturing ('fracking').	Completed	MfE, MBIE		<p>Guidelines for councils on fracking were published by MfE on 27 March 2014 (<i>Managing Environmental Effects of Onshore Petroleum Development Activities (Including Hydraulic Fracturing)</i>). The guidelines were developed in response to the interim PCE report (November 2012) and in conjunction with councils, EPA, MBIE and other agencies. MfE will be monitoring the guidelines' effectiveness over 2014/15.</p> <p>The PCE's final report on fracking was published on 4 June 2014. The Government will analyse and consider its recommendations.</p>
Building growth from more efficient land and resource use	Enable regionally important decisions to go direct to the Environment Court where appropriate	Completed	MfE		The new Resource Management Amendment Act 2013 allows for projects above an investment threshold to go directly to the Environment Court if the applicant chooses. Consultation on the regulations for setting the threshold closed on 30 May 2014.
	Improving the quality of analysis which councils use to make decisions	Completed	MfE		Improvements made through the Resource Management Reform Act 2013 to section 32 will provide greater guidance and specificity to councils about what is required in section 32 reporting, particularly for the assessment of costs and benefits. The improvements do not change the overall purpose of section 32, and instead set out the requirements for preparing and publishing evaluation reports.
	Implement the Primary Growth Partnership to lift private sector investment in primary sector innovation	Completed	MPI	Innovation	We continued work on existing and new programmes.
	Improve nutrient management by coordinating industry / government research and associated extension, uptake and adoption activities	Completed	MPI		A study on nutrients and nutrient management research has been completed. The report assesses where the knowledge frontier is, and any relevant gaps, as well as uptake of past research. This information will be disseminated to Government research funding agencies, departments, and regional councils to support future research funding rounds, as well as to CRIs to develop proposals to meet high priority gaps in the research.

Building Natural Resources

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

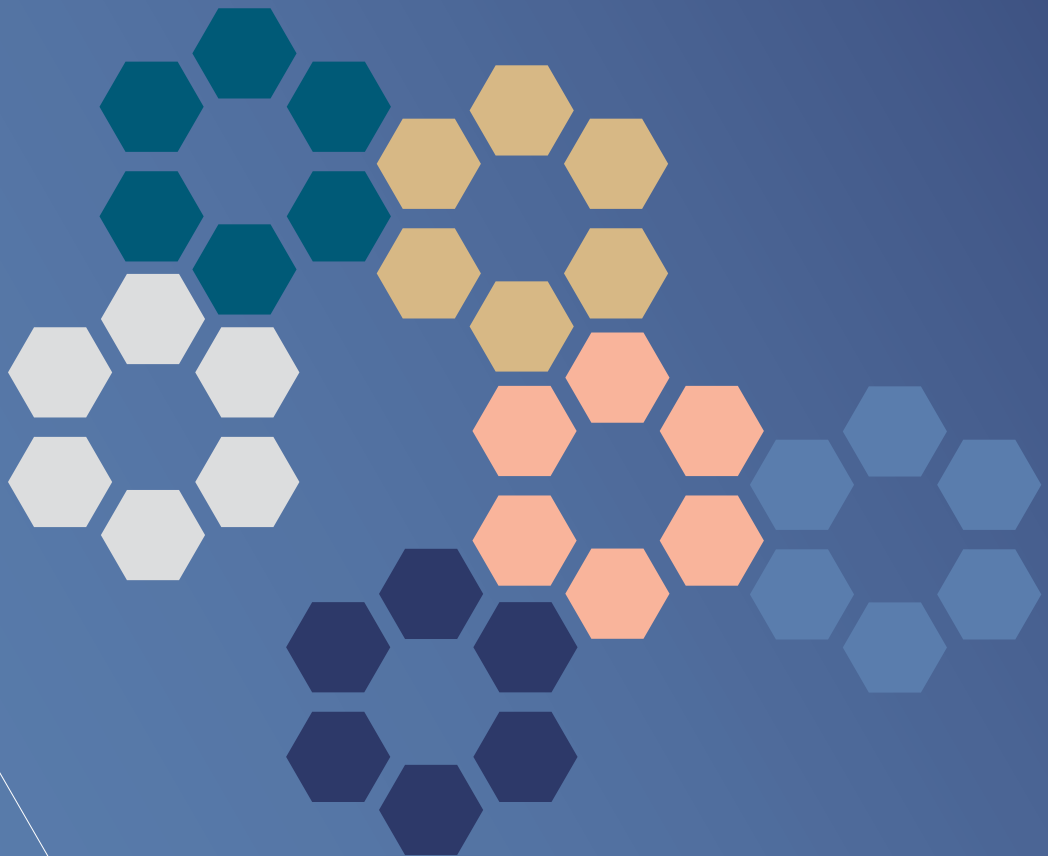
	Action	Status	Lead agency	Also in	Comment
Building growth from more efficient land and resource use	Implement a new rent setting system for 1.5 million hectares of South Island High Country land	Completed	LINZ		The new rent setting system is in place and costs the Crown an average of \$2,300 per lease. This is between one third and one half of what it did under the old system, and the costs to the lessees under new system are negligible because they do not need to employ valuers. Of the 141 historic disputes under the old system, 140 of these have opted to have rent set under new legislation.
	Investigate the development of indicators to measure progress towards greening economic growth	Completed	MfE		Indicators to measure progress towards greening economic growth are being developed through an Environmental Reporting Framework. Legislation for this purpose was introduced in February 2014. The first report using this framework - on Air Quality - was published on 16 May 2014.
	Ensure Centre for Agricultural Greenhouse Gas Research maximises progress in developing knowledge, practices and technologies that allows farmers to address agricultural emissions	Completed	MPI	Innovation	A progress review was carried out in May 2013, three years since the opening of the Centre. The Centre will continue to operate in accordance with its agreed work programme, taking into account the recommendations of the progress review. The Centre has formed a closer partnership with the agricultural sector Pastoral Greenhouse Gas Research Consortium (PGGRC).
	Continue to actively support the Global Research Alliance on Agricultural Greenhouse Gases, including through the New Zealand Fund for Global Partnerships in Livestock Emissions Research	Completed	MPI	Innovation	New Zealand continues to be Alliance Secretariat and Co-Chair of the Livestock Research Group. Targeted activities in support of the Alliance, and projects for the second round of the New Zealand Fund for Global Partnerships in Livestock Emissions Research, have been contracted and commenced. The Expression of Interest stage for the third tranche of this Fund has been completed.
	Streamline the delivery of a high quality unitary plan for Auckland	Completed	MfE		The streamlined process will reduce the time needed to make the Auckland Unitary Plan operative. It will also help the Auckland Council establish a coherent policy and regulatory framework that reduces the complexity and fragmentation arising from having multiple RMA plans.
	Set a nine-month time limit for consenting projects of national significance	Completed	MfE		Amendments were made as part of the Resource Management (Simplifying and Streamlining) Amendment Act (2009).
	Require councils to provide a discount for late processing of resource consents	Completed	MfE		Amendments were made as part of the Resource Management (Simplifying and Streamlining) Amendment Act (2009).
Maintaining and advancing biodiversity	Develop guidance on biodiversity offsetting, to assist businesses to achieve economic and environmental objectives	Completed	DOC		We are completing cross-departmental sign-off.
Realising greater value from our marine and aquaculture resources	Implement the EEZ legislation, including introducing regulations, to maximise economic opportunities while better managing the environmental effects of activities within it	Completed	MfE		The Exclusive Economic Zone and Continental Shelf (Environmental Effects) Amendment Act 2013 has been passed and will come into force once regulations are made for discharges and dumping or any non-notified discretionary activities. Consultation on these regulations closed on 19 March 2014, and the Government is considering the submissions. The EEZ Act proper is already in force and all activities not covered by the Amendment Act are being regulated by the Environmental Protection Authority (EPA). The Government is investing an additional \$3.2 million in 2014/15 to help the EPA to establish its new functions and responsibilities in the EEZ.

Building Natural Resources

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Transitioning to a low emissions economy	Maintain the ETS settings to ensure businesses and households do not face additional costs	■	MfE, MBIE, MPI		Legislation was passed on 8 November 2012.
	Invest approximately \$42m in research and innovation for biofuels	■	MfE, MBIE, MPI		Compulsory annual reports were submitted by the recipients of the funding for the 2011/12 financial year in August 2012. These reports have been analysed by officials. The next round of funding for energy and resources research and development will occur in 2014 in conjunction with government priorities.
	Upgrade 230,000 homes with insulation through the <i>Warm Up New Zealand: Heat Smart</i> programme	■	MBIE, EECA	Infrastructure	EECA has already exceeded this target, with almost 239,000 insulation retrofits completed by the end of April 2014. It expects to exceed 240,000 retrofits by the time the programme ends.
	Spend an additional \$2.5m to help businesses improve their energy efficiency	■	MBIE, EECA		An extra \$2.5m contributed to developing and implementing standards for industrial products, and providing information and advice to businesses on energy efficiency. It also supported expanded programmes to encourage industrial fuel switching, and fuel efficiency in heavy vehicles.

Building Infrastructure



The Government has committed to the following high-level goal:

By 2030, New Zealand's infrastructure is resilient and coordinated and contributes to economic growth and increased quality of life

Infrastructure is a crucial part of the New Zealand economy, supporting growth and contributing to improved living standards for all. Our distance from markets and the importance of our primary sector make it particularly critical that New Zealand has resilient, coordinated infrastructure that enables the movement of people, goods and services around our country and the world. Resilient infrastructure gives businesses certainty and confidence, sets a strong platform to create new business opportunities, and lifts productivity and competitiveness.

Through the Building Infrastructure work programme, the Government has continued to work to address the infrastructure challenges that New Zealand faces and reverse the historical pattern of variable and inconsistent investment. This work has been guided by the second *National Infrastructure Plan*, published in 2011, which seeks to provide a common direction for how we plan, fund, build and use all economic and social infrastructure.

Over the last three years, the Government has added almost \$16 billion of infrastructure assets to its books – reflecting the multi-billion dollar investments in priority new infrastructure such as roads, rail, ultra-fast broadband, irrigation, electricity transmission and rebuilding Christchurch.

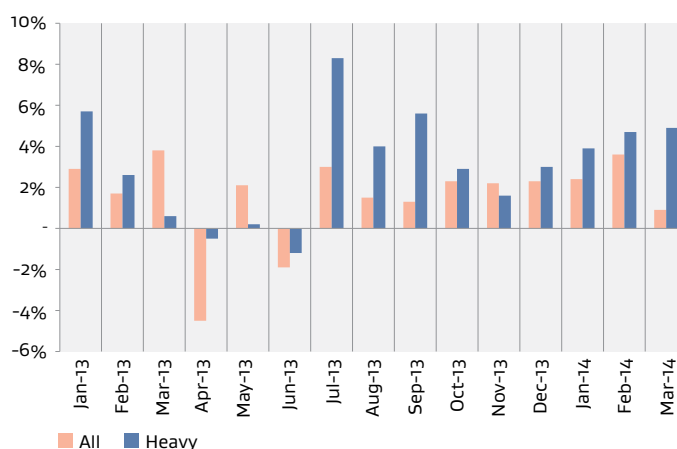
The *National Infrastructure Evidence Base*, published in February 2014, concluded that the overall state of New Zealand infrastructure is positive. New Zealand has broadly the right infrastructure, in the right place, providing the right quality of service – although there are a number of ongoing challenges to be addressed.

Investment in our road networks has helped to limit congestion growth in urban centres despite sustained population growth, and helped to make journeys quicker and safer for road users. However, state highway traffic is showing consistent growth, with the greatest increases in the Canterbury and West Coast region.

Road networks in Auckland and Wellington are operating at greater than 60 per cent productivity. The network in Christchurch is currently operating at 36 per cent productivity in the morning peak, which is due in part to the nature of the network, but has been made worse by increased overall demand, the need for repairs, and changed travel patterns since the earthquakes.

