



Statement to Parliament

Hon. John Key
Prime Minister

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The Government starts 2010 with a very full programme of reform in front of it.

Our eyes will be firmly on the economy this year as we continue to implement our economic plan.

Only by lifting our country's economic performance can we deliver New Zealanders the jobs, increased incomes and better living standards they aspire to and deserve.

Last year saw the worst global economic and financial crisis since the Great Depression. Almost all the world's developed countries went into recession and a number are now facing fiscal crises.

The good news is that New Zealand has weathered the worst of the global crisis, and New Zealanders can be pleased at how well this country has come through it.

The economy has performed better than almost anyone expected a year ago and is now starting to grow again.

That has been due to a combination of factors including the resilience of New Zealand businesses, the relatively strong performance of trading partners like China and Australia, the swift monetary policy response of the Reserve Bank, and the sound economic management of the Government.

While unemployment is higher than any of us would wish it to be, it is encouraging that the loss of existing employment almost completely halted in the last quarter. But every person

out of work is one too many. That is why the Government's focus remains on the economy and on jobs.

Last year we introduced a number of measures to help stem job losses, in particular by maintaining a sizeable fiscal stimulus, cutting tax and bringing forward public infrastructure spending.

However, in the longer term, sustainable jobs will only be created when people have the confidence to invest in productive businesses, which can then expand and take on new employees.

It is encouraging to see that businesses are reporting a marked increase in confidence, and are positive about hiring new staff over the coming year.

New Zealand actually has the opportunity to come out of the recent downturn in a better position than many other countries and be well placed to attract investment, build productive firms and create jobs.

We have a lot of things going for us as a country. We are rich in natural resources, we are one of the best food producers in the world, we have a beautiful landscape, and we are home to some of the smartest and hardest-working people in the world.

However we have not been making the most of our strengths.

This is demonstrated by the fact that the New Zealand economy was already in recession

well before the global crisis struck. Our export sector was in poor shape, having stagnated for several years. New Zealand has long spent more than it earns, resulting in a high level of debt to the rest of the world. The Government is running budget deficits caused by a slump in revenue and previous big increases in spending.

In recent times New Zealand incomes have fallen further and further behind the countries we like to compare ourselves with, including Australia.

The Government is committed to turning things around and in particular to closing the gap with Australia.

We are keeping a tight lid on new spending over the foreseeable future, which will enable us to get the budget back into surplus and keep public debt under control. Tight control of spending will also help to keep pressure off interest rates, which means lower mortgage costs for New Zealanders.

Overall, our economic policies are aimed at shifting the economy more towards exports and productive investment, and away from consumption and borrowing.

2010 will be about putting in place policies to grow the economy and create sustainable new employment, not just this year but over the longer term. This Government was elected to achieve a step change in our overall economic performance and that is what we intend to deliver.

The Government's other priority this year

is to make significant reforms in social sectors like the welfare system, education, the justice system, health and state housing. New Zealanders deserve a future with less unemployment, welfare dependence, crime and all the social problems that go along these. To secure this brighter future we have to get to grips with some of the big issues in these areas which have long been left unaddressed. We owe that not just to the people who receive these important public services, but to all New Zealand taxpayers.

THE GOVERNMENT'S ACHIEVEMENTS IN 2009

Before I lay out the details of the Government's programme for 2010, I want to briefly review the events of last year.

As well as getting New Zealand through the global economic and financial crisis in as good a shape as possible, the Government was committed to advancing our election policies and keeping our word to the voters who placed their trust in us.

The vast majority of our election policies have already been implemented, or are well on the way.

In Health, for example, we have delivered an additional 11,805 elective operations – a record annual increase. We have funded a 24-hour Plunketline and a 12-month course of Herceptin. We have increased the number of doctors being trained and introduced a new voluntary bonding scheme to encourage health professionals to stay here in New Zealand.

In Education, we have legislated for and designed National Standards in literacy and numeracy for Year 1-8 children. We have invested in a 21st Century Building Plan to build new schools and improve existing ones. We have increased the options for secondary-age students outside the traditional school system by progressing our Youth Guarantee and Trades in Schools policies.

In Law and Order, we have passed new laws to toughen sentences and restrict bail for violent offenders, improve police powers, crack down on gangs and support the victims of crime. We have provided funding for an additional 600 frontline police, and we've given the police new tools to go after criminals, including 720 tasers and the power to DNA-test offenders arrested for imprisonable offences. We've passed legislation to deal with boy racers and we've launched a crackdown on the drug P which is already resulting in increased seizures, lab busts and prosecutions. And we have legislation before this House to strengthen New Zealand's parole laws.

We have also completed the first stage of Resource Management Act reforms, taken decisive action to sort out the electricity sector and have put red tape under the microscope, undertaking reviews of 14 major pieces of legislation.

We confirmed an unprecedented \$7.5 billion of new spending to invest in much-needed infrastructure and unclog New Zealand's economic arteries.

We have passed legislation to amend the Emissions Trading Scheme, ensuring it

strikes a better balance between New Zealand's environmental responsibilities and our economic opportunities. This balance is vital to ensuring that New Zealand jobs aren't sacrificed in pursuit of overly-ambitious climate change targets.

We have done what we were elected to do and we have kept our promises.

OUR SUPPLY AND CONFIDENCE PARTNERS

None of this would have been possible without ACT, the Maori Party and United Future, and I want to acknowledge their ongoing collaboration and support.

