

Hon Bill English  
Minister of Finance  
7.6 Executive Wing  
Parliament Buildings  
**WELLINGTON**

Dear Bill

## **VALUE FOR MONEY REVIEW – VOTE TRANSPORT**

### ***Purpose***

This letter responds to your letter dated 17 December 2008 and the Cabinet Business Committee paper CBC (08) 563.

In line with the letter and Cabinet paper, I have asked the Ministry to review Vote Transport to identify:

- savings that could be freed up for Budget 2009;
- programmes that are inconsistent with the government's priorities and should be discontinued;
- programmes that are inconsistent with the government's priorities and should be looked into;
- programmes and expenditure that are not effective or efficient;
- areas where performance information is currently insufficient to judge effectiveness or efficiency and actions that are required to make improvements by the next review.

### ***Vote Transport summary***

A summary of the funding under Vote Transport is attached to this letter. It is separated between departmental and non-departmental funding.

### ***Departmental funding***

The Ministry of Transport's departmental funding will decrease by \$3.685 million over the next three years mainly due to the cessation of medium-term project funding. In addition to the planned decrease in funding, the Ministry has forecast unavoidable cost increases arising from existing commitments in relation to staff costs (salaries), building and other expenses. These are expected to add a further \$3.377 million by 2011/2012, or 12 percent of the baseline funding of \$28.4 million.

My Chief Executive has made a commitment to me that the Ministry of Transport will live within its baseline. Actions my Chief Executive will undertake to produce these savings include:

- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- an immediate freeze on filling vacancies and only filling those where essential to minimise the impact of future down-sizing;
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- reducing consultancy, contractor and legal costs budget and making the funding subject to an internal contestable pool to ensure that the lower budget is prioritised on a cross-Ministry basis;
- investigating preferred supplier agreements with training companies and in-house delivery of programmes;
- reviewing travel costs, both the volume of travel and the use of the best value booking options. The Ministry has recently extended the video conferencing facilities at its offices in an attempt to reduce travel and has developed policies to encourage the use of the facilities.

My Chief Executive has expressed a willingness to make cost savings, in addition to his commitment to cost reductions, if that is required by the Government. Because of the nature of its work as a policy ministry, the Ministry's major costs are personnel related, and savings could not be achieved without corresponding reductions in transport policy capability. The Ministry does not deliver any operational programmes.

The Ministry has built its capability and head count over the past four years to respond to reviews criticising its ability to provide strategic leadership to the transport sector. Part of the changes involved consolidating policy capability that had been built up in Crown entities to compensate for the vacuum left by an under-performing Ministry. The risk of reducing funding to the Ministry beyond the commitment offered is that the Ministry may fail to perform its function to a satisfactory standard. My Chief Executive advises that, given the Government's focus on infrastructure, and the role that transport will play in this, it may be unwise to drastically cut its policy capability at this time.

I endorse this approach of making cost reductions of 12 percent over the next three years as an appropriate response and consider that reducing the level of policy and leadership capability is undesirable at this stage.

### ***National Land Transport Fund***

A significant part of Vote Transport expenditure is funded by the hypothecation of road taxes into the National Land Transport Fund to pay for the National Land Transport Programme. Due to the revenue hypothecation by legislation, this funding cannot be redirected to other activities. However the Ministry of Transport, under my instruction, is currently working on reprioritising \$300 million of the Programme funding into State highway construction to better fit with the Government's current priorities. This process is currently being worked through and will be reported to Cabinet separately. While not offering any savings, the reprioritisation will deliver better value for money and ensure transport funding is directed to activities more consistent with our priorities.

### ***Crown entity funding***

A significant portion of the funding for two of the Transport Crown Entities comes from third party fees and levies. Consequently, the non-departmental Vote funding relates only to discrete outputs funded (or partially funded) by the Crown. I have advised the Chairs and Chief Executives of Maritime New Zealand and Civil Aviation Authority (CAA) that I expect them to review and manage their operations in a manner consistent with the Government's focus on value for money. I expect them to contain any cost increases through reprioritisation within existing budgets. This is particularly relevant to CAA which has entered into a much more expensive premises lease, following approval from the previous government.

In the case of the NZ Transport Agency (NZTA), the bulk of its operating costs are funded through the NLTF. The new organisation was established with an expectation that it would deliver efficiencies in the administration of the NLTP. The NZTA is still working through the establishment of its new structure and so this is an area where it is too early to identify/crystallise any possible savings. I expect the NZTA to deliver efficiency savings over the next three years that will free up funding to be spent on higher priority NLTF activities. I will be setting targets for expected 'efficiency dividends' from the NZTA over the next three years.

Funding for the New Zealand Railways Corporation would be reviewed most effectively as part of the new funding arrangements for the rail network which we are currently discussing. I consider it would be premature to make decisions on this funding until a fuller exercise has been completed.

### ***Other non-departmental funding***

In relation to the other non departmental funding, there are a number of savings that could be realised and funding reprioritised over time. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*. Considered reviews will be undertaken in the coming year. There are also specific opportunities that I am discussing with officials, for example, the funding for the Buckle Street realignment which could be released if the Minister of Culture and Heritage agreed not to proceed with the creation of the New Zealand Memorial Park. (This is currently under consideration.)

At this time, I consider that no decisions can be taken on this funding until more detailed reviews have been undertaken of the supporting policy.