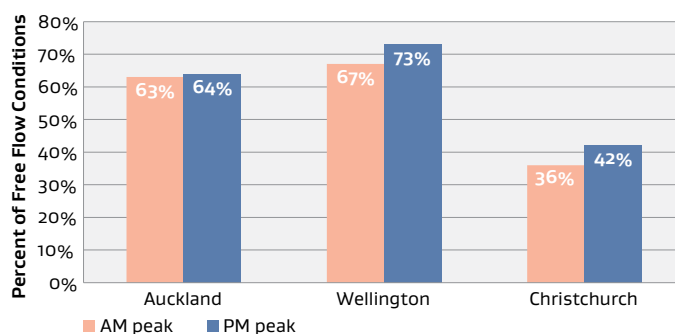
Monthly state highway counts, increase on same month in previous year

Source: New Zealand Transport Agency, State Highway Traffic Volumes



Road productivity indicator

Source: New Zealand Transport Agency



Building Infrastructure

Across the transport sector, the updated *National Freight Demand Study* (2014) shows that, between 2012 and 2042, New Zealand's freight task is expected to increase in size by around 58 per cent. This equates to the current 236 million tonnes being moved each year increasing to 373 million tonnes moved each year by 2042. More specifically, Auckland's

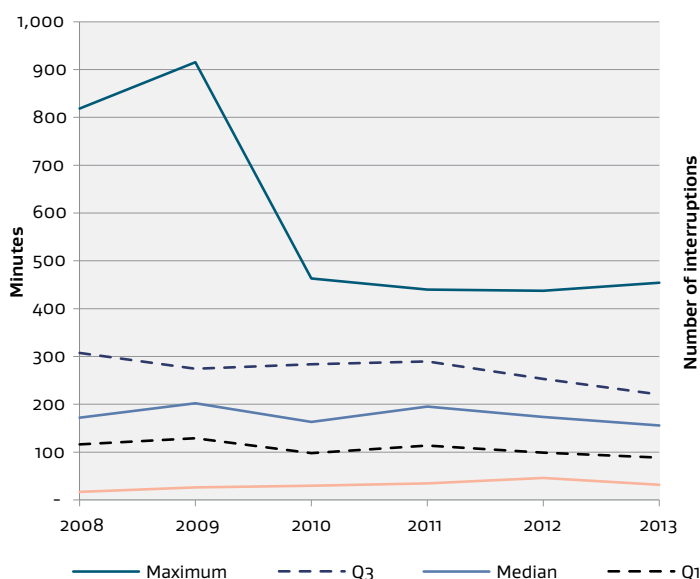
freight task is forecast to increase by around 78 per cent, reflecting its growing share of New Zealand's population and economic activity. Canterbury's is expected to increase by around 73 per cent, in line with it being the main distribution hub for the South Island and a region with a high level of agricultural output.

We have continued to focus on delivering a **reliable and secure energy supply**, with the Commerce Commission reporting that the average reliability of the distribution industry showed improvement overall between 2008 and 2013.

Industry duration and frequency of electricity interruptions

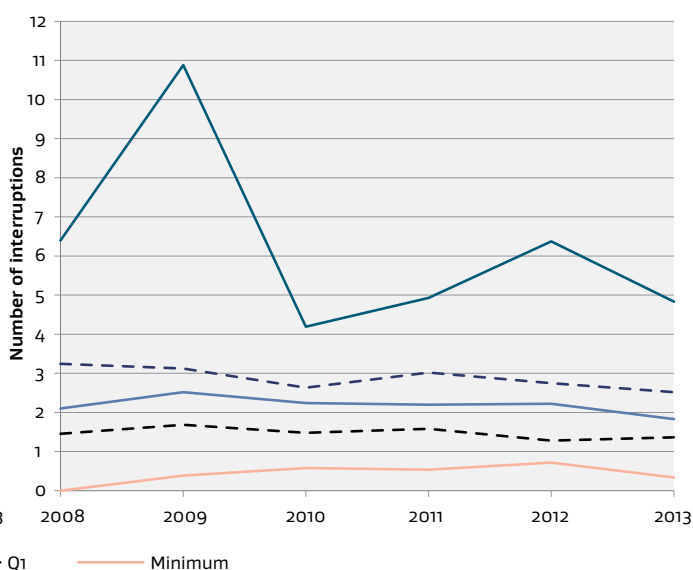
Source: Electricity distributors' compliance statements and information disclosures

Industry duration of electricity interruptions



Note: Q1 represents the 25th per centile, Q3 represents the 75th per centile

Industry frequency of electricity interruptions



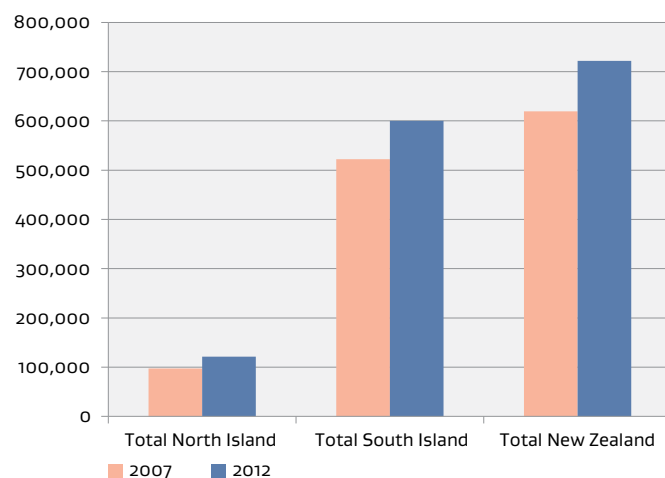
In the **telecommunications sector**, the Ultra-Fast Broadband programme is expanding and developing infrastructure for delivering broadband services, and the recent 700 MHz 4G spectrum auction in New Zealand is a step towards making 4G coverage available to 90 per cent of our population within five years. This work will contribute to the ongoing improvement in New Zealand's broadband performance and enable a greater range of applications and services to be adopted that benefit the New Zealand economy.

Water infrastructure has been another area of focus, given its importance both for our basic quality of life and for much of our economic production, especially industry and the primary sectors.

The amount of irrigated land has grown from 619,300 hectares in 2007 to over 721,700 hectares in 2012 – an increase of 16 per cent. The majority of this growth was in Canterbury with a further 59,500 hectares, Manawatu-Wanganui with 10,000 hectares and Waikato with 4,400 hectares.

Irrigable land 2007 and 2012 (hectares)

Source: Statistics New Zealand



Building Infrastructure

We have also worked to strengthen the **building and construction industry** and improve the affordability of housing. In March 2014, there were 1,999 new residential building consents issued - the highest number of residential building consents issued nationally in March since 2007.

It is also the highest number of residential building consents issued for Greater Christchurch in March on record.

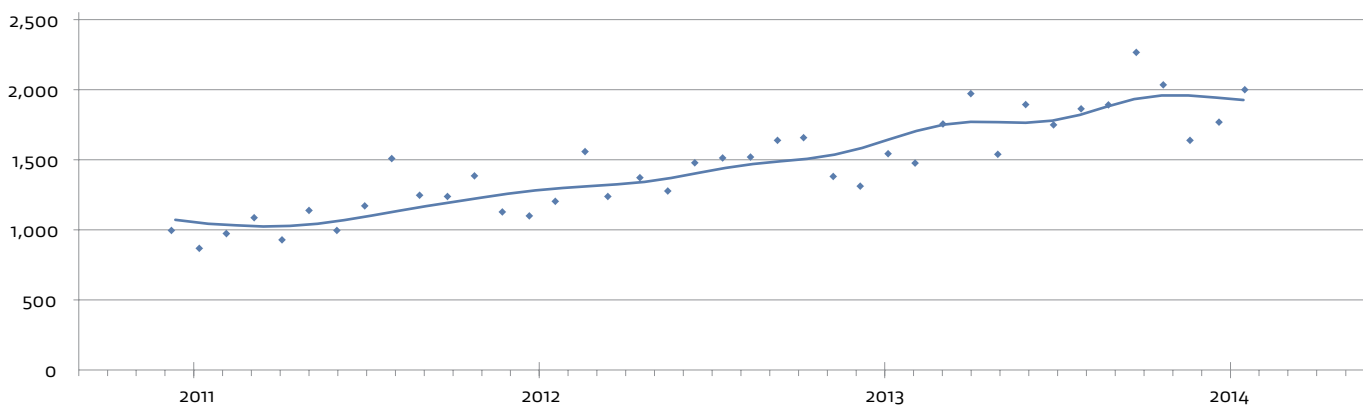
Residential building work is forecast to grow rapidly over the forecast period up to the end of 2018 (48 per cent) with a peak in 2016 (62 per cent from the base year). This is driven in large part by the more-than-doubling of Auckland's residential building work. Auckland's share of residential construction is expected to increase over the forecast period, even with the effects of the Canterbury rebuild. Wellington is the only other region whose share of residential building is expected to increase over the forecast period.

Residential construction		
Dwellings consented March 2014	Dwelling consents	Annual change*
National	1,999	↑ 12.9%
Auckland	561	↑ 19.4%
Greater Christchurch	542	↑ 47.6%
Wellington	108	↑ 26.1%
Alterations and additions March 2014	\$m	Annual changes*
National	\$157	↑ 27.9%
Auckland	\$68	↑ 16.4%
Greater Christchurch	\$30	↑ 101.1%
Wellington	\$14	↑ 9.1%

*Change in trend values

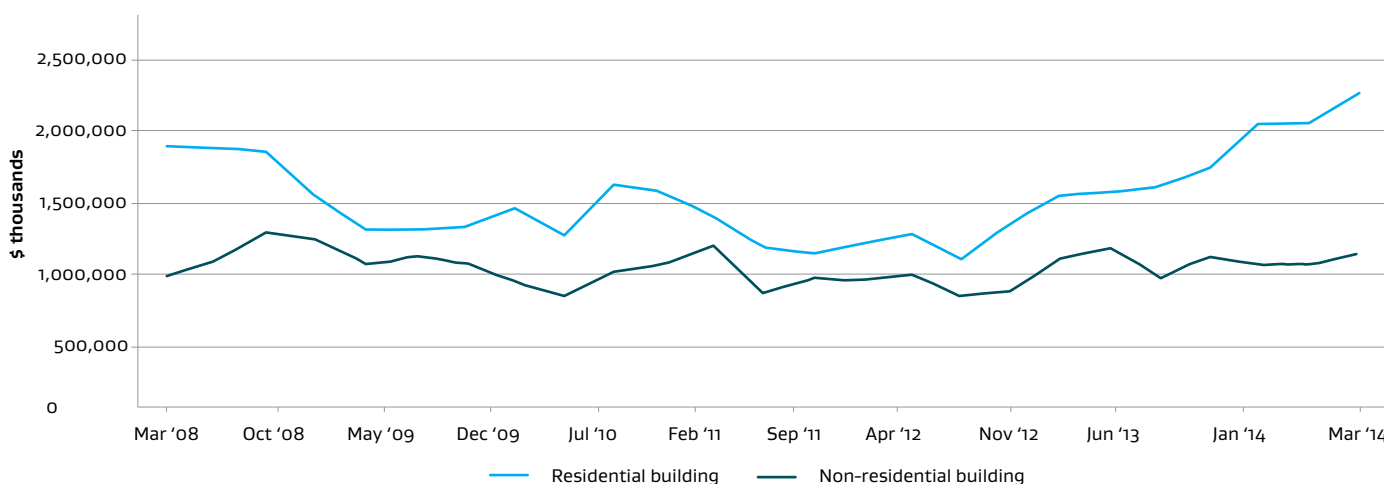
National residential construction dwelling consents issued

Source: Statistics New Zealand



Value of building work put in place

Source: Statistics New Zealand



Progress update

The Government remains committed to successfully completing the 68 actions to build infrastructure that were set out in the November 2012 *Building Infrastructure* progress report.

More than half of these original actions are now completed, and the remaining actions are either in progress or being implemented. Many of these are significant initiatives that will be delivered over a number of years.

Twenty-eight actions have also been added to the Building Infrastructure work programme, of which one is new, twelve are in progress, and fifteen are being implemented.

Building Infrastructure	All actions	New	In progress	Implementing	Completed
Status November 2012	68	2	24	23	19
Status June 2014	97	1	23	33	40

We have made some significant achievements over this time.

We are **making significant improvements to Auckland and Wellington commuter rail**.