They have given us support on confidence and supply, and on a range of bills consistent with their own policies. They have made a valuable contribution to the Government's decision-making in cabinet committees.

Importantly, between parties there has been a high level of trust, respect, and a willingness to find solutions together.

On occasion during the past year there have been differences of opinion between National and one or other of our support partners. That is democracy in action. But through it all, we have worked well together to provide stable and inclusive government for all New Zealanders.

OUR PRIORITY FOR 2010 – THE ECONOMY

The coming year will continue the Government's focus on the economy and on jobs.

Our goal is to lift the long-term performance of the economy, to make New Zealand a more prosperous country capable of providing well-paid jobs and a better standard of living for us all, and to provide the world-class public services needed to give opportunity and security to New Zealanders and their families.

At the heart of the Government's economic plan lies six main policy drivers: a growth-enhancing tax system; better public services; support for science, innovation and trade; better regulation, including regulations around natural resources; investment in infrastructure; and improved education and skills.

The Government has had a number of review groups and taskforces looking at these different aspects of the economy.

I have also asked Ministers to look closely at their individual sectors through an economic growth lens. I asked them to identify areas where the Government could remove barriers that prevent resources being used most productively, and where we could do more to encourage innovation, skills and employment.

These processes have helped the Government chart a clear way forward.

We are of course acutely conscious that New Zealand's wealth is ultimately generated by

the private sector – by the small firms, the big companies, and the sole traders who generate the jobs, the profits, and the return on investment that drives our economy. It is these businesses which will ultimately bring about the step change in the New Zealand economy.

A GROWTH-ENHANCING TAX SYSTEM

The tax system changes people's behaviours and is therefore a powerful lever for the Government to boost economic performance.

The Government agrees with the Tax Working Group that New Zealand relies heavily on the taxes most harmful to growth, particularly corporate and personal income taxes; that there is a hole in the tax base around the taxation of property; that the tax system lacks integrity and fairness because of differences in the treatment of entities; and that there are significant risks to the sustainability of the tax revenue base.

We have a tax system that taxes labour and investment income at relatively high rates, taxes consumption at a relatively low rate and generally gives money back to people when they invest in residential property.

Is it any wonder that our economy is tilted towards consumption and property investment, that we have a shortage of savings, and that a high proportion of New Zealand graduates live overseas?

Tinkering over recent years has made the tax system more complicated, led to poor incentives in the economy, and created a raft

of different ways for people to minimise their tax payments.

The Government will therefore be introducing measures this year to reform the tax system. We intend to announce those measures as part of the Budget in May.

The Government has a number of objectives with regard to tax reform.

We need a tax system that creates incentives for people to work hard, improve their skills and get ahead here in New Zealand.

And we need a tax system that encourages saving and boosts the productivity of investments.

In both these ways, the tax system helps to drive economic performance and create jobs.

Furthermore, we need a tax system which is not difficult to comply with or administer, which is regarded as fair, and which limits opportunities to divert income and reduce tax liabilities.

In other words, we want people to pay their fair share of tax. Fairness is a very important consideration to this Government. In working through reform options we are keeping the equity of tax changes squarely in mind.

That is one reason we are not only looking at possible reductions to the top personal tax rate. That is where a lot of commentary has focused, but the Government has always been looking at the whole personal tax structure, across the board.

The Tax Working Group discussed a broad range of options for tax reform. The Government has considered all of these options closely.

Some of the options discussed by the Tax Working Group are not favoured by the Government, for a variety of reasons, and will not be progressed.

In particular, we will not be developing any proposals for a land tax, a comprehensive capital gains tax, or a risk-free return method (RFRM) for taxing residential investment properties.

These decisions were taken after detailed consideration of the pros and cons.

Since there is only a certain amount of land, and it can't be moved overseas, a land tax appeals to economists as an efficient way to raise revenue. However, a land tax is effectively a lump-sum tax on people who own land at the time the tax is introduced, would only fall on people who hold their wealth in one particular form, and would create cash flow problems for many landowners, especially those with lower incomes.

An RFRM is another tax that, while having some conceptual appeal, would also create cash flow problems for taxpayers. A property owner could have a very sizeable tax bill each year under an RFRM, but little or no ability to pay it, except by putting up rents.

A comprehensive capital gains tax extends the tax net and is highly progressive. However in the Government's view it would make the

tax system more complex to administer and comply with, and may encourage taxpayers to hold on to assets longer simply to avoid tax.

These new taxes are therefore off the table.

However the Government does believe there is a gap in the current tax system around property investments where income is being derived but, in aggregate, no tax is being paid – in fact the Government is actually losing revenue in this sector.

We will therefore be making changes to the way property is taxed, which will result in increased Government revenue and more fairness for taxpayers. These changes will be announced in the Budget.

The Government is also carefully considering a modest increase in the rate of GST, to no more than 15 percent.

We are acutely aware of the effect that a rise in GST could have on lower income families.

Therefore, if an increase were to occur it would have to be accompanied by across-the-board reductions in personal taxes, as well as up-front increases in benefits, New Zealand Superannuation, and Working for Families payments.

The net result of a reduction in personal income taxes, and a modest increase in GST, is to give people more choice. Their take-home pay would increase and they could use that increase to save, or pay off their mortgage, without being taxed on it. Savings and investment are therefore encouraged, rather

than consumption.

GST is also a very difficult tax to avoid, no matter how people structure their financial affairs. As David Lange once observed, even drug dealers pay GST.