### ***Unfunded commitments***

Your letter also noted the government's commitment to unwinding the previous government's unfunded commitments. The Vote Transport commitments are:

- Waterview Connection
- Waterview Connection – risk of not tolling project
- Penlink Roading project
- Canterbury Transport Project

The Waterview Connection has been the subject of a separate report to Cabinet [WGTA10898 refers]. There are significant benefits from the completion of the Waterview Connection. However, the cost is high because of the tunnelling work required. Consequently, I requested that officials from the NZTA undertake additional work to examine the feasibility of lower cost options within the current Waterview alignment, including previously discounted options. Officials will report to me on lower cost options in March 2009, at which time I propose to return to Cabinet with options for completing the Waterview Connection and proposals for funding it. Advancing the Waterview Connection will have significant financial implications even if officials are able to identify an alternative, lower cost option to the tunnel proposal. Arrangements for the procurement of the project and ongoing governance will also be examined in March 2009.

The Penlink project is dependent on Regional Fuel Tax for the local share. I will shortly be reporting to Cabinet my proposals for dealing with Regional Fuel Tax, and as a consequence, the approach I propose for the Penlink project.

Funding for the Canterbury Transport Project has been appropriated for 2008/09 to 2011/12, being four years, but the entire project is for ten years to 2017/18. Funding for this Project will be dealt with as part of Roads of National Significance work *[deleted – confidentiality of advice]*. I will report to Cabinet this year on how this and other transport funding issues might be dealt with.

### ***The new Government's capital funding commitments***

As you are aware, we made commitments in the pre-election period for increased infrastructure funding for State highways, as part of our six year infrastructure funding commitment. This included specific commitments to the Waikato Expressway (\$790 million) and the Tauranga Central Corridor (\$100 million). There was also a non-costed commitment to proceed with State Highway 1 and Pūhoi to Wellsford.

We have already committed to \$142 million in the first stimulus plan to bring forward short term projects. I propose it is appropriate to address the remaining amounts in the Budget 2009 appropriations, alongside the revised GPS. I look forward to discussing this with you.

Yours sincerely

Steven Joyce  
**Minister of Transport**

## Vote Transport Summary

### *Departmental Funding*

	<b>2008/09 \$000</b>	<b>2009/10 \$000</b>	<b>2010/11 \$000</b>	<b>2011/12 \$000</b>	<b>2012/13 and outyears \$000</b>
Departmental costs	35,187	33,028	31,502	31,502	31,502
Rules costs	(3,091)	(3,091)	(3,091)	(3,091)	(3,091)
	<b>\$ 32,096</b>	<b>\$ 29,937</b>	<b>\$ 28,411</b>	<b>\$ 28,411</b>	<b>\$ 28,411</b>

The Rules cost is shown as a deduction from the funding because it is a contractual commitment to pay three Crown entities for Rules development work. The table above also excludes the costs incurred for revenue forecasting and Road User Charges and Fuel Excise Duty collection because the work is funded from fees and so savings cannot be used for other purposes.

### *Non Departmental Funding*

#### Crown Entity / SOE Operating Funding

	<b>2008/09 \$000</b>	<b>2009/10 \$000</b>	<b>2010/11 \$000</b>	<b>2011/12 \$000</b>	<b>2012/13 and outyears \$000</b>
New Zealand Transport Agency	848	548	548	548	548
Civil Aviation Authority	2,261	2,261	2,261	2,261	2,261
Aviation Security Services	145	145	145	145	145
Maritime New Zealand	12,767	12,877	8,963	8,963	8,963
New Zealand Railways Corp	8,770	8,770	8,770	8,770	8,770
Transport Accident Investigation Commission	3,938	3,938	3,938	3,938	3,938
<b>Total</b>	<b>\$ 28,729</b>	<b>\$ 28,539</b>	<b>\$ 24,625</b>	<b>\$ 24,625</b>	<b>\$ 24,625</b>

Crown Entity Capital Funding

	2008/09 \$000	2009/10 \$000	2010/11 \$000	2011/12 \$000	2012/13 and outyears \$000
Maritime New Zealand	1,259	-	-	-	-
Aviation Security Services	7,348	7,054	283	303	-
Transport Accident Investigation Commission	250	635	-	-	-
<b>Total</b>	<b>\$ 8,857</b>	<b>\$ 7,689</b>	<b>\$ 283</b>	<b>\$ 303</b>	<b>\$ -</b>

Non Departmental Funding - Other

	2008/09 \$000	2009/10 \$000	2010/11 \$000	2011/12 \$000	2012/13 and outyears \$000
Canterbury Transport Project	4,500	10,000	14,000	5,000	-
Regional Development Transport Funding	10,000	10,000	10,000	-	-
SuperGold card transport concessions	18,000	18,000	18,000	18,000	18,000
Realignment of Buckle Street	5,333	-	-	-	-
Metservice	17,511	18,573	18,574	18,574	18,574
NZTA - Licensing	3,275	2,475	2,475	2,475	2,475
NZTA – Motor Vehicle Register bad debts	5,000	5,000	5,000	5,000	5,000
International Memberships	743	743	743	743	743
Joint Venture Airports	1,284	489	-	-	-
Alpurt B2	24,948	-	-	-	-
<b>Total</b>	<b>\$ 90,594</b>	<b>\$ 65,280</b>	<b>\$ 68,792</b>	<b>\$ 49,792</b>	<b>\$ 49,792</b>

National Land Transport Fund

National Land Transport Fund	\$ 2,808,566	\$ 2,038,141	\$ 2,222,798	\$ 2,255,911	\$ 2,322,043
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<b>Grand Total</b>	\$ 2,936,746	\$ 2,139,649	\$ 2,316,498	\$ 2,330,631	\$ 2,391,460
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The National Land Transport Fund (NLTF) is hypothecated funding and accordingly is statutorily prohibited for use outside the NLTF. The decrease in 2009/10 reflects one-off Crown funding in 2008/09 to fulfil funding obligations made in Budget 2006.

The table above excludes the funding for the Motor Vehicle Registry, which is funded from fees.