Improvements to Auckland's rail network include:

- electrification of the 175km metropolitan rail network, which is expected to be completed later in 2014
- Developing Auckland's Rail Transport (DART) projects including track duplication, station improvements and the new connection to Manukau City Centre

- procurement of a new fleet of 57 electric trains. The first passenger service commenced on the Onehunga Line on 28 April 2014. All units are expected to be in service in late 2015.

We have also made a number of improvements to Wellington's rail network. In mid-2011, Government announced a further \$88.4 million funding package over eight years to complete the transformation of Wellington's rail services, and in August 2012 the decision was made to replace older trains with a further order of 35 new Matangi two-car trains. This purchase will be supported through the National Land Transport Fund and provide Wellington with a complete, modern and reliable fleet, to replace the remaining Ganz Mavags.



By 2015, both Auckland and Wellington commuter rail will be operating with a new, modern fleet of electric commuter trains largely funded by the Government.

Spot light

Regional roading projects

State Highway 1 Caversham Highway Improvements

The first stage of this project was completed in October 2012. This involved the four-laning of the existing two-lane Caversham bypass in Dunedin between the King Edward Street overbridge and Barnes Drive.

Work on Stage 2, the \$20 million and \$25 million Caversham Valley Safety Improvements project, started in November 2012. This will see State Highway 1 upgraded between Barnes Drive and Lookout Point and is due for completion toward the end of 2014.

Lookout point works

Caversham valley works



Overall project benefits include:

- more reliable and reduced travel times
- relief of peak hour traffic congestion
- improved safety
- improved movement of people and freight to and from Dunedin, including Dunedin Airport, Port Otago and the wider Otago region.



The seven Roads of National Significance

KEY



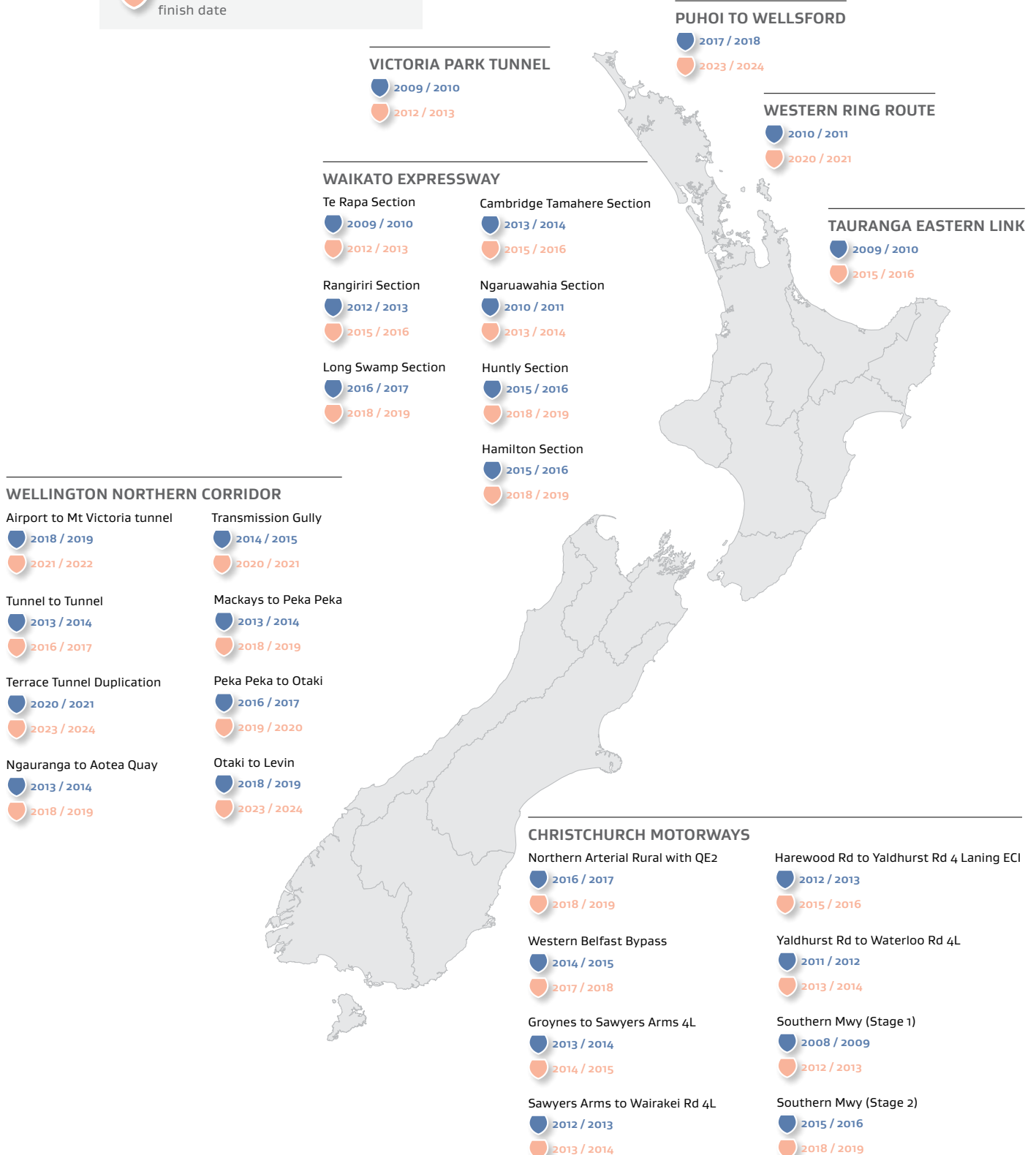
Actual and estimated construction start date



Actual and estimated construction finish date

We have opened the \$200 million, 12.3 kilometre Ngaruawahia section of the Waikato Expressway, and started construction on the Cambridge and Rangiriri sections. The Tauranga Eastern Link progresses ahead of schedule with some sections open to traffic.

The Waterview project is progressing as scheduled: tunnel boring machine “Alice” began her journey to build the twin 2.4km Waterview tunnels in November 2013 – representing the largest roading project ever undertaken in New Zealand. Construction of the Great North Road Interchange and the State Highway 16 Causeway has commenced. We have also started construction on the 16 kilometre MacKays to Peka Peka expressway.



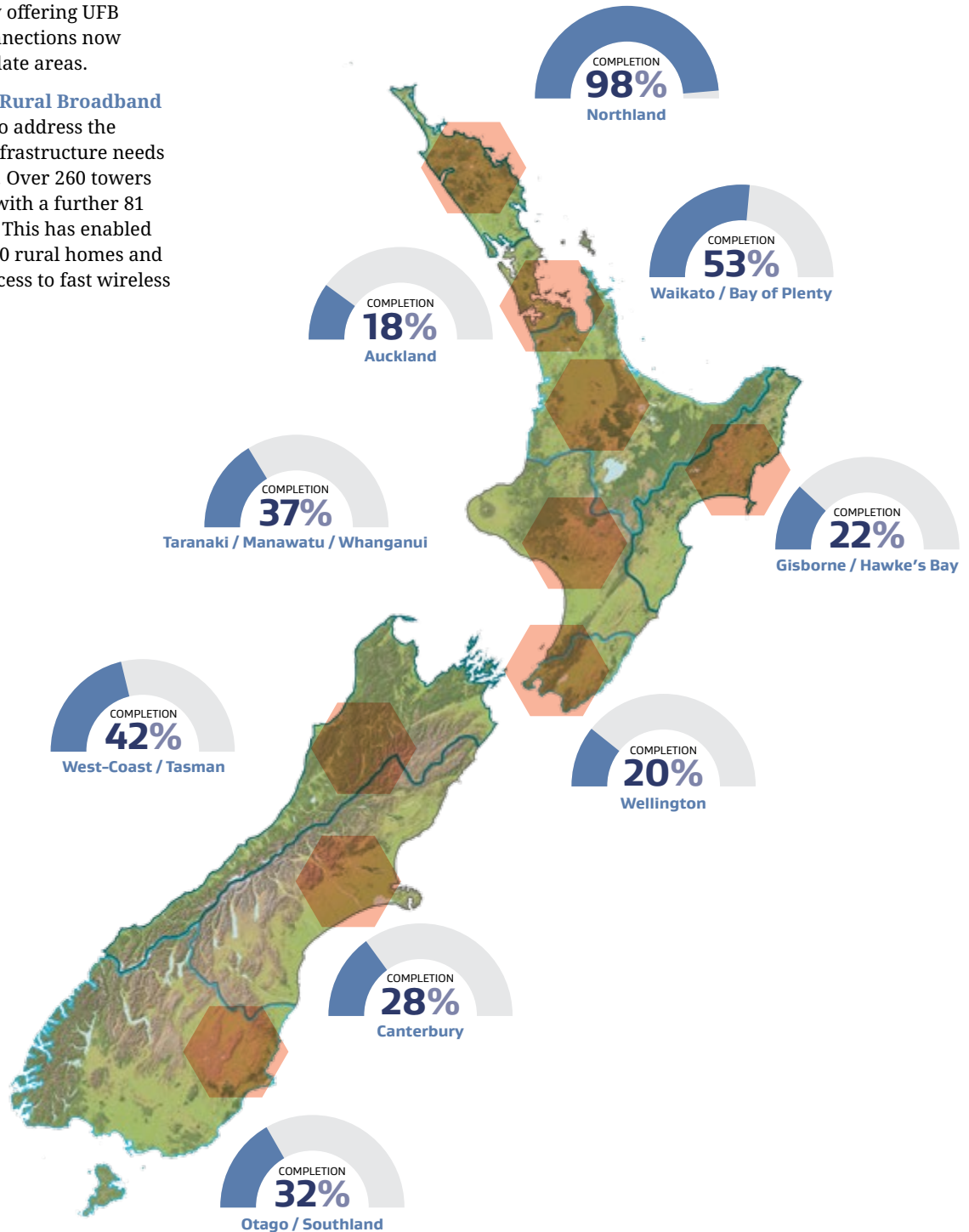
Building Infrastructure

The **Ultra-Fast Broadband (UFB) programme** has continued to make UFB connection available to a growing number of New Zealanders. More than 420,000 New Zealanders in UFB areas are now able to connect to UFB, and over 27,000 users are now connected to the UFB network. Whangarei is now the first city in New Zealand to have fibre available to every school, doctor, business and home within the UFB coverage area. In addition, 67 retail providers are actively offering UFB services with UFB connections now available in 28 candidate areas.

At the same time, the **Rural Broadband Initiative** continues to address the specific broadband infrastructure needs of rural New Zealand. Over 260 towers have been upgraded with a further 81 new towers installed. This has enabled approximately 187,000 rural homes and businesses to have access to fast wireless broadband.

ULTRA FAST BROADBAND DEPLOYMENT PROGRESS

AS AT MARCH 2014



Building Infrastructure

Transpower has commissioned extensive work on the **national electricity grid** – including commissioning the new Pole 3 high-voltage direct current link across Cook Strait (\$594 million), the North Island Grid upgrade (\$894 million), and the North Auckland and Northland upgrade (\$347 million).

The Electricity Authority has continued to focus on the **intensity of retail competition** as the best way of ensuring

an efficient electricity market through increased consumer participation and initiatives in the wholesale market. This includes the ongoing “What’s My Number” campaign as well as the announcement late last year of new market rules that will improve competition in the retail electricity market.

Supporting the **rebuilding of Christchurch** is one of our four key

priorities to deliver a stronger and more prosperous New Zealand. We have made significant progress both in rebuilding infrastructure and progressing major capital projects - including beginning to engage on planning and development and seeking operators for the **Christchurch convention centre**, beginning work on the **Justice and Emergency Services precinct**, and completing the detailed design for both **Christchurch and Burwood hospitals**.

Christchurch network rebuild: Progress as at May 2014

Network total				Damaged	Of total	Physically complete as at May 2014	Of damaged
Wastewater	Reticulation	km	1,613	659	41%	250	38%
Water supply	Reticulation	km	2,843	69	2%	44	64%
Storm water	Reticulation	km	329	26	8%	14	52%
Roading	Roading	m2	11,671,807	1,320,375	11%	355,433	27%

Source: Canterbury Earthquake Recovery Authority

A further \$2.1 million to help communities improve New Zealand’s **freshwater quality** was announced in March, including \$1.1 million to fund local water quality initiatives that support the freshwater reforms, and a further \$1 million targeted at enhancing the monitoring of freshwater quality in New Zealand.