No decisions have yet been made about raising GST and the Government has asked for more work to be done on this.

Suffice to say, the Government would not embark on a policy of increasing GST unless it would benefit the New Zealand economy in the long term and unless it saw the vast bulk of New Zealanders better off.

The Government is not, however, considering any major changes to the Working for Families scheme.

Higher income families will benefit more from personal income tax cuts, simply because they pay more tax. The Government does not want to magnify this effect by taking money from low to middle income families through a reduction in Working for Families. In addition, increasing the targeting of Working for Families would run counter to the Government's desire to reduce people's effective marginal tax rates.

Our main concern with Working for Families is the possibility that people can earn a lot of income, but do so in a way that means they are still eligible for Working for Families payments. That is contrary to the intent of the policy, which is aimed at supporting genuine low to middle income earners. The Government is therefore looking

at how to make Working for Families fairer in this regard.

While the Government has ruled out some of the proposals discussed by the Tax Working Group, most of the options discussed by the Group still remain on the table.

BETTER PUBLIC SERVICES

New Zealanders also want to know that the tax they pay is being spent as wisely as possible.

This year the Government will continue to drive savings in the public sector, demand stronger performance from government agencies, and lift the quality of public services.

We began that process last year by capping core government administration and by conducting a line-by-line review of expenditure as part of the 2009 Budget. That review identified a total of more than \$2 billion in spending over four years that was redirected to frontline services.

That was not a one-off exercise. The pressure on government departments to lift their game will be constant. Most agencies will see no additional funding for several years. They will therefore need to make enduring and significant changes to the way they operate, including reorganising their back office administrative functions, making better use of technology, exploring innovative options for delivering services, and sharing support services with other government agencies.

Resources must move to better support

frontline services for the public.

The Government will also improve the way the Crown's assets and liabilities are managed. The Crown has a very large balance sheet, with over \$200 billion of assets. We owe it to New Zealanders to exercise a standard of stewardship that reflects the size of this investment.

SCIENCE AND INNOVATION

New Zealand's future economic performance depends to a large extent on generating and using new ideas.

We are home to some of the brightest and most innovative people, scientists and inventors in the world. Despite our small size, and distance from foreign markets, New Zealand companies have time and again proven themselves capable of producing world-beating products and services.

From Weta Digital and Icebreaker through to Zespri and Fonterra, New Zealand's leading exporters have harnessed science and innovation to develop new products and improve the way they do business.

The challenge for New Zealand is to get more of our firms using science, research and technology to deliver more valuable products and services, which in turn allows them to succeed in competitive export markets and to create new and better-paid jobs for New Zealanders.

Science and innovation are therefore key elements of the Government's economic

agenda, both this year and into the future. Our objective is a high-performing public science system which supports economic growth, and a wider innovation system that encourages firms to increase their investment in, take-up, and application of research.

This year the Primary Growth Partnership gets fully up and running, with the Government investing up to \$40 million, alongside industry, in research and innovation to boost New Zealand's primary, forestry and food sectors. This investment rises to \$70 million in future years.

We are also investing significantly this year in the Domestic Centre for Agricultural Greenhouse Gas Research, and in the Global Research Alliance, to drive much-needed research on agricultural greenhouse gas emissions.

This year the Government will fund a network of open access food development and commercialisation facilities across New Zealand. This network will provide the infrastructure that food and beverage firms need to develop new ingredients and consumer products.

The Government therefore remains committed to high quality innovation in New Zealand's traditional resource-based sectors. However, we also want to boost our support for innovation in newer, knowledge-intensive activities like high-tech manufacturing. Growing a substantial portfolio of these businesses, beyond our core resource-based strengths, will be important for New Zealand's future economic growth.

In 2010 the Government will be making changes in the way we invest in Crown Research Institutes (CRIs). The Government believes CRIs can be more powerful engines of growth and we plan to introduce changes to deliver greater benefits for New Zealand. We will also introduce measures to get more research and knowledge out of CRIs and into firms.

As I indicated earlier, the fiscal situation means that future new spending allowances can only be very modest, and most agencies will miss out on funding increases altogether.

Nevertheless, science and innovation, and how they can underpin business opportunities, are so important for this Government that we have made this area a priority for new spending in this year's Budget, with a focus on boosting business research and science capability.

TRADE

This year the Government will continue to open up New Zealand exporters' access to world markets. We want to make it easier for New Zealanders to sell their goods overseas so they can create more jobs back home.

In 2009 we signed free trade agreements with Malaysia and with the 10 countries of the ASEAN block. This year we will be signing agreements with Hong Kong, and with the economies of the Gulf Cooperation Council.

The Government will also press ahead with perhaps our most important trade negotiation, working towards a free-trade agreement

with the United States through the Trans-Pacific Partnership. In addition we will be undertaking important trade negotiations with India and Korea.

Efforts on the multilateral front will also continue, as we strive for a conclusion to the Doha round of WTO negotiations.

The Government will put considerable energy into obtaining these trade agreements because New Zealand's future economic prosperity depends on them. New Zealand exports already support a significant proportion of jobs in New Zealand. By increasing our access to world markets we have the potential to create many more of the high-quality and well-paid jobs that New Zealanders seek.

With regard to our main trading partner, Australia, the Government intends to push hard for progress on the Single Economic Market.

