

Treasury Report: Budget 2009: Bilateral for Votes Transport & Communications Bilateral

Date:	13 March 2009	Report No:	
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Read the attached briefing and use it as the basis for taking decisions in your bilateral with the Minister of Transport and Communications and Information Technology at 4:30 pm on 17 March 2009.	17 th March 2009
Associate Minister of Finance (Hon Simon Power)	Read the attached briefing and use it as the basis for taking decisions in your bilateral with the Minister of Transport and Communications and Information Technology at 4:30 pm on 17 March 2009.	17 th March 2009

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Len Starling	Manager	<i>[information deleted in order to protect the privacy of natural persons, including deceased people]</i>	✓

Minister of Finance's Office Actions (if required)

None.

Enclosure: No

Treasury Report: Budget 2009: Bilateral for Votes Transport & Communications Bilateral

Executive Summary

Attached is a briefing for the bilateral between the Minister of Finance and the Minister of Transport and Communications and Information Technology at 4.30pm on 17 March 2009 to discuss the Budget initiatives for Vote Transport and Vote Communications.

Vote Transport

The bilateral briefing is structured as follows:

Overview of the Vote	p. 3
Savings component & recommendations	p. 4

Vote Communications

The bilateral briefing is structured as follows:

Overview of the Vote	p. 5
Savings component & recommendations	p. 6
Policy priority initiatives & recommendations	p. 7

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Recommended Action

We recommend that you **read** the attached briefing and use it as the basis for taking decisions in your bilateral with the Minister of Transport and Communications and Information Technology at 4.30pm on 17 March 2009.

Len Starling
**Manager, National Infrastructure Unit
for Secretary to the Treasury**

Hon Bill English
Minister of Finance

Overview of Vote Transport

- As part of the Minister of Finance's request to Vote Ministers to carry out a line-by-line review, submission of emergency pressures and policy priorities, the Minister for Vote Transport submitted the following:

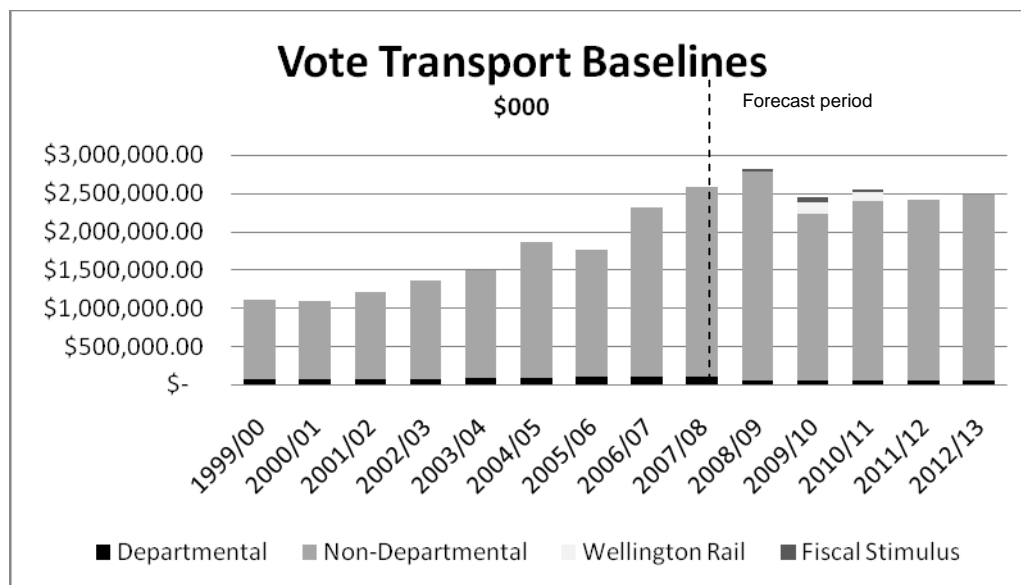
	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Savings	-	-	-	-	-
Emergency pressures	-	-	-	-	-
Policy priorities	-	-	-	-	-
Total funding requested					
<i>Capital (GST excl)</i>					
Savings	(7.600)	-	-	-	-
Emergency pressures	-	-	-	-	-
Policy priorities	-	-	-	-	-
Total funding requested	-	-	-	-	-

- Treasury is comfortable with the savings submitted by Vote Transport. Vote Transport has limited ability to deliver savings due to the configuration of the vote (full hypothecation of user charges accounts for approximately 97% of Transport expenditure). Treasury supports the savings from cessation of the Buckle Street roading project, which is discretionary and not a policy priority of this Government. Unwinding the project should be relatively straight forward as construction has not begun.