The **Irrigation Acceleration Fund**, which is designed to support the investigation and development of water harvesting, storage and distribution infrastructure, has provided \$27.8 million to date in grant support to 15 projects throughout New Zealand – predominantly in Canterbury but also in Hawke’s Bay, Otago, Wairarapa and

Manawatu. In addition, **Crown Irrigation Investments Ltd**, which was established on 1 July 2013 to act on behalf of the government as a bridging investor for regional water infrastructure development, has announced that it will make its first investment in Stage 1 of the Central Plains Water Enhancement Scheme.

New rules on measuring local government’s non-financial performance have been introduced and come into effect this year. Local authorities will be required to incorporate new performance measures in the development of their next long-term plans. The new performance measures include measures on water

supply, sewerage, storm water and flood protection, and will help businesses and the public to contribute to discussions on future levels of service for their communities and to participate more easily in their local authority’s decision-making processes.

The **Future Investment Fund** has allocated almost \$3 billion to key infrastructure projects. This has delivered new social infrastructure such as the new \$190m clinical services block at Middlemore Hospital, opened in April, and new dialysis units in Hastings and Porirua. For more details on this key initiative, see the infographic below.

Future Investment Fund

The Government Share Offer programme is now complete, with **\$4.7 billion** raised for new capital spending through the Future Investment Fund. Almost **\$3 billion** over three Budgets has already been allocated from the Fund. The remaining **\$1.7 billion** will be allocated in the 2015 and 2016 Budgets. Budget 2014 allocates **\$1 billion** of new capital from the Fund including:

\$200
million

for health sector projects.

\$198
million

for the KiwiRail Turnaround Plan.

\$172
million

for school property expansion.

\$40
million

to invest in irrigation infrastructure.

Building Infrastructure

We have reduced the cost of do-it-yourself building work through the **Building Amendment Act 2012** – which provides an exemption for owner-builders to carry out some previously-restricted building work, cuts red tape and speeds up the building process.

As part of the Government's comprehensive work programme to address housing affordability, **housing**

accords with Auckland Council and Christchurch City Council have been established and three tranches of **Special Housing Areas in Auckland** have been announced, which will help to increase land supply for housing.

We have focused on updating building standards to reflect lessons from the Canterbury earthquakes, with the referral of the **Building (Earthquake-**

prone Buildings) Amendment Bill to the Local Government and Environment Select Committee in March. This Bill will amend the system for managing earthquake-prone buildings - striking a balance between protecting people from harm in an earthquake and managing the costs of strengthening or removing buildings.

Spot light

Affordable housing

The Government continues to implement a comprehensive work programme to address housing affordability, with five key aims: increasing land supply, reducing delays and costs of Resource Management Act processes associated with housing, improving the timely provision of infrastructure to support new housing, minimising the cost of building materials and improving productivity in the construction sector.

We are increasing the supply of housing, particularly in Auckland. The Housing Accords and Special Housing Areas Act 2013 enables councils and the Government to free up land supply, and provides access to streamlined consenting processes for residential developments.

Under the Auckland Housing Accord, 63 Special Housing Areas have been announced to date, expected to bring onstream an additional 30,000 homes over 12 years.

An Accord focusing on the provision of social and affordable housing has been agreed with the Christchurch City Council and negotiations are underway with a number of other Councils.

We are also working with the private sector, local government, iwi and community groups to secure large-scale housing developments with a mix of social, affordable and general housing. For example, \$75 million of Canterbury Accord Housing Funding is to be allocated to projects demonstrating scale, productivity and pace in recovery. The first anticipated project will be the Awatea affordable housing development, demonstrating a Crown/private sector partnership with mixed housing typology.

We have also allocated \$31 million of the Future Investment Fund towards the Hobsonville Land Company housing development.

Tariffs and duties on building materials have been temporarily removed, taking \$3,500 off the construction cost of a standard home, and the Social Housing Fund has been boosted by \$30 million from 2015/16 to help the community housing sector provide homes for high-need families.



Future direction

As noted previously, the overall state of New Zealand infrastructure is positive. Through the Building Infrastructure work programme, we have continued to work to reverse the historical pattern of variable and inconsistent investment.

Looking to the future, our work in this area will need to address a number of challenges and pressures. A number of our infrastructure assets are ageing, our population base is changing and moving, and technology is opening up a new range of possibilities for both service delivery and asset management.

For instance, in the transport sector, population growth will continue to place increasing demand on road networks, particularly in urban centres. And the updated National Freight Demand Study published this year shows that, over the next 30 years, New Zealand's freight volumes are expected to increase by around 58 per cent.

In the energy sector, electricity distributors will face the challenges of ageing assets, shifting demand, and changing technology.

Mobile data demand is also likely to grow rapidly over the next few years. A recent report from Cisco estimates that global mobile data traffic will increase 13-fold between 2012 and 2017. The same report projects that 4G connections will comprise 10 per cent of total mobile connections and account for 45 per cent of total traffic.

In the building and construction sector, residential building work is forecast to grow rapidly over the next five years, driven largely by the predicted doubling of Auckland's residential building work, as well as the impacts of the Canterbury rebuild.

Our future focus will need to be on meeting these future demands, improving our decision making and looking at how we can manage demand for, as well as the supply of, infrastructure. We will continue to focus on ensuring we better use our existing infrastructure and on making smart, transparent decisions about investment in future infrastructure – to make sure we get maximum benefit from our investment.

The previous sections show the significant progress we've already made in delivering our ambitious infrastructure programme. We will continue to make progress towards completing this programme.

However, in the light of this progress, we intend to focus our future efforts on a smaller number of areas that we see as particularly critical to building our infrastructure.



1. Removing bottlenecks on our road networks

New Zealand relies on a robust transport network to move people, goods and services safely and efficiently.

Specific actions we are taking within this priority area include [developing the next Government Policy Statement on Land Transport](#). This will help manage future pressures, including understanding and responding to future demand and managing potential escalation in costs, particularly as wider

construction activity increases.

We will also continue to [progress the Roads of National Significance programme](#), including completion of the Waterview Connection and commencement of Transmission Gully as a Public Private Partnership.

Regional roads play an important role in enhancing productivity and generating economic growth, and include key regional freight routes and inter and intra-regional links that ensure connectivity between and within regions. We are therefore looking at a number of

options to [ensure funding is available for regional roads projects](#) that enhance productivity and generate economic growth.



Alice, the tenth-biggest tunnel boring machine in the world, built to create the tunnels of the Waterview Connection Project.

Building Infrastructure

2. Accelerating Auckland's transport

Budget 2014 provides \$375 million of new capital funding for the New Zealand Transport Agency (NZTA) to **accelerate \$815 million worth of Auckland transport projects**. The projects will address congestion in our largest city, capitalise on the benefits of major roading projects already underway (such as the Western Ring Route) and improve access to Auckland International Airport.

The programme to deliver the Auckland transport package includes:

- delivery of projects on the Northern Corridor, Southern Corridor and State Highway 20A by 2019/20 (\$800 million)
- further investigations to determine the preferred scope of the East-West Link over 2014/15 (\$10 million)
- progression of the Panmure to Pakuranga phase of the Auckland Manukau Eastern Transport Initiative (AMETI) over 2014/15 (\$5 million).

4. Securing our energy future

Ensuring secure and resilient supplies of energy is critical to our businesses while regulatory certainty is required for companies looking to invest in expensive and long-life energy assets.

We are **making further progress toward our target of 90 per cent of electricity coming from renewable sources by 2025**, providing supply security is maintained.

We will **undertake a study of gas market security** as a first step in gaining a deeper understanding of the economic significance of supply risks. We will also work to **develop a better understanding of existing hazard prevention and response procedures in the downstream oil sector**, given that New Zealand has a number of natural hazards and key supply lines critical to economic activity.

Furthermore, we will **continue to implement the Warm Up New Zealand: Healthy Homes programme** – the three-year insulation programme we announced in Budget 2013 – to deliver around 46,000 warmer, drier and healthier homes. The programme is targeted at households that have a Community Services Card and are at high health risk.



3. Strengthening rail, sea and air infrastructure

Efficient rail hubs, air and sea ports play a key role as part of an integrated transport network.

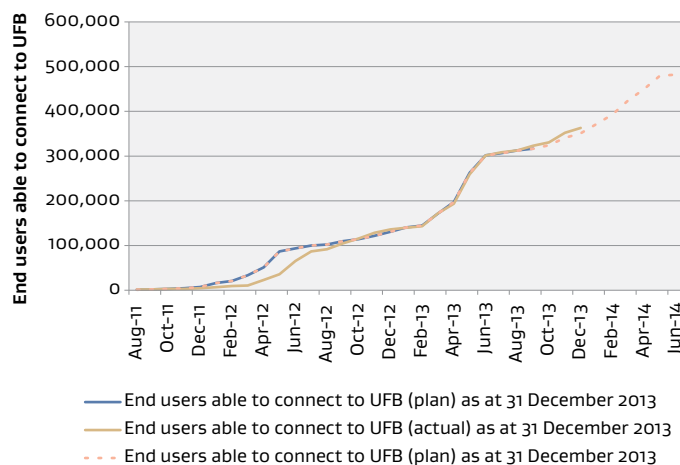
This includes **making a commitment to a joint business case for the Auckland City Rail Link in 2017 and providing our share of the funding for a construction start in 2020**.

The National Airspace and Air Navigation Plan provides a clear direction on the safe, cohesive, efficient and collaborative management of New Zealand's air navigation system over the next decade. We will also **review the Civil Aviation Act 1990 and Airports Authorities Act 1966** to ensure that they are fit for purpose.

5. Completing the deployment of ultra-fast and rural broadband

The telecommunications sector continues to grow in importance, both in the benefits it can bring for society and all the other infrastructure networks. Enabling the fast and efficient exchange of information, telecommunications connect our communities and our businesses to each other and to the rest of the world.

UFB end users able to connect to UFB - cumulative



Source: Ministry of Business, Innovation & Employment

We will **continue to deploy infrastructure under the Ultra-Fast Broadband (UFB) and Rural Broadband Initiative (RBI) programmes**.

The **review of the Telecommunications Act** will support this deployment by focusing on what settings will be needed post-2020 to ensure the regulatory framework promotes competition for the benefit of end-users, while providing the necessary certainty for market participants.

We will also **complete the Telecommunications Service Obligations review**, building on the review findings that were provided to the Minister of Communications and Information Technology at the end of 2013.

Building Infrastructure

6. Rebuilding Christchurch

Christchurch is our second-largest city, and the Government is committed to rebuilding the infrastructure to enable a vibrant and dynamic city to continue to play its part in our nation and economy.

Our focus will be on maximising the impact of the Crown's investment in rebuilding Christchurch on the productive capacity of Christchurch and Canterbury, and the city's social recovery.

As part of this, we are **taking a more strategic approach to the procurement of public sector capital projects**. This will involve publishing a schedule of government rebuild projects, identifying ways to introduce innovation and best practice to government procurement in greater Christchurch, and identifying options to address constraints, inefficiencies, opportunities and risks in the supply chain. These initiatives will help to increase supply, contain project costs and risks, and maximise effectiveness of available supply capacity in the face of increasing pressures on the construction market.

We will continue to **make progress on the central city rebuild, including anchor and transport projects**. This will help to encourage private sector

engagement and investment, given that public sector investment in key facilities, streets and public spaces is a key attractor of private development.

We will continue to **restore Christchurch's horizontal infrastructure** (that is, roads and fresh water, wastewater, and storm water systems).

We will also work to **ensure that Christchurch has fit-for-purpose, future-proofed social and community infrastructure** that supports redesigned and improved services. This includes the Canterbury Hospitals Redevelopment Project; the Education Renewal Programme; the University of Canterbury, Lincoln University and the Christchurch Polytechnic Institute of Technology rebuild programmes; the Justice and Emergency Services precinct development and the development of the Metro Sports Facility.

We will continue to **implement the Land Use Recovery Plan** to ensure that sufficient land is available for residential, commercial and industrial use and serviced by infrastructure for the next 10 to 15 years. We will also **begin a process to consider the future use of Residential Red Zones**.