Australia is often the first stop for New Zealand businesses looking to expand into an overseas market, but getting to grips with different federal and state regulations can sometimes be a challenge. The Single Economic Market is about aligning the regulatory environment in New Zealand and Australia, so that a New Zealand company can do business in Palmerston, Northern Territory as easily as it can in Palmerston North.

We want to give the Single Economic Market a new impetus this year and that is something I will be discussing with Prime Minister Rudd.

BETTER REGULATION

Across all portfolios, the Government has been looking carefully at areas where overly-restrictive regulation may be getting in the way of doing business, and we have a commitment to better and less regulation.

Work will continue on a programme of regulatory reform designed to unleash enterprise. This will include reviewing existing regulations in order to identify and improve or remove those that are unnecessary or ineffective. It will also include a careful review process to ensure that the introduction of any new regulation passes a high hurdle in terms of its likely effectiveness.

For example, the Government will continue to look at whether labour laws are imposing excessive costs on the country and holding back opportunities to create jobs.

We will be introducing legislation this year to amend the Holidays Act, following the report from the Advisory Group set up to examine this area. The Government also shares concerns from many quarters about the fairness and consistency of personal grievance decisions. We will be releasing a discussion document this year on ways to improve their fairness and certainty and, if necessary, will introduce amending legislation.

UNLOCKING RESOURCES

This year the Government will also be looking at regulations that may be preventing natural resources being used most productively, or in

some cases being used at all.

In general, the Government is in favour of unlocking resources for economic benefit and to create better-paid jobs for New Zealanders, where this is also consistent with our environmental, conservation and other objectives.

This year we will be pushing ahead with the second phase of resource management reforms. Ten separate streams of work are underway, covering economic growth areas like infrastructure, urban design and critical work on improving New Zealand's freshwater management.

The Emissions Trading Scheme will be in effect, and government agencies will continue to implement our climate change policy in a way which encourages New Zealanders to make choices that further our climate change goals, like reducing emissions and planting trees, while also ensuring New Zealanders' economic and job opportunities are preserved.

Last year the Government set up the Environmental Protection Authority that allows resource consent decisions for nationally significant projects to be made more quickly while continuing to protect the environment. Later this year we will introduce legislation to extend the Authority's mandate to oversight of hazardous substances and new organisms, as well as the administrative functions of the Emissions Trading Scheme.

New Zealand's natural resources have the potential to significantly raise New Zealand's economic performance.

It is a little-known fact that in 2008, New Zealand's third-largest export earner was oil. Last year the Crown received nearly \$1 billion from petroleum production with \$543 million being from royalty payments alone. This is revenue that has benefited all New Zealanders.

During this year the Government will progress an action plan to unlock New Zealand's petroleum potential. Estimates are that the petroleum sector could generate many billions more in export revenues by 2025.

There is also extraordinary economic potential in the mineral estate residing in Crown-owned land.

Mining in New Zealand uses just 40 square kilometres of land, less than 0.015 percent of our total land area. The export value of that land however is \$175,000 per hectare, which makes mining an extremely valuable use of land.

The Government will shortly be releasing a discussion document for public consultation on potential changes to Schedule 4 of the Crown Minerals Act. Schedule 4 is the part of the Crown Minerals Act which prohibits mining or prospecting on specified areas of Crown land.

The discussion document will recommend that some areas of Crown land be removed from Schedule 4 and in addition that some areas currently not in Schedule 4 be added to it.

Notwithstanding the public consultation process, it is my expectation that the Government will act on at least some of

these recommendations and make significant changes to Schedule 4. This is because new mining on Crown land has the potential to increase economic growth and create jobs.

I know some people have expressed concern about increased mining but I can assure New Zealanders that any new mines on conservation land will have to meet strict environmental tests.

Moreover, the Government is also proposing to establish a new Conservation Fund, potentially drawing on royalty revenue from mining operations on Crown land. The Conservation Fund would resource special conservation projects around the country. That means that if there is an increase in mining activity, New Zealand's natural environment would also be improved.

The Government will also take action this year to remove particular regulatory roadblocks to water storage and irrigation in Canterbury. This will be in addition to the work already being carried out by the National Infrastructure Unit and the Land and Water Forum on progressing water storage infrastructure throughout the country.

Overall, the Government is committed to ensuring that water storage and irrigation projects which meet environmental standards, and which are good economic propositions, can happen in a decent time frame.

The Government will introduce legislation this year to change the regulations governing the aquaculture industry. This is an area where the current regulations are stifling all prospects of

growth in the sector.

Fonterra's capital restructuring proposal may require the Government to amend the Dairy Industry Restructuring Act 2001, which governs competition in the New Zealand dairy industry. This capital restructuring process is an exciting opportunity for New Zealand farmers and the country as a whole if it allows Fonterra to grow strongly into the future and deliver on its full potential. In considering any proposal from Fonterra, the Government will ensure that the New Zealand dairy industry continues to operate efficiently and economic growth is maximised.

IMPROVING ACCESS TO CAPITAL

New Zealand businesses will only be able to grow and take on new workers if they have sufficient access to capital.

The challenge of accessing capital has increased since the global economic and financial crisis. Investor uncertainty has been high and a number of people lost money in investments they were poorly advised on or knew little about.

The Government will be focusing this year on ways to promote investment in capital markets while also strengthening protection for investors. We want New Zealanders from all walks of life to be able to invest their savings in productive businesses, either directly or through funds, with more confidence in the regulation of those capital markets, and with the knowledge they need to make informed choices. That is important if New Zealanders

are to diversify away from their heavy reliance on property investment.