Analysis of Vote

- Vote Transport baselines are shown in the graph below. Transport non-departmental expenditure has increased considerably in the past 10 years, reflecting a deliberate attempt by Government to invest more in transport infrastructure. User charges fund the majority of this expenditure, but prior to 2008 there was an increasing tendency for the Government to supplement user charges with Crown appropriation. However, full hypothecation of user charges (established through amendments to the Land Transport Management Act in 2008) makes it possible for increased investment to be entirely funded from transport user charges. Therefore, forecast increases in expenditure will

not necessarily have an impact on Crown expenditure, as Ministers ultimately decide the mix between Crown funding and user charges.



4. The above graph outlines Vote Transport baselines since 1999/00 and includes recent funding decisions (Wellington rail decisions and the fiscal stimulus package). As you can see the majority of expenditure in Vote Transport is non-departmental, most of which is funded from user charges.

Next Steps in the Value for Money process

5. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
6. We propose no further processes for Vote Transport at this stage. This recommendation reflects on the recent Value for Money process which highlighted that the challenges within the vote are outside of the Budget process. These challenges relate to the ongoing monitoring of Crown Entities and ensuring Value for Money within National Land Transport Fund expenditure, and will be pursued as part of our ongoing engagement.

RECOMMENDATIONS

Treasury recommends that you:

- a **support** the savings submitted for Vote Transport.

Agree/Disagree

- b *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Agree/Disagree

Overview of Vote Communications

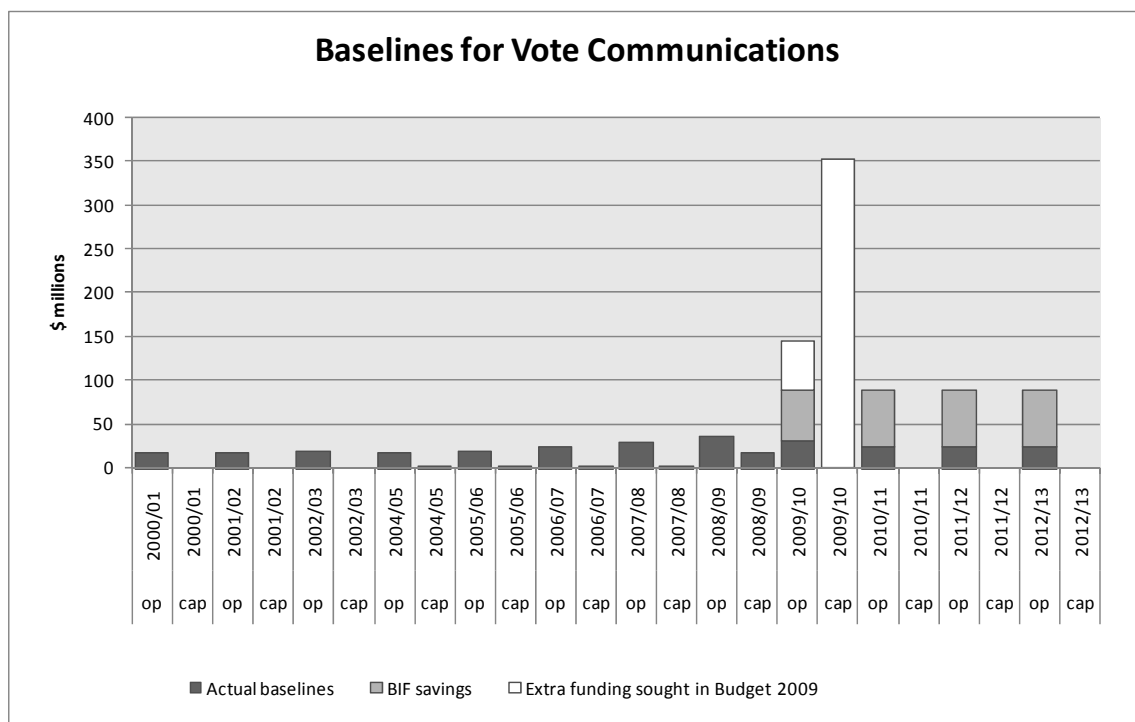
7. As part of the Minister of Finance's request to Vote Ministers to carry out a line-by-line review of baseline funding, and to submit information regarding emergency pressures and policy priorities, the Minister for Communications and Information Technology submitted the following:

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Savings	(1.450)	(1.400)	(0.400)	(0.400)	(0.400)
Emergency pressures	-	-	-	-	-
Policy priorities	-	56.000	-	-	-
Total funding requested	(1.450)	54.600	(0.400)	(0.400)	(0.400)
<i>Capital (GST excl)</i>					
Savings	-	(59.150)	(65.000)	(65.000)	(65.000)
Emergency pressures	-	-	-	-	-
Policy priorities	-	353.150	-	-	-
Total funding requested	-	294.000	(65.000)	(65.000)	(65.000)

8. Treasury considers that the savings submitted for Vote Communications are adequate. Broadly, these savings have been realised through:
- The termination of the Digital Development Council and Forum and Connected New Zealand.
 - Deferral of the digital broadcasting review and reduced expenditure on the administration of the text-phone pool for the Relay Service and related services.
 - Cessation of the Broadband Investment Fund (which has been directly offset by a bid to support the Government's planned investment in broadband).
9. While these savings are, in total, relatively modest, we expect there to be further rationalisation of baseline funding (as this applies to broadband investment) in future years as some 'rebalancing' of roles and responsibilities occurs. We expect this to be a natural consequence of the establishment of a new Crown investment company that will take on responsibility for much of the practical broadband investment work in future years.

Analysis of Vote

10. Vote Communications baselines are shown in the graph below.



11. Expenditure within the Vote has grown significantly in recent years, reflecting the Government's desire to increase broadband supply through direct investment and other public policy measures. This involvement has had a flow-on growth effect on departmental expenditure, as funding for administration and advice relating to the Broadband Challenge Fund and, later, the Broadband Investment Fund were provided in addition to baseline funding. It is also important to note that the forecasted baselines include the savings from the Broadband Investment Fund.

RECOMMENDATIONS

Treasury recommends that you:

- a **support** the savings submitted for Vote Communications.

Agree/Disagree

Vote Communications – Analysis of Policy Priorities

12. There is only one policy priority initiative for Vote Communications:

a Broadband Investment: Operating Bid

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	56.000	-	-	-
Treasury	-	56.000	-	-	-
<i>Capital (GST excl)</i>					
Department	-	-	-	-	-
Treasury	-	-	-	-	-

13. The Ministry of Economic Development is seeking operating funding of \$56 million in 2009/10, \$48 million of which is to be spent on improving rural broadband and \$8 million to establish the Crown Fibre Investment Company (CFIC) and provide for related departmental expenditure as this directly relates to broadband investment.
14. Treasury supports this initiative as it is a Government priority. Treasury has had a close involvement in the development of this policy and supports the investment approach. We recognise that there will be a need for ongoing operating funding, but estimating what the likely operating requirements of the Crown Company and department will be in outyears is difficult at this stage. To ensure a more accurate estimation, it seems sensible to us to defer any determination of future funding until Budget 2010.

RECOMMENDATIONS

Treasury recommends that you:

- a **support** this initiative at the proposed amount. ***Agree/Disagree***
- b **note** that this initiative is part of the planned \$1.5 billion investment in broadband infrastructure, which is a manifesto commitment of the Government.
- c **note** that operating funding for future years will be determined as part of Budget 2010.
- d **note** that advice will shortly be provided to Cabinet regarding the detail of how the \$48 million for rural broadband will be used.

b Broadband Investment: Capital Bid

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	-	-	-	-
Treasury	-	-	-	-	-
<i>Capital (GST excl)</i>					
Department	-	353.150	-	-	-
Treasury	-	353.150	-	-	-

15. The Ministry of Economic Development is seeking capital funding of \$353.150 million in 2009/10. Of this, \$34 million will be reserved to provide funding for schools' broadband infrastructure. The remaining \$319.150 million will provide equity for the CFIC, and will be drawn down from the Crown as needed.
16. Treasury supports this initiative as it is a Government priority. Treasury has had a close involvement in the development of this policy and supports the investment approach.
[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

RECOMMENDATIONS

Treasury recommends that you:

- a **support** this initiative at the proposed amount. ***Agree/Disagree***
- b **note** that this initiative is part of the planned \$1.5 billion investment in broadband infrastructure, which is a Manifesto commitment of the Government.
- c *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- d **note** that Cabinet will shortly be approached to consider the proposed policy mechanism to deliver the Government's investment in broadband infrastructure, including the conditions around the use of this funding.