7. Investing in hospitals and schools

The Government makes significant direct investment in our social infrastructure, including schools and hospitals. We are focused on ensuring that these are well-managed and deliver services that are innovative and efficient, and provide what New Zealanders really want and expect.

We are working to **deliver the new Canterbury Hospitals Redevelopment project**, and the **redevelopment of the Grey hospital**.

We are also **progressing the procurement of a bundle of four schools in Christchurch, Queenstown, and Auckland** using the Public Private Partnership model.



Building Infrastructure

8. Improving water storage and use

Sound water management is essential to provide for New Zealand's economic development and growth, as well as our social and cultural needs. In some parts of New Zealand, water resource limits are being approached, which is seen in deteriorating water quality, water demand outstripping supply, and constrained economic opportunities.

We are working to **deliver a portfolio of Irrigation Acceleration Fund grant-supported projects**. Projects involving 260,000 hectares of potential new irrigation are currently in the process of being investigated or developed.

We have **introduced a Local Government Amendment Bill** to Parliament that will improve how councils manage their water infrastructure and plan for meeting their communities' future needs. The local government sector is also taking a lead in developing a national information framework for water infrastructure. Local Government New Zealand's "3 Waters" project will produce common data and performance measures.

We will also continue with the **development and implementation of freshwater reforms**, which will focus on maximising the economic benefits from water, and recognising Māori rights and interests in water in appropriate ways.



9. Increasing competition and efficiency in the housing construction sector

A well-functioning housing market is important for both economic performance and social wellbeing. High housing costs reduce labour mobility and divert investment from more productive economic activities. Poor-quality housing has adverse impacts on health, education and other determinants of incomes and living standards. Our priority continues to be on strengthening the building and construction industry and improving the affordability of housing.

We are **establishing housing accords** with local councils, building on the positive response to the Auckland and Christchurch Housing Accords.

We will continue work to **remove barriers to competition and increase efficiency in the construction sector**, making it more cost-effective for New Zealanders to build safe, good quality homes and buildings. In May 2014, tariffs and duties on building materials were temporarily removed as a step towards reducing barriers that drive up the cost of construction.

We are **making changes to development contributions**

provisions, and the way in which they are implemented - to make them fairer, better-focused, more transparent, and more workable – increasing confidence and certainty for developers.

We will also work to **lift confidence in the safety of commercial buildings**, developing on the new knowledge and increased awareness of risks that emerged from the Canterbury Earthquakes.

We will **improve productivity in the building and construction sector**, while stripping unnecessary costs and delays from the regulatory system.

10. Reforming the social housing sector to better meet the needs of social housing tenants

Living in a safe, secure and fit-for-purpose house directly supports our overall wellbeing and gives us a sense of belonging and connection to the community.

We have recognised that others can meet social housing needs as well as the government, if not better. Accordingly,

some of the biggest changes in decades are being made to the way social housing is provided in New Zealand. The key framework for the changes – the Social Housing Reform Act – was passed at the end of 2013 and we will build on this to improve social housing options for people in high need.

We will continue working to **deliver better outcomes from social housing** that capitalise on the recent social housing reforms - including improved assessment of clients' needs, more

provision of specialised social housing, and more assistance for those that can, to move to independent housing.

We will **enable a more diverse range of social housing providers to offer services**, including niche providers, in order to better meet tenants' needs.

Work also continues to **register more community housing providers so they can access the Income Related Rent Subsidy**, enabling them to offer services on the same basis as Housing New Zealand Corporation.

11. Getting a better understanding of future infrastructure challenges and opportunities

One of the key challenges that lies ahead is the need to better understand the drivers of future demand for infrastructure and the options for meeting that demand in a growing economy. This information will help us address our future infrastructure challenges and opportunities, and help inform decisions we make to manage them. It will also provide a benchmark for tracking progress over time.

We will build on the recently-published National Infrastructure Evidence Base to help **develop a shared understanding of future drivers of infrastructure demand across the infrastructure network and the flexibility in the system to respond to future changes in these drivers**.

We will also **develop data or information infrastructure that supports physical infrastructure** to help to ensure better data and information about both current and planned infrastructure, including about its extent, location, performance, and capacity. This would improve physical

infrastructure investment decision making at both national and regional levels, and assist with improved management and resilience of the infrastructure over its life.

We will **explore alternative sources of funding for future infrastructure investment**, as set out in the *2011 National Infrastructure Plan*.

We will also take the learnings from Christchurch and other international disasters and **develop specific tools for businesses and planners to use to strengthen resilience**.



Progress Indicators

The Government is continuing to focus on making substantial progress on the following *Building Infrastructure actions*. Actions relating to our priority areas of focus are highlighted. Actions new to the Building Infrastructure work programme are marked as [New].

KEY

- Complete
- Implementing
- In progress
- New project

	Action	Status	Lead agency	Also in	Comment
Building our roading network	Priority area 1 – Deliver regional and inter-regional road projects to improve resilience and enhance productivity and economic growth		NZTA		<p>The Rotorua Eastern Arterial amended Notice of Requirement will be lodged at the end of 2013/14.</p> <p>The majority of RMA consent approvals have been received for the Vickers City Upgrade, and design work continues for the Waiwhakaiho bridge.</p> <p>Construction funding has been approved for the Hairini Link stage 4, and the tender process is underway.</p> <p>The Pakowhai Road in Hawkes Bay – Pakowhai & Links Rd intersection is in the design phase.</p> <p>Good progress is being made on the Hamilton City Ring Road project.</p> <p>The Manawatu Gorge is now open and NZTA is working with local authorities to improve alternative routes.</p> <p>The procurement process for Transmission Gully construction is underway.</p> <p>The Environmental Protection Authority Board of Inquiry gave final approval to the Mackays to Peka Peka project, and construction has commenced.</p> <p>A number of passing opportunities have been completed and opened on the Napier to Gisborne highway. These were funded by the Crown following the mothballing of the rail line.</p> <p>In relation to the expressway to the Port through Napier, linking the Hastings industrial area and the port, a HPVM route has been agreed to give continuous high-level route. No further action is required at this time.</p>
	Priority areas 1 and 2 – Continue progress on Roads of National Significance programme <ul style="list-style-type: none"> Construct the Waterview Connection to complete the motorway ring route around Auckland Fast track the Waikato Expressway Road of National Significance to improve safety reliability and journey time Fast track work on the other four Roads of National Significance 		NZTA		<p>The Waterview project continues to progress as scheduled. The tunnel boring machine has commenced tunnelling. Construction of the Great North Road Interchange has also commenced. There are no major delays to the programme.</p> <p>Good progress is being made on the Expressway. Both the Te Rapa and Ngaruawahia sections of the Waikato Expressway have been opened. The Cambridge and Rangiriri sections are both under construction. The project is tracking as programmed.</p> <p>Tauranga Eastern Link is under construction and is progressing well.</p> <p>Sections of the Christchurch Motorways to the west and the south of the city are complete or nearing completion.</p> <p>Sections of the Wellington Northern Corridor have been progressed through statutory procedures.</p> <p>Puhoi to Wellsford statutory procedures have been lodged with the EPA.</p> <p>Work is well underway on the MacKays to Peka Peka section of Wellington's Kapiti Expressway (M2PP). Following extensive community consultation and a design process which started in 2010, M2PP gained a resource consent from the Environmental Protection Agency (EPA) in early 2013.</p>
	Priority area 2 – Progress Auckland Manukau Eastern Transport Initiative (AMETI) and East-West link improvements		NZTA, MoT		<p>As part of Budget 2014, the Government has committed to provide the NZTA with financial assistance of \$10m to undertake further investigations on the East-West Link over 2014/15.</p>

Building Infrastructure

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Building our roading network	Priority area 1 – Complete route protection for additional Waitemata Harbour Crossing	■	NZTA, MoT		The process is continuing.
	Priority area 1 – Achieve value for money across the programme	■	NZTA, MoT		This work will include: <ul style="list-style-type: none"> the development of the Government Policy Statement on Land Transport 2015 implementation of the Road Maintenance Taskforce recommendations through the Road Efficiency Group (led jointly by NZTA and Local Government New Zealand) developing a stronger understanding of the operation and drivers in the construction market that affect the costs of road maintenance and construction.
Strengthening rail, sea and air infrastructure	Priority area 3 – Support the KiwiRail Turnaround plan [New]	■	KiwiRail, Treasury		\$844m has been advanced for the KiwiRail turnaround plan by the end of 2013/14, with an additional tranche of \$198m announced in Budget 2014.
	Invest \$1.7b to upgrade Auckland commuter rail and \$485m for Wellington	■	MoT, KiwiRail		The network is nearly complete. The first of Auckland's 57 electric trains arrived in September 2013 and passenger services on the new electric trains commenced on the Onehunga Line on 28 April 2014.
	Respond to the New Zealand Productivity Commission Inquiry on freight	■	MoT		This includes changing the competition regimes for international shipping and air services, reporting on the financial performance of the ports sector, and considering ways to improve the transparency and coordination of road and rail investment decisions.
	Priority area 3 – Implement the National Airspace and Air Navigation Plan [New]	■	CAA, MoT		The National Airspace and Air Navigation Plan was released in June 2014. The plan sets a clear direction to support decision-making on the transition from ground-based to satellite-based air navigation and surveillance technologies over the next decade.
	Priority area 3 – Review the Civil Aviation Act [New]	■	MoT		The Civil Aviation Act 1990 and Airports Authorities Act 1966 are being reviewed to ensure that they are fit for purpose. This work includes: <ul style="list-style-type: none"> the development of options to improve the framework for regulating competition in international air services options to improve the flexibility of the regulatory regime to enable industry to be responsive to changes in the aviation environment, including technological change.
	Improve the freight planning and the coordination of infrastructure investment decisions [New]	■	MoT, NZTA		There are a number of inter-related initiatives designed to improve freight planning and decision-making across all modes, with the ultimate objective of reducing costs for importers and exporters: <ul style="list-style-type: none"> The update of the National Freight Demands Study 2008 has been completed. A series of inter-regional Freight Stories is being developed by local government, with NZTA and KiwiRail. The Upper North Island Freight Story was completed in 2013, and the Central and Southern Stories are underway. Ongoing enhancements have been made to the Freight Information Gathering System and reporting on port productivity.
	Deliver on the Intelligent Transport System Technology Action Plan [New]	■	MoT, NZTA		The Intelligent Transport Systems (ITS) Technology Action Plan was published in June 2014. This plan provides guidance on the actions central government will take to support the development of ITS in New Zealand. This will help make transport systems across all modes of transport safer, more efficient, more resilient and less environmentally-damaging.
	Priority action 3 – Progress the Auckland City Rail link	■	MoT		The Government has made a commitment to a joint business case for the City Rail Link in 2017 and providing its share of funding for a construction start in 2020. The Government will consider an earlier start date if Auckland's CBD employment and rail patronage meet specified thresholds.