To this end, the Government has been considering the report of the Capital Market Development Taskforce as a matter of priority.

In the next week or so we will release our response to all of the Taskforce's recommendations, which range across several portfolios.

A good number fall within the scope of the review of the Securities Act that is already underway.

The Taskforce also concluded that there is an opportunity for New Zealand to become a hub for financial services in the Asia Pacific region, specialising in providing high-value middle and back office functions for the funds management industry. The Government is keen to see if this or similar new industries could be developed here and we have asked officials to determine what steps we would need to take to make that a reality.

INVESTING IN INFRASTRUCTURE

The Government has begun its programme of infrastructure spending that will see an extra \$7.5 billion spent over five years on productive infrastructure. That will contribute directly to job growth through increased spending, particularly in the construction industry, and indirectly by increasing the productivity of New Zealand firms.

Total capital expenditure over the next five

years is likely to be around \$24 billion.

The Government intends to invest \$10.7 billion over 10 years on building new state highways. Construction will begin later this year on the Te Rapa Bypass in the Waikato, the Christchurch Western Corridor, and the Te Atatu-Lincoln section of Auckland's Western Ring Route.

We will continue work on the Christchurch Southern Motorway, the Victoria Park Tunnel, the Kopu Bridge, the Hawkes Bay Expressway extension, and many other projects besides. And this year will see the completion of the Manukau Extension and the Manukau Harbour Crossing in Auckland as well as a number of important regional projects.

The Government will also be progressing electrification of the Auckland commuter rail network.

In 2010, fibre will begin to be laid as part of the Government's \$1.5 billion ultra-fast broadband initiative, and further investment will improve broadband in rural and remote areas.

REFORMING LOCAL GOVERNMENT

This year promises to be a busy and interesting one for local government.

The Auckland Governance reforms we began in 2009 will continue with the new Auckland Council in place from 1 November 2010.

Aucklanders will elect representatives for the

new Council and local boards at elections in October.

The reforms will simplify and streamline governance structures within the Auckland region. This will result in better, more cost effective public services for Aucklanders delivered through integrated planning and service delivery across the region.

The Government is also committed to changes that will give all ratepayers better information about their local council and ultimately more influence over their council's activities and spending.

TOURISM AND THE RWC

Tourism is one of New Zealand's key export industries. What is more, a strong tourism brand enhances New Zealand's profile and benefits other exporters, not just the tourism industry. Last year the Government boosted funding for marketing New Zealand as a tourist destination by \$20 million. A number of new campaigns are being rolled out this year in key markets such as Australia, the United States and China.

A successful 2011 Rugby World Cup tournament is also a priority for this Government. Ministers have an ambitious programme, not only to ensure that the tournament itself is a success, but to maximise the wider benefits to New Zealand in terms of jobs and growth. The Government wants the positive impact of hosting the tournament to be felt long after the stadiums are empty (and the William Webb Ellis trophy is safe and sound

in its new home at the New Zealand Rugby Union).

FOREIGN AFFAIRS AND DEFENCE

The Government will continue to exercise an independent foreign policy, and to actively represent New Zealanders overseas. This includes being an important voice in the nuclear non-proliferation arena and as a constructive contributor to global efforts to secure an international climate change agreement.

We will work closely with our Pacific neighbours, and continue the work we started last year to strengthen New Zealand's engagement in the region. The Pacific will be our main focus for overseas assistance, to help develop the sustainable economic development these countries seek. Our security efforts in Timor Leste and the Solomon Islands will also continue, as part of our commitment to a safe and stable Pacific.

New Zealand will continue its hard work in multilateral forums such as the United Nations. Our commitment will also continue to the International Security Assistance Force mission in Afghanistan, building security and stability, ensuring a safe environment for redevelopment, and ensuring it cannot be used as a haven from which to threaten the world's security.

The first Defence Review and White Paper in 13 years will also be completed this year. It will provide a clear analysis of the future strategic and defence challenges for

New Zealand, and the type of defence force we will need to face it. This blueprint for New Zealand's security will ensure that the New Zealand Defence Force possesses the capabilities necessary to protect New Zealanders and New Zealand's interests well beyond 2020.

OUR SECOND PRIORITY FOR 2010 – SOCIAL SECTOR REFORMS

The Government's other key priority for this year is to make significant social sector reforms. These reforms are needed for two reasons.

First, despite unprecedented levels of spending, too many New Zealanders are missing out on the quality public services they have a right to expect. In a restricted funding environment we must find new ways to do more with less.

Second, reform is needed to better equip New Zealanders, particularly young New Zealanders, to face the significant economic challenges they will face in an increasingly competitive world.

EDUCATION AND SKILLS

In this regard there is no more important area for reform than education.

This Government views our education system as one of the fundamental tools for creating an egalitarian society where all New Zealanders have an opportunity to succeed.

We believe a high-performing education

system at all levels is essential to ensuring New Zealand's young people have the skills they need to acquire the jobs of the future.

The status quo is not good enough. While New Zealand is home to some of the best schools, teachers and students in the world, we are letting too many children and young people slip through the cracks.

We must ensure that our young people have the skills that employers demand and that will lead to productive well-paying jobs. New Zealand simply can't afford a future where 20 percent of our workforce does not have the skills necessary for modern jobs.

Nor can we afford to get anything less than maximum value for the hundreds of millions of taxpayers dollars that we invest in our schools and tertiary institutions.

This year National will progress the education reforms that are necessary to address underachievement in our schools, improve young New Zealanders' job opportunities and drive improved educational performance across the board.

Central to this reform effort is the implementation of our National Standards policy in all Year 1-8 state schools.

This policy will ensure that all parents, in all communities, can expect schools to regularly assess their children against national benchmarks in reading, writing and maths, to have this information reported to them in plain-language, and to know what is being done to support their child's progress.

National Standards will demand a significant step up in performance from some of New Zealand's teachers and schools.

To that end, the Government will be supporting our National Standards policy with further reforms designed to ensure taxpayers' funds are making it through to the children and schools who need extra support.

That begins with early childhood education. This year the Government will focus on increasing the number of children in our poor communities, and in our Maori and Pacific populations, who attend early childhood education.

Children who don't attend any form of early childhood education start school at a significant disadvantage. Despite funding being poured into early childhood education in recent years, we are still not picking up and supporting enough of these children. So the Government will this year be making changes to ensure better support is provided to the children who are missing out.

We will also look carefully at how we provide extra support to schools where children are failing to reach National Standards in literacy and numeracy. We want to make sure that where children are struggling, their school is equipped to intervene and help them as early and as well as possible.

We will implement a range of reforms to lift the performance of these schools, and ensure that where children need extra help they get it. This will include improving the training of our teachers, both in our training institutions

and in professional development programmes; refocusing the tens of millions currently aimed at struggling students; and intervening more aggressively in schools which are consistently failing their students.

In making these efforts we are determined to be transparent with parents about how their children are achieving.

This year we will develop a policy about the use of information collected through National Standards. We want to strike a balance between being up-front with parents and communities on the one hand, and on the other hand ensuring that information isn't misconstrued or misinterpreted. We will announce our policy in this area prior to the collection of National Standards data in 2011 and its subsequent reporting in 2012.

The Government's reforms in education will extend well beyond our primary schools.

In particular, we will be stepping up our push to ensure secondary-aged pupils have greater opportunities to learn trades and practical skills in schools and training centres. We don't accept that a university education is a prerequisite for a good job, and we don't think our school system should function as if it is.

So we are determined to ensure our secondary schools provide more students with the practical and trades skills that will empower them to enter further training or employment once they leave school.

This year we will make legislative and funding changes to modernise our secondary schools.

These changes will ensure that schools can access the trades and technology expertise they need; give them greater flexibility over their timetables; and ensure they can access the classrooms, equipment and expertise of other training providers.

We will also be continuing the reforms necessary to support our Youth Guarantee policy of providing 16- and 17-year-olds with the option of pursuing their education in the setting which best suits their needs, be it a school, polytechnic, workplace or other training provider.

We know that such an ambitious programme of reform will not be without its critics. However, the Government remains determined to work alongside communities, schools, teachers and education experts to ensure the success of all these education reforms.

Finally, the Government will be addressing the increasingly urgent problems in our tertiary education sector.

We are concerned that as a consequence of previous ad-hoc policy changes, there are a large number of tertiary programmes, particularly below degree-level, that have drop-out rates as high as 50 percent, and that some of these programmes fail to properly equip students for the jobs they seek.

We simply must improve the value we get from our tertiary education investment, both on behalf of taxpayers and employers, and on behalf of the students who take these courses. So this year the Government will be progressing the policy changes needed to

ensure that tertiary education providers provide courses that are relevant to the modern job market and that are of a consistently high quality.

We are also concerned that our universities, thanks to an inflexible and bureaucratic funding and policy framework, are finding it increasingly difficult to produce the world-class graduates New Zealand's economy demands. We will be working with the universities to ensure Government policies support their drive for excellence and equip our best and brightest with the skills for New Zealand's future.

We will also take a careful look at the policy settings around student support to ensure that taxpayers' generosity is not being exploited by those who refuse to take their tertiary studies seriously, or who show little inclination to transition from tertiary training into work.

BETTER SOCIAL SERVICES

We remain concerned about the overall effectiveness of social services provided to our most vulnerable citizens.

I have said it before, and I'll say again today: I worry that there are signs of an emerging underclass in New Zealand.

Child abuse, family violence, poor educational results, and crime continue to characterise the lives of too many New Zealand families, particularly amongst our Maori and Pacific communities.

The Government funds a broad range of social services to support families and communities. However, we are not convinced that our investment in these services is showing the results that taxpayers have a right to expect.

We continue to hear of families being trapped between bureaucratic government silos, receiving ineffective and patchy services that only entrench the cycle of dependency.

This Government is determined to get better results for the funding and efforts we invest to confront these issues.

We are committed to improving those social services provided directly by the Government. We will also improve the way we work with the many Non-Government Organisations which provide Government-funded services in the community.

We want to reduce the bureaucracy associated with their work, improve the co-operation between different organisations, services and programmes, and generally achieve better results for the money we invest.

Alongside this work we will continue to develop the Whanau Ora policy, which promises a new approach to the way the Government funds and co-ordinates social service contracts in many communities.

The Whanau Ora taskforce has been canvassing ways in which the Government could improve its approach to assisting families in need, and it will make a series of recommendations to the Government shortly.

The Government will consider the taskforce's report carefully. It is our intention to announce the details of the first stage of the Whanau Ora programme in this year's Budget.

In developing Whanau Ora we will ensure that it is available to New Zealanders of all races who are in need.