Building Infrastructure

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Securing our energy future	Invest \$5b through Transpower to update the National Grid and increase capacity, performance and reliability	■	Transpower, MBIE		Pole 3 of the HVDC Cook Strait cable was commissioned and put into service at the end of May 2013. The North Island Grid Upgrade consisting of a new transmission link between Whakamaru and Pakuranga was completed in October 2012. The North Auckland and Northland Upgrade project (a new underground cable circuit between Pakuranga and Albany) was commissioned in February 2014.
	Priority action 4 - Progress toward the target that 90 per cent of electricity will be generated from renewable sources by 2025 providing supply security is maintained	■	MBIE		Industry investment in new electricity projects like the Ngatamariki and Te Mihi geothermal power stations continues to increase the amount of renewable electricity generation capacity available to achieve the 90 per cent target.
	Encourage consumer switching to enhance competition in the electricity market	■	MBIE		The Electricity Authority's What's My Number campaign has encouraged New Zealanders to shop around for electricity and promoted easy customer switching.
	Priority action 4 - Insulate 46,000 homes through Warm Up New Zealand: Healthy Homes [New]	■	MBIE	Natural Resources	A new three-year insulation programme will deliver around 46,000 warmer, drier and healthier homes. The programme is targeted at households that have a Community Services Card and are at high health risk. By the end of April 2014, over 14,000 of the 16,000 retrofits targeted for this financial year had been completed.
	Priority action 4 - Study gas market security [New]	■	MBIE		MBIE has commissioned a study into risks of major gas disruptions as a first step in gaining a deeper understanding of the economic significance of supply risks.
	Priority action 4 - Develop a better understanding of existing hazard prevention and response procedures in the downstream oil sector [New]	■	MBIE		New Zealand has a number of natural hazards and key supply lines critical to economic activity. This work will involve developing a better understanding of existing hazard prevention and response procedures in the downstream oil sector.
	Review oil security in New Zealand, including identifying measures to improve domestic capability to respond to infrastructure disruptions, and contribute to international oil security	■	MBIE		The Ministry of Business, Innovation and Employment (MBIE) is working with other government departments, the oil industry, and consumer groups on seven measures to improve domestic oil security. The measures range from looking at trucking capacity in a fuel supply disruption to reviewing the information available on fuel stocks for emergency planning. The Energy (Fuels, Levies, and References) Amendment Bill has been introduced to the House to give effect to user-pays funding of our International Energy Agency obligation that contributes to international oil security.
	Priority action 5 - Roll out Ultra-Fast Broadband (UFB) through fibre to 75 per cent of New Zealanders by end of 2019	■	MBIE	Innovation	More than 420,000 users across 28 towns and cities are now able to connect to UFB. Uptake is growing with Chorus (the largest local fibre company) hosting over 18,000 UFB subscriber connections as at 31 March 2014.
Developing high-speed broadband and telecommunications	Priority action 5 - Roll out the Rural Broadband Initiative (RBI) to deliver high quality broadband and increase connectivity	■	MBIE	Innovation	As a result of the RBI programme, more than 187,000 rural homes and businesses have access to fast wireless broadband, with over 66,000 rural homes and businesses having access to improved copper broadband services.
	Priority action 5 - Undertake the Telecommunications Services Obligations review [New]	■	MBIE		The initial review findings were provided to the Minister of Communications and Information Technology at the end of 2013.
	Priority action 5 - Undertake the telecommunications regulatory review [New]	■	MBIE		The review of the Telecommunications Act is focusing on what settings will be needed post-2020 to ensure the regulatory framework promotes competition for the benefit of end users, while providing the necessary certainty for market participants. A robust and consultative process will be applied for the review to ensure that we have a durable regulatory framework for copper and fibre-based services.

Building Infrastructure

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Rebuilding Christchurch	Facilitate the development of a new Christchurch convention centre		CERA		Cabinet considered the procurement process for the Convention Centre in the last quarter of 2013. Procurement for design and construction and for an operator for the Centre is underway.
	Priority area 6 – Encourage growth through efficient urban form – create conditions for, and invest in, a more efficient and productive urban form to underpin social and economic recovery and long-term economic growth [New]		CERA		Certainty about the planning framework, and the Crown's commitment to anchor project delivery in the central city, are essential to reduce risk and encourage private sector engagement and investment. Public sector investment in streets and public spaces is a key attractor of private development. This work includes: <ul style="list-style-type: none"> • implementation of the Christchurch Central Recovery Plan, including Accessible City transport chapter • implementation of the Land Use Recovery Plan.
	Redevelop Christchurch Hospital to enable it to meet current and future needs		CERA		The business case for the hospitals redevelopment has been approved and development is underway.
	Develop a justice and emergency services precinct		Ministry of Justice		Initial work on site began in February 2014, and construction is scheduled to start in mid-2014.
	Priority area 6 – Remove damaged land from use and create conditions to ensure sufficient land is brought to market to support economic and social recovery [New]		CERA		Land damage and changing patterns of business activity as a result of the earthquakes have required new policy and amended RMA planning frameworks. This work includes implementation of the Land Use Recovery Plan to ensure that sufficient greenfield and brownfield land is available for residential, commercial and industrial use and serviced by infrastructure for the next 10 to 15 years. Land Zoning decisions are now complete. A process to consider future use of Residential Red Zones will get underway in the first half of 2014.
	Priority area 6 – Take a more strategic approach to procurement with overall oversight of government-funded or facilitated projects [New]		CERA		The amount of public and private rebuild work, and the resurgence of construction demand across New Zealand—especially in Auckland—will place pressure on the construction market. These initiatives seek to increase supply, contain project costs and risks, and maximise effectiveness of available supply capacity, and include: <ul style="list-style-type: none"> • publishing a schedule of government rebuild projects • introducing innovation and best practice to government procurement in greater Christchurch • identifying and considering options to address capacity constraints, pinch-points, inefficiencies, bundling options and risks in the supply chain.
	Priority area 6 – Ensure the restoration of horizontal and economic infrastructure, and that rebuild opportunities are leveraged [New]		CERA		There are opportunities throughout the rebuild to increase resilience and maximise the impact of the Crown's investment in rebuilding Christchurch on the productive capacity of Christchurch and Canterbury and the city's social recovery. This work includes: <ul style="list-style-type: none"> • the horizontal infrastructure rebuild • transport solutions, including arterial roads • Lyttelton Port.
	Priority area 6 – Ensure that Christchurch has fit-for-purpose, future-proofed social and community infrastructure that supports redesigned/improved services [New]		CERA		We will support redevelopment initiatives which seek to optimise efficiency and effectiveness in the design and delivery of public services, and therefore government's infrastructure investment, to lift skills, health outcomes productive capacity and lifetime incomes across greater Christchurch. These initiatives include: <ul style="list-style-type: none"> • the Canterbury Hospitals Redevelopment Project (as above) • the Education Renewal Programme • the University of Canterbury, Lincoln and Christchurch Polytechnic Institute of Technology rebuild programmes • the Justice and Emergency Services precinct (as above) • the Metro Sports Facility • Build Ready (Community and Public Facilities)—co-location of government services (and potentially co-design/delivery of services) • a network of seven new fire stations.

Building Infrastructure

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Investing in hospitals and schools	Priority area 7 - Undertake the Grey Hospital Redevelopment [New]	■	MoH, DHB		A new hospital will replace the currently seismically-compromised facility, and will invigorate adoption of new models of care.
	Priority area 7 - Invest \$1b in 21st Century Schools to modernise and transform our schools	■	MoE		New proposals are being developed, including exploring Public Private Partnership schools, as part of transforming our schools and delivering Modern Learning Environments. To date, a total of \$135m has been allocated from the \$1b set aside for future investment.
	Undertake a nationwide review of the school property portfolio to consider how 21st century teaching spaces can be provided in the right locations at the most efficient whole-of-life cost	■	MoE		The review has been completed and is currently being considered by Ministers with decisions expected in the next few months.
	Open the new prison at Wiri to deliver value for taxpayers and support the Government's focus on reducing reoffending through strong performance measures focused on rehabilitation and reintegration	■	Corrections		The new Wiri Prison is on track to open in 2015.
	Deliver the new Auckland East Prison through a Public Private Partnerships (PPP) [New]	■	Corrections		The existing 260-place maximum security facility at Auckland Prison will be redeveloped as a PPP where the private sector will be responsible for designing, constructing, maintaining and financing the new facility for 25 years.
Improving water storage and use	Priority area 8 - Deliver a portfolio of Irrigation Acceleration Fund supported grant projects	■	MPI	Natural Resources	The Irrigation Acceleration Fund has been operational since September 2011. To date, grant funding of \$27.8m has been committed to support 15 projects. Collectively, these projects provide a potential for approximately 260,000 ha of irrigation. Other projects are at the concept development stage.
	Priority area 8 - Invest up to \$400m to encourage irrigation and water storage development	■	CIIL (Crown Irrigation Investments Ltd)	Natural Resources	The Crown-owned company became operational on 1 July 2013. Crown investment will target supporting viable scheme proposals in the critical uptake risk period. The Company has announced its first investment in Central Plains Water (Stage 1) and is engaging with other potential investment partners.
	Priority area 8 - Continue with development and implementation of Resource Management Act reform, including freshwater reforms	■	MfE, MPI	Natural Resources	A proposals paper was released early last year - <i>Freshwater Reform 2013 and Beyond</i> – setting out our water reform programme. This was followed by the announcement of further steps and priorities for water reform in July 2013. The next stages of the freshwater reforms include maximising the economic benefits from water that is available for use within limits, and recognising Māori rights and interests in water in appropriate ways.
	Priority area 8 - Improve long-term planning, asset management and information provision to decision makers, communities and businesses for water, wastewater and storm water [New]	■	DIA, LGNZ		Proposed "Better Local Government" legislative changes are currently before Parliament and will improve asset management and long-term planning requirements, including: <ul style="list-style-type: none">amending the principles relating to local authorities to state that asset management should be undertaken as part of the prudent stewardship of resourcesrequiring local authorities to prepare an infrastructure strategy for at least a 30-year period, and incorporate this into their long-term plans from 2015. The sector-led "3 Waters" initiative will standardise data collection and enhance performance measurement.
	Consider how local government regulatory performance can be improved and costs to business reduced	■	DIA, Treasury		Ministers are considering a Government response to the Productivity Commission's report on better local regulation. Decisions are expected in mid-2014.

Building Infrastructure

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Boosting housing and building and construction	Priority area 9 – Free up land supply in urban areas to provide more housing [New]	In progress	MBIE	Natural Resources, Capital Markets	Land supply has been identified as a key issue for affordable housing. The Housing Accord and Special Housing Areas Act (HASHA) passed in 2013 created a framework for further housing developments with councils, by enabling streamlined consenting processes for residential developments in Special Housing Areas (SHAs). So far, the Government has agreed accords with Auckland Council and Christchurch City Council. To date, Auckland has had three tranches of SHAs established under the Act.
	Priority area 9 – Work with the private sector, local government, iwi and community groups to secure large-scale housing developments with a mix of social, affordable and general housing [New]	In progress	MBIE		\$75m of Canterbury Accord Housing Funding is to be allocated to projects demonstrating scale, productivity and pace in recovery. The first anticipated project will be the Awatea affordable housing development, demonstrating a Crown/private sector partnership with mixed housing typology.
	Priority 9 – Streamline consents and reduce compliance costs to reduce delays and overall building costs [New]	In progress	MBIE		Amendments to the Building Act 2004 introduced a new risk-based consenting regime where the amount of plan checking and inspections for building work is aligned with risk and complexity of the work and the skills and capability of those doing the work. MBIE is currently consulting with the sector on the detail of commercial and residential risk-based consenting regimes. MBIE is also investigating a National Building Consenting System that strips unnecessary costs and delays out of the system while increasing productivity.
	Priority 9 – Deliver on the Tamaki Transformation Programme	Implementing	MBIE		A final business case will be presented for consideration in mid-2014.
	Priority area 10 – Enable a more diverse range of social housing providers to offer services, including niche providers, in order to better meet tenants' needs [New]	Implementing	MBIE		Housing assessment and subsidy administration was transferred from HNZC to the Ministry of Social Development (MSD) in April 2014. As at April 2014, there were 32 deemed community housing providers able to enter into contracts with MSD to take social housing tenants. The Social Housing Fund has been boosted by \$30 million from 2015/16 to help the community housing sector provide homes for high-need families.
	Priority area 10 – Extend the Income Related Rent Subsidy to community housing providers to enable them to offer services on the same basis as HCNZ [New]	Implementing	MBIE		As of 14 April 2014, 33 community housing providers were registered with the Community Housing Regulatory Authority and eligible to enter into a contract to receive an income-related rent subsidy.
	Priority area 9 – Work with the sector to provide a clear picture of rolling three-to-five year demand and investment intentions including a construction 'pipeline', to support better matching of supply with demand [New]	Implementing	MBIE		In December 2013, the Productivity Partnership released a <i>National Construction Pipeline</i> report pointing to an unprecedented level of building and construction in New Zealand to the beginning of 2019. It is intended that the report will be updated every six months to bring together economic forecasts and data from the public and private sectors on their forward construction workload.

Building Infrastructure

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Boosting housing and building and construction	Priority area 9 - Remove regulatory barriers that drive up costs of construction (tariffs, standards, etc.) without lowering quality [New]	 	MBIE		A legislative amendment to temporarily suspend (for three years) the application of anti-dumping duties to key residential construction materials was passed in late May 2014. The development of a bounded public interest test for the anti-dumping regime and the detailed design of a temporary tariff concessions scheme for key residential construction materials are on track.
	Priority area 9 - Update building standards to reflect earthquake lessons and assist commercial property owners to make earthquake-prone buildings safer	 	MBIE		Technical amendments to key building standards arising from the earthquakes are progressing through Parliament. These changes make a number of specific reforms to the design loads/response and some of the detailing used in buildings. The focus now is on providing clear pathways and options to owners and investors. The Buildings (Earthquake-Prone Buildings) Amendment Bill has been referred to the Local Government and Environment Select Committee for consideration. The Bill strikes a balance between life safety considerations and the cost of strengthening or removing buildings.
	Develop New Zealand International Convention Centre to establish and support international connections	 	MBIE		Legislation giving effect to the New Zealand International Convention Centre Agreement between the Crown and SkyCity completed its passage through Parliament on 12 November 2013. Design work for the centre is progressing.
Infrastructure network	Encourage debate on use of demand management and pricing in infrastructure sectors	 	NIU, MoT, NZTA		Managing demand to the most effective and efficient level is crucial for ensuring New Zealand continues to grow and living standards continue to improve.
	Priority area 11 - Explore alternative sources of funding for infrastructure provision [New]	 	NIU		A key action under the 2011 <i>National Infrastructure Plan</i> is to explore alternative sources of funding for future infrastructure investment.
	Priority area 11 - Strengthen the infrastructure network information base, especially relating to future demand and asset condition and performance information [New]	 	Treasury		We are working to develop a shared understanding of future drivers of infrastructure demand across the infrastructure network and the flexibility in the system to respond to future changes in these drivers.
	Complete the review of and changes to the Resource Management Act	 	MfE		Core components of the 2013 resource management reform package were announced in August 2013. These include improved planning processes, clearer and more balanced national direction, and new consenting rules and processes to improve timeframes. These will be included in a further Resource Management Reform Bill.
	Priority area 11 - Take the learnings from Christchurch and other international disasters and develop specific tools for businesses and planners to use to strengthen resilience [New]	 	NIU		Resilience has been a core part of the National Infrastructure Unit's (NIU's) work programme since the publication of the 2011 <i>National Infrastructure Plan</i> . As part of this, NIU are working with interested parties to develop tools that can be used to enhance resilience.

The following actions have now been completed and have moved into “business as usual.”

	Action	Status	Lead agency	Also in	Comment
Building our roading network	Review and simplify land transport legislation to speed up planning processes	Completed	MoT, NZTA		This was achieved through the Land Transport Management Amendment Act 2013, which came into effect on 13 June 2013.
	Evaluate four new Roads of National Significance for development	Completed	NZTA, MoT		Further projects will be considered as part of the overall development of the Government Policy Statement, and by NZTA in developing the National Land Transport Programme.
	Modernise and simplify land transport legislation for Road User Charges	Completed	MoT		This was achieved through the Road User Charges Act 2012, which was passed on 14 February 2012 and came into force on 1 August 2012.
	Complete the Victoria Park Tunnel to remove the last major bottleneck on the Auckland motorway system	Completed	NZTA		The Victoria Park Tunnel was completed ahead of schedule and under budget in 2012 and is now open to traffic. The tunnel is operating as expected and delivering the expected efficiencies and benefits.
	Defer planned fuel tax rise and cancel Auckland regional tax	Completed	MoT		Provisions relating to regional fuel taxes were removed through the Land Transport Management Amendment Act 2013.
	Allow heavier vehicles to operate on specified routes to improve freight productivity	Completed	NZTA, MoT		The New Zealand Transport Agency is now working with Road Controlling Authorities to progressively expand the routes for High Productivity Motor Vehicles.
Strengthening rail, sea and air infrastructure	Commit \$750m to the \$4.6b Kiwi Rail turnaround plan	Completed	KiwiRail, Treasury		\$750m was advanced by the end of 2012/13, with an additional tranche of \$94m announced in Budget 2013.
	Investigate the development of a new sea freight terminal at Clifford Bay	Completed	MoT, NZTA		A report considering the commercial viability of a terminal at Clifford Bay has been completed and concluded Picton should remain as the southern terminal for the interisland ferries. The result of the study was announced in November 2013.
	Develop the National Airspace Policy to guide the future direction of airspace design and designation	Completed	MoT		The National Airspace Policy was released in 2012. It set a high level framework for the development of the National Airspace and Air Navigation Plan.
Securing our energy future	Reduce red tape by removing bans on incandescent light bulbs and new thermal power stations	Completed	MBIE		The restriction on new fossil-fuelled thermal electricity generating capacity was repealed on 23 December 2008. March 2013 saw the opening of Nova Energy's new 100 MW, gas-fired McKee Power Plant in Taranaki, which will be a valuable asset to New Zealand's electricity system. Energy efficient lighting is now supported through EECA's minimum energy performance standards and information campaign. Data indicate that sales of efficient bulbs increased by 15 per cent in the year to May 2013.
	Transfer assets between the State owned electricity generators to encourage competition in the electricity market	Completed	MBIE		These three actions were recommendations of the 2009 Ministerial Review of Electricity Market Performance.
	Require major generators to put in place an accessible electricity hedge market	Completed	MBIE		Tekapo A and B hydropower stations were transferred from Meridian Energy to Genesis Energy on 1 June 2011.
	Introduce compensation for consumers in the event of a conservation campaign or dry year power cuts	Completed	MBIE		This measure, along with the What's My Number campaign and the virtual asset swaps (inter-generator hedges) has contributed to an increase in customer switching and a reduction in retailer concentration (particularly in the South Island). The hedge market and the consumer compensation scheme have been developed and are in use.
	Reduce electricity bureaucracy by replacing the Electricity Commission with the Electricity Authority	Completed	MBIE		These actions have improved generators' risk management, which, in turn, has improved dry-year security of supply. The market coped well with record low inflows into the southern hydro lakes in the lead up to winter 2012. Sufficient storage levels were maintained and there were no adverse effects on consumers. The Electricity Authority was established in November 2010 with the objective of promoting competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.

Building Infrastructure

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Securing our energy future	Complete an East Coast oil and gas development economic study	Completed	MBIE		A study report assessing the potential for onshore oil and gas development to contribute to the East Coast economy was released on March 7, 2013. The report provides a set of possible development scenarios, their implications, and economic data to support informed dialogue on the exploration of oil and gas resources in the East Coast region.
Developing high-speed broadband and telecommunications	Accelerate digital television switch over to enable higher value use of 700 MHz spectrum (4G spectrum) for ICT purposes	Completed	MBIE	Innovation	Implementation of spectrum clearing from the full conversion to digital broadcast television was completed by 31 December 2013.
	Regulate termination rates to improve competition	Completed	MBIE		Mobile Termination Access Services (MTAS) were regulated by an Order in Council that came into force on 24 September 2010. The Commerce Commission completed a Standard Terms Determination for MTAS on 5 May 2011.
	Establishment of a National Cyber Policy office to enhance New Zealand's cyber security	Completed	MBIE	Innovation	The National Cyber Policy Office became operational in July 2012 to lead the development of cyber security policy advice for government, and to provide advice on investing government resources in cyber security activities.
	Investigate the level of competition in the trans-Tasman roaming market	Completed	MBIE		A report was published on 9 February 2013 on trans-Tasman roaming services. The Government has accepted the report recommendations and proposed amendments to the Telecommunications Act to give them effect are under consideration.
Rebuilding Christchurch	Establish and manage a Canterbury Earthquake Recovery Fund of \$5.5b for the government's share of rebuilding infrastructure and Crown owned assets	Completed	Treasury		The Canterbury Earthquake Recovery Fund was established in 2011 and, following Budget 2013, is now fully committed.
	Establish Invest Christchurch to facilitate investment	Completed	CERA, Treasury		This was established within CERA in 2012.
	Develop and release the Christchurch Central Recovery Plan	Completed	CERA, Treasury		The Christchurch Central Recovery Plan was released on 31 July 2012.
	Christchurch Temporary Stadium: underwrite 17,000 capacity stadium in Christchurch	Completed	CERA		The Christchurch Temporary Stadium was opened on 24 March 2012.
Investing in hospitals and schools	Health facilities: \$1.75b of capital spending by DHBs to support improved frontline delivery of health services for patients	Completed	MoH, DHBs		\$2.3b has been invested since 2008 on DHB health facilities and equipment.
	Establish the Health Capital Investment Committee to improve planning and nationally prioritise investment	Completed	MoH, DHBs		The Health Capital Investment Committee has been established.
	Complete the first schools Public Private Partnership to realise cost savings and allow the new Board of Trustees to focus on student learning and achievement	Completed	MoE, Treasury		The Hobsonville Point Primary school opened in early 2013 and the secondary school opened in early 2014.
	Capital investment in police stations including refurbishment and modernisation to better support frontline policing and reducing crime	Completed	NZ Police		One new police station has been built (Flatbush) responding to population growth, with five others replaced and three others refurbished. Four more replacements are underway.

Building Infrastructure

KEY: ■ Completed ■ Implementing ■ In progress ■ New project

	Action	Status	Lead agency	Also in	Comment
Improving water storage and use	Establish a new Irrigation Acceleration Fund to support the development of irrigation schemes	Completed	MPI	Natural Resources	The Irrigation Acceleration Fund has been operational since September 2011.
	Develop and implement a new strategic direction for fresh water management through the Freshwater programme	Completed	MfE, MPI	Natural Resources	A proposals paper was released early last year - <i>Freshwater Reform 2013 and Beyond</i> – setting out our water reform programme. This was followed by announcement of further steps and priorities for water reform in July 2013.
	Respond to the newly established Local Government Infrastructure Expert Advisory Group investigating how to reduce the cost of purchasing, providing and maintaining local government infrastructure	Completed	DIA		The report was released on 17 April 2013. The Government has now considered the report's recommendations as part of its decisions to amend the Local Government Act to improve infrastructure delivery and asset management.
	Support and facilitate the establishment of the new Local Government Funding Agency	Completed	DIA, Treasury	Capital Markets	The Agency was established on 1 December 2011. To 2 August 2013, it had borrowed \$2.475b.
	Develop and introduce new non-financial performance measures for the 'three waters'	Completed	DIA		These were promulgated in November 2013. Local authorities will apply them in their long-term plans commencing for the 2014/15 financial year.
	Implement new consistent financial forecasts for local authorities including the identification of planned expenditure and funding sources	Completed	DIA		The 2012 long-term plans contained the first disclosures under the new requirements. The 2013 council annual reports will be the first to provide this information.
Boosting housing and building and construction	Implement a \$1b financial package for leaky homes	Completed	MBIE		The Financial Assistance Package has been successfully implemented. As of 30 March 2014, there were 1,188 active claims, representing 4,416 dwellings, which have taken up or are taking up the Financial Assistance Package.
	Ensure by 2013 every state house built before 1978 that can be insulated is insulated	Completed	HNZC		Housing New Zealand's Energy Efficiency Retrofit insulation programme is committed to insulating all state rentals built pre-2000 by the end of 2013. As at 30 June 2013, a total of 46,599 homes have been insulated under the programme, including 8,295 homes in 2012/13.
	Reduce the cost of do-it-yourself building work by removing regulatory hurdles	Completed	MBIE		The Building Amendment Act 2012 provides an exemption for owner-builders to carry out restricted building work without supervision by a licensed building practitioner under certain conditions.
	Fast track building consents for standard, multiple-use building designs	Completed	MBIE		The National Multiple-Use Approval Service is continuing to be used by builders and designers. There is a particular focus on modular type construction for the Canterbury rebuild.
	Respond to the New Zealand Productivity Commission Inquiry on affordable housing	Completed	MBIE, Treasury		The Government agreed to a comprehensive work programme to address four key areas affecting housing affordability: land supply, provision of infrastructure, productivity in the construction sector and costs and delays in the regulatory process.
	Review Accommodation Supplement and Income Related Rent Subsidy as part of the Social Housing Reform Programme	Completed	MBIE		A report on the options to change the Accommodation Supplement and Income Related Rent Subsidy has been provided to Ministers for consideration.
Infrastructure network	Establish the Future Investment Fund for investing in public infrastructure assets	Completed	Treasury	Capital Markets	Budget 2014 allocated a further \$1b of new capital from the Future Investment Fund, including: \$200m for health sector projects, \$198m for KiwiRail's Turnaround Plan, \$172m for school property expansion, completion of a new school at Pegasus near Christchurch, \$75m for Canterbury housing development, \$40m to invest in irrigation infrastructure. Almost \$3b has now been allocated from the Future Investment Fund.