It is my expectation that Whanau Ora will work particularly well in addressing the problems too many Maori families face.

These problems haven't gone away since I spoke about them as Leader of the Opposition in early 2007, and it is in all New Zealanders' interests that we address them. The status quo isn't working, hence the Government's willingness to consider new ideas.

REFORM OF THE BENEFIT SYSTEM

The Government will this year introduce legislation to reform the benefit system, consistent with our election policies.

In 2010, New Zealand taxpayers will fund an estimated \$7.6 billion of benefits and income support, not including Superannuation. This amounts to \$20.8 million every day, or \$867,500 every hour. It is critical we ensure this money is spent effectively.

I need to be able to look taxpayers in the eye and assure them that their hard-earned wages are not being used to support those who lack the will or desire to work as hard for their living as their fellow New Zealanders.

There are many people on a benefit who will realistically never be able to work, and the welfare net will continue to support them.

But for most people, a benefit should only provide temporary support until they can return to work. In fact there is little chance of a better future for beneficiaries and their children unless they do come off a benefit and work for an income. Long-term welfare dependency imprisons people in a life of limited income and limited choices.

Our benefit reforms will therefore be squarely focused on helping people get back to work as soon as possible, and ensuring that they do so.

These reforms will include adjustments to the criteria and testing for a Sickness Benefit, to ensure it only goes to those people who are genuinely too sick to work. They will include strict re-application rules to prevent people languishing on an Unemployment Benefit for more than a short period between jobs. And they will increase the work and training expectations we have of people receiving the Domestic Purposes Benefit.

These changes will be supported by adjustments to the benefit abatement regime, to improve the incentives on beneficiaries to, at the very least, take up part-time work.

These welfare reforms will have positive effects not just for beneficiaries themselves but for the sustainability of the welfare system.

If, for example, just 100 DPB recipients were to move off their benefit and into work, the welfare system would save close to \$10 million

over their lifetime. If we were to assist five percent of the sole parents whose youngest child is aged over six years into work, we would save almost \$200 million over the next 10 years.

Despite these changes, however, the Government remains concerned that taxpayers will continue to face a rapidly increasing welfare bill in the decades ahead.

The number of people receiving a Sickness or Invalids Benefit in particular has been allowed to grow out of control in recent times. Without any fundamental changes, this number is expected to keep growing over the longer term, by perhaps 50 percent over the next 15 years.

When combined with the demographic effect of our ageing population, this problem becomes even more urgent. We owe it to our children, the taxpayers of the future, to bring welfare rolls back under control.

Accordingly, this year the Government will appoint a working group of experts to recommend ways in which we can reduce long-term welfare dependency and thereby reduce the welfare bill future generations will face.

HOUSING

The Government will also work through a series of challenges in the provision of state housing.

We are concerned that in some parts of New Zealand people who have been assessed as being most in need of a state house cannot

get one, or cannot get one of a suitable size or quality. Meanwhile, New Zealanders elsewhere in the country have access to state houses that exceed their relative needs. We must confront these problems if we are to ensure fairness in this critical area of state support. This year the Government will establish an advisory group to provide us with advice on these issues.

The Government will also make changes to the Residential Tenancies Act. The Bill amending this Act is now in the House and will enable landlords to better manage their properties effectively, while also helping ensure that tenants have access to stable, good quality accommodation. The Bill extends the Residential Tenancies Act to cover tenants living in boarding houses. It will also provide quicker, fairer and more cost-effective dispute resolution, which is good for both landlords and tenants.

JUSTICE, LAW AND ORDER

Just as the Government will be implementing new policies to address the causes and problems of welfare dependency, so too will we continue work to address the drivers and consequences of crime.

We are acutely conscious of the burden crime imposes on our society and economy. That burden falls on individual victims and their families, and it also falls on all of us as taxpayers.

New Zealanders should not have to put up with growing levels of serious and violent crime in our communities. Growth in violent

crime is wrecking and damaging lives, clogging up the court system, and forcing us to invest greater and greater amounts in locking up dangerous criminals.

The Government has a comprehensive approach to confronting these problems.

We will continue to send a strong message that criminal behaviour will not be tolerated. This year, in addition to the range of tough new legislation we have already passed, we will pass the Sentencing and Parole Reform Bill incorporating a ‘three-strikes’ policy to deter and punish our most serious repeat offenders.

We will reform and simplify the criminal justice system to make it fairer on victims and ensure it is more efficient and cost-effective in the administration of justice. This will include comprehensive changes to the legal aid system; legislation to modernise court processes, including the introduction of audio-visual conferencing; and new laws to improve victims’ experiences of the trial process.

Part of our ongoing work to address the drivers of crime will be the introduction of legislation to reform liquor licensing laws. The purpose of this legislation will be to reduce the crime and harm caused by binge drinking, by stopping the excessive proliferation of liquor outlets in many of our communities.

We will also begin implementing our Fresh Start policies to ensure fewer young people embark on a life of crime. We will pass our Fresh Start youth justice bill early this year to enable the Youth Court to make immediate use of a new range of court orders and

programmes. This will be supported by the introduction of military-style activity camps, new outdoor activity programmes and a range of new parenting, mentoring and drug and alcohol interventions.

Work will continue on our comprehensive plan to tackle the drug P. In April the Government will receive a detailed progress report on the cross-government action plan. We expect this will demonstrate considerable progress, and will reinforce the need for the comprehensive approach the Government has taken.

This year we will progress legislation to restrict the availability of pseudoephedrine, while continuing to step up the availability of treatment programmes for P users, and providing the Police and Customs Service with the continued backing they need to crack down on P dealers and gangs.

The Government will also work closely with the Police to develop new approaches to support proactive crime prevention by frontline officers. We have been heartened by the impressive results demonstrated by new approaches in Counties-Manukau and we will be expanding and intensifying these efforts.

The Government will also be redoubling its efforts in road safety and will shortly release a road safety strategy for the next 10 years.

It is important to New Zealand to have a world-class prison system that rehabilitates those who want to turn their lives around, but keeps the most dangerous prisoners safely locked away.

We will be moving forward with our plan to open up two prisons to private management. This will bring innovation and fresh ideas to our prison system. We expect this to reduce the cost of running these prisons, although it is more important that we have safe and effective prisons than cheap ones.

To manage forecast growth in prisoner numbers we will increase prison capacity through cost-effective means such as container cells and double bunking. We will also look at ways the private sector can be involved in the delivery of prison services by developing a public private partnership model.

HEALTH

Extra money for the provision of health services will by necessity be more limited for several years as we deal with the consequences of the current financial situation. It is widely acknowledged that the previous levels of funding increase are no longer possible.

Despite this, the Government is working to deliver better, sooner more convenient patient care, to boost and support our doctors and nurses, to cap the health bureaucracy and to move resources to frontline services.

That will include stopping the duplication and waste caused by DHBs reinventing the wheel 21 times, by reducing the resources tied up in back-office administrative functions, and by pumping savings back into frontline services. Legislation will be introduced to support shared services across DHBs and the Ministry of Health and to ensure that greater priority is

given to regional collaboration amongst DHBs in order to secure health services, particularly in rural areas.

More will be done to lift productivity and deliver even more progress on elective surgery, critical cancer care and emergency care targets.

We will continue to invest in preventing sickness with targets around immunisation, smoking cessation, diabetes and heart disease.

We will continue investing in the 'Warm Up New Zealand: Heat Smart' home insulation programme which is potentially one of the most significant public health initiatives of the decade.

This year the Government will embark on a new push for better-performing primary care services. We want to realise the vision of multi-disciplinary co-located teams of health professionals. We want closer integration between hospitals and community based care. Over time patients will see more hospital-type services delivered closer to home.

One way to step up the volume of elective surgery is to separate the delivery of emergency and elective surgery. We have announced that a new elective surgery centre will be built at Greenlane, and expect to announce a second site soon.

Work will continue to secure the future of New Zealand's unique no-fault 24/7 accident compensation scheme for New Zealanders at work, at play and on the road. Changes made in 2009 to contain costs and to ensure the ACC

scheme is affordable, sustainable and fair will be bedded in. There have been early signs of improvement in rehabilitation rates, cost management and investment returns as a result of these changes, and the Government is confident that this progress will continue in 2010.

TREATY OF WAITANGI, CONSTITUTIONAL AND ELECTORAL ISSUES

Alongside our substantial programme of economic and social reform, the Government will this year continue to progress and resolve historic Treaty of Waitangi settlements, in line with our ambitious goal of concluding these settlements by 2014.

This year we are likely to focus much of our effort on the Auckland region, where around 20 percent of outstanding claims are centred. The opportunity exists for just and durable settlements to be achieved throughout the Auckland region and we will be working hard in pursuit of that goal.

The Government is impatient to stop looking in the rear-view mirror at grievances past and instead to shift our eyes to the challenges of our shared future as New Zealanders.

In support of this objective, we will continue our work to devise a replacement for the 2004 Foreshore and Seabed Act. We are concerned that if this issue is not addressed it will remain a weeping sore for many years to come.

We seek a solution that addresses the

legitimate concerns of iwi, that is acceptable to the vast majority of New Zealanders, and that ensures public access to our beaches is protected.

This year will also see the establishment of a group to consider constitutional issues, including Maori representation. The structure, terms of reference and the membership of this group will be released in due course, and consultation and hui across New Zealand will begin.

We will also progress work on electoral reform, as outlined in our manifesto. This will include the introduction of legislation to hold a referendum on the future of MMP at next year's general election. This referendum will give New Zealanders the second say on MMP many felt they were promised when the system was first adopted.

The Government will progress legislation this year to reform New Zealand's electoral law, following the repeal of the Electoral Finance Act. We will also continue to progress the Electoral (Administration) Amendment Bill, providing for a single agency to administer elections.

CONCLUSION

In conclusion I want to say that as Prime Minister, I am privileged to meet so many New Zealanders from all walks of life.

As I travel around the country, I am impressed and heartened by the resilience and optimism of New Zealanders and by their desire to do

better for themselves, their families and their communities.

2009 was not an easy year for many people. Some people lost their jobs, some their savings, and others their confidence.

Yet things are undoubtedly looking up.

The economy is picking up and new jobs will appear as businesses have the confidence to invest and expand.

What makes New Zealand such a great country to live in still remains.

The policies we intend to introduce this year will be a big part of the country's improvement this year, next year and into the future.

The Government's overriding concern is to improve opportunity, fairness and security for all New Zealanders.

As this Statement has shown, we have an active and comprehensive programme ahead of us in 2010, in almost every economic and social area.

As a result, New Zealand will be a better place to live, work, invest, grow up and retire. There can be no greater result than that.