Progress on Cross-Cutting Themes

The Government has three cross-cutting themes, which are reflected across the Business Growth Agenda workstreams.

Māori economic development

Māori economic activity is an important part of the New Zealand economy and holds significant potential for further growth, particularly through skills development and export growth. He kai kei aku ringa - the Crown-Māori Economic Growth Partnership (HKKAR) - was launched in late 2012 as an ambitious strategy for achieving this growth through partnership between Māori, government, and industry.

He kai kei aku ringa ('food from one's own hands') provides a vision of what sustained economic growth in the Māori economy would look like, as well as the actions required to achieve this growth. With its focus on supporting educational achievement and skills development, realising the potential of the Māori asset base, and growing Māori businesses, He kai kei aku ringa aligns closely with the BGA and its targets.

HKKAR includes six goals that align closely to the BGA. The six goals are:

- greater educational participation and performance
- skilled and successful workforce
- increased financial literacy and savings
- government, in partnership with Māori, enables growth
- active discussions about the development of natural resources
- Māori Inc as a driver of economic growth.

We have made some significant achievements within the HKKAR programme of work. The Māori Economic Development Advisory Board has been established, and has set its key priorities for the next 12 months with a focus on education and skills as an important foundation for growth. The Board has been leading cross-agency workshops to identify all work across the public sector that relates to each of HKKAR goals. So far, workshops have been held on goals one, two and four, with relevant public service agencies telling their story of how they are contributing to each of these goals, with further workshops to come for each of the goals.

The Board has already identified significant public sector work underway that supports the goals of HKKAR. This includes work by Statistics New Zealand to gather data on Māori business activity and the Ministry for Primary Industry's programme to improve the management and productivity of Māori-owned land, beginning in Northland.

In addition, in Budget 2014, the Government announced \$8 million in operating funding over four years towards a Māori Innovation Fund, to be managed jointly by the Minister of Science and Innovation and the Minister of Māori Affairs.

The Board will continue to work to make assessments about the current activity carried out by the public sector that contributes to Māori economic development - to identify where that activity is having a positive impact, where the activity does not appear to be having an impact and where there are gaps or impediments to moving forward. The Board is also focused on working with the private sector to enable the partnership approach that HKKAR envisions.



Greening growth

“Green growth means fostering economic growth and development while ensuring that the natural assets continue to provide the resources and environmental services on which our wellbeing relies.”

Towards Green Growth: a summary for policymakers, OECD, May 2011

Green growth is emerging as a key global challenge of the 21st century. This was recognised by the Government when it established the Green Growth Advisory Group, which brought together a group of business leaders to provide advice about opportunities for green growth to contribute to an increased rate of economic growth for New Zealand.

The Advisory Group reported in December 2011 with 26 recommendations on how to achieve this, drawing on international best practice.

Many of these recommendations have already been implemented by the Government, and others are presently being actively pursued or considered. The focus is on enabling firms to produce higher-value products more efficiently and with reduced environmental impact.

Actions to support greening of growth are occurring across the whole Business Growth Agenda. We have already implemented several major initiatives that support the Advisory Group's recommendations, including:

- the New Zealand Story, which provides exporters with a compelling narrative that emphasises (among other things) our green credentials
- the Primary Growth Partnership, which will enhance productivity and sustainability in primary industries
- reforms to the Resource Management Act, which are explicitly focused on achieving better economic and environmental outcomes
- programmes that promote better waste minimisation and product stewardship, in order to reduce environmental footprints along product life cycles

- the Agricultural Greenhouse Gas Research Centre, which develops and promotes farming practices to reduce greenhouse gases
- the National Science Challenges, which have an underlying theme of climate change mitigation, with four of the ten agreed challenges directly supporting green growth.

We will continue to press ahead with policies that support greening growth, in line with the Advisory Group's recommendations, including:

- making further reforms to the Resource Management Act; such as the use of collaborative processes to manage fresh water and other natural capital
- promoting energy efficiency and reduced greenhouse gas emissions through programmes targeted at businesses
- more systematically identifying and assessing domestic regulatory regimes that are important for the New Zealand brand
- introducing green growth indicators through the Environmental Reporting Framework
- working towards our target of 90 per cent of electricity being generated from renewable sources by 2025.

Actions within the Building Skilled and Safe Workplaces and Building Capital Markets workstreams also support greening growth by ensuring businesses have access to the human and financial capital they need to take advantage of opportunities in this area.



Regulation

To build a more productive and competitive economy, we need a regulatory environment which is efficient and effective. Quality regulation has a profound impact on economic growth, while promoting public safety, and social, and environmental goals.

The Government continues to be committed to improving our regulatory regime, with regulatory reform cutting across all six Business Growth Agenda workstreams. Agencies across all six Business Growth Agenda workstreams are working together to ensure a cohesive, coordinated approach to the regulation of the New Zealand economy. We have made some significant achievements in recent times, including:

- improving the regulatory framework that governs New Zealand's capital markets by establishing the Financial Markets Authority and implementing the Financial Markets Conduct Act 2013
- continuing to achieve greater regulatory coherence with key trading partners through the progression of our FTA agenda
- consulting on new freshwater management arrangements that will result in a revised National Policy Statement with better guidance for local government
- launching Working Safer – the most significant reform of New Zealand's workplace health and safety system in 20 years
- aligning New Zealand's patent settings more closely with those of our trading partners by passing the Patents Act in August 2013.

However, we still have work to do. Regulatory performance is underpinned as much by the performance of regulators in implementing the regulation, as by the regulatory policy itself. Recent regulatory failures in New Zealand demonstrate that implementation, monitoring and maintenance are just as important for regulatory performance as the policy design.

The Government is committed to a more active stewardship of our regulatory regimes—monitoring to make sure regulation is fit for purpose and improving it where necessary. Departments are also now required to disclose the quality assurance processes undertaken in developing and testing new legislation. Improved disclosure will increase scrutiny and transparency, and improve how objectives are translated into effective implementation on the ground.

Looking ahead, we will continue to drive improvements to New Zealand's regulatory regime. The Ministry of Business, Innovation and Employment is trialling new ways of assessing the performance of their regulatory systems. This includes looking across regulatory systems to find and share lessons about improving regulatory practices.

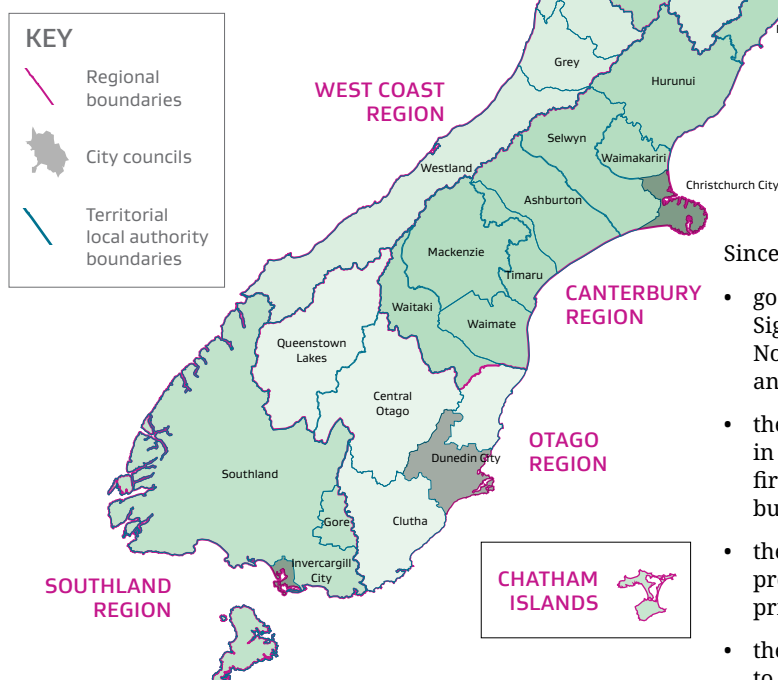
We have also asked the Productivity Commission to identify how to make improvements in the quality and effectiveness of regulatory institutions and practices. We look forward to receiving the Productivity Commission's final recommendations which are due to be released on 30 June 2014.

Regions and Sectors

While over one third of New Zealand's business activity is concentrated in Auckland, most of our economy is spread across our other, geographically-larger regions.

Each region contributes differently to the national economy. Auckland and Wellington tend to provide national services, while various primary sector based exports are produced in other regions. For New Zealand to become more productive and competitive, we need the businesses in each region to be successful, delivering high quality products and services that contribute to the national economy, and that generate jobs and good living standards for local people.

Many of the actions in the BGA are focused on strengthening local business environments and building better connections between the regions and the cities to create a more productive and competitive national economy.



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regions

9 NORTH 7 SOUTH

Several new regional economic initiatives have been identified as areas for future focus within the BGA, including:

- a Regional Economic Growth Programme, which will produce a series of in-depth reports on the future sectoral and business opportunities in the regions. Studies for the Northland, Bay of Plenty and Manawatu-Wanganui regions are planned to be completed this calendar year
- a Regional Investment Attraction Programme, focused on attracting foreign direct investment into the key business opportunities in each region.

Since the BGA was introduced:

- good progress has been made on the seven Roads of National Significance, with sections of each highway complete in Northland, Auckland, Waikato, Bay of Plenty and Canterbury, and planning approvals being finalised in Wellington
- the Ultra-Fast and Rural Broadband roll-out is available in 28 towns and cities across the regions. Northland is the first region to have the Ultra-Fast Broadband infrastructure build complete
- the government-industry Primary Growth Partnership has 18 programmes announced as at 1 April 2014 that will help drive primary industry research and innovation across the regions
- the Irrigation Acceleration Fund has allocated \$18.3 million to support 11 projects in Hawke's Bay, Wairarapa, Canterbury and Otago
- Māori and Pasifika Trades Training contracts have been awarded in Waikato, Gisborne, Hawke's Bay, Wellington and Canterbury, and negotiations for further contracts are finalising in other regions
- the Government has improved the information available to decision-makers about regional economies. It has released official regional GDP statistics covering 2007 to 2013, a report on Government expenditure in regions, and the *Regional Economic Activity Report*, which pulls together all the available statistics on regional economies.

The New Zealand Sectors Report Series

The New Zealand Sectors Report series is a set of seven publications, providing accessible information on all the industry sectors that make up the New Zealand economy.

The *Main Report* provides a snapshot of 23 different sectors, while the other six reports provide an in-depth analysis on six specific sectors:

- information and communications technology
- high technology manufacturing
- petroleum and minerals
- construction
- tourism
- knowledge intensive services.

Major trends outlined in the reports include:

- the increasing digitisation of most economic and social activities, with new technologies changing the structure and competitiveness of all industries
- the continuation of a long-term shift from manufacturing jobs to services jobs, similar to other developed countries
- a fundamental transition that New Zealand has made from supplying northern hemisphere markets to supplying the Asia-Pacific region, with export growth driven in particular by China
- the critical role Australia continues to play in the development of New Zealand's higher-value export industries and in building New Zealand-owned multinationals. Australia remains our largest market for tourism, manufactured goods (including high technology manufacturing), commercial services (including IT), processed foods, oil, gold and wine
- the tendency for high-growth export sectors to invest more offshore, as well as attract more foreign investment (e.g. high-technology manufacturing, IT services, food and beverage sectors)
- the significant change in New Zealand's export mix over the past 40 years. While dairy is the headline export story, past major export products have declined (such as wool) and new categories have emerged (such as wine, processed foods, commercial - including IT - services, high technology manufacturing and others)
- the tendency for larger firms (100+ employees) to engage more than smaller firms in innovation and R&D activities, and invest more offshore and in forwards or backwards supply chain integration. These large firms also generate the vast majority of exports and create more jobs.



The New Zealand Sectors Report series is intended to inform public debate, and be a resource for business people, exporters, policy makers, media commentators, economists, academics, students and anyone with an interest in New Zealand's economic development.

The data provided in these reports will be updated on a regular basis, and additional sectors be given an in-depth analysis. Over the next year, we are also aiming to publish much of this data online in a dynamic and interactive format.

