

Vote Transport

Baseline Alignment Proposal

Version [5]

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Submitted by:

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Section 1: Alignment to Government Priorities

In 2010/11 and the next two years, my priorities for transport remain that:

- government investment in land transport supports the overall goal of growing the economy and improving productivity
- tangible progress has been made on transport projects of national significance and other shorter-term initiatives that will stimulate the economy
- the regulatory framework supports the Government's economic and transport objectives.

These priorities will be delivered via the following initiatives, all of which have already been discussed with the Prime Minister.

Roads of National Significance (RoNS)

The NZ Transport Agency (NZTA) will continue to work to deliver the seven RoNS within the next ten years. These improved routes are critical to ensuring that users have access to significant markets and areas of employment and economic growth. The RoNS projects are at various stages of development.

The RoNS represent a substantial change in planning for major national transport infrastructure in New Zealand. They are proactive improvements that encourage economic growth and are centred on New Zealand's five largest population centres, which are experiencing heavy traffic volumes. These investments need to reduce congestion and improve safety.

This programme is primarily being funded from within the National Land Transport Fund (NLTF) after major reprioritisation of funds in 2009 to provide about \$1 billion per annum for the next ten years for State highway investment.

More Detailed Highway Development Hierarchy

Officials have recently begun developing a hierarchy of roads within New Zealand. The hierarchy extends the approach of the RoNS and is based on State highways that are nationally important because of their function in moving freight, tourism, or the volume of traffic that uses them. This hierarchy will allow investment to be focused on improving efficiency and safety, and will help manage expectations on the level of investment that is possible elsewhere.

Government Policy Statement on Land Transport Funding 2012/15 (GPS)

By June 2011, we will have a second GPS. Its strategies will include ongoing emphasis on the economy and productivity and ensure that funding focuses on these areas.

Road Safety Strategy to 2020

Cabinet has approved the strategy and initial Action Plans will be introduced in 2010/11. These plans are intended to deliver a safer road system for all New Zealanders and by doing so, reduce the costs to the economy of accidents and fatalities. Initial actions will focus on youth and alcohol.

Rail

As part of Budget 2010, I have submitted capital bids to provide funding for the KiwiRail Group's 10 year strategic plan. These bids are place holders while our officials carry out due diligence on aspects of the KiwiRail plan. An effective rail system can reduce the pressure on New Zealand's roads, lessen congestion, give users more transport choices and can provide safety, health and environmental benefits. The investment required is however significant and so we must be satisfied that the case for investment is robust.

Rail needs to compete on a commercial basis with other freight services; funded from revenue generated by the KiwiRail. If we invest capital we need to be satisfied it will achieve the maximum benefit for taxpayer shareholders, and preserve the option of the rail network as freight volumes grow into the future. Freight volumes are forecast to increase by up to 75 percent over the next 25 years. An effective national rail freight network could give major freight businesses an efficient long distance option, provides a critical link to and from ports, and reduces freight demands on the roading network.

My focus in the short-to-medium term will be to establish and maintain appropriate governance, institutional, funding and legislative frameworks so rail can contribute positively to the transport system. This will include ensuring the agreed metro rail operating model is in place in Auckland and Wellington, and monitoring KiwiRail's delivery of its 2010 Strategic Plan. A key element of this will be establishing effective frameworks and metrics to assess the performance of the investment. I want to ensure all urban rail projects stack-up financially, including ensuring a reasonable allocation of capital and operating costs across passengers, central and local government.

Review of Future Transport Task

I will ask officials to undertake a review of the future transport task (freight and passengers) to identify areas for major infrastructure investment and opportunities to improve efficiency, productivity and performance. This will dovetail into further work on the National Infrastructure Plan and contributes to the efficiency of government's infrastructure investment.

Improved or New Funding Mechanisms

I have also tasked officials with investigating new or improved revenue and funding mechanisms to maximise the revenue that is available for future investment. The review of Road User Charges which began in 2008/09 is now in implementation phase and will be completed in 2010/11.

Review of Existing Legislation

I have asked officials to review both the Land Transport Management Act 2003 and the Public Transport Management Act 2008 to improve how they operate and to encourage desired behaviours. The updated legislation will be introduced during 2010. They will also continue to review secondary and tertiary legislation to identify and remove requirements that are unnecessary, ineffective or excessively costly.

Heavy Vehicle Productivity Rule

This rule will increase freight productivity by up to \$500 million pa, by allowing vehicles to operate outside the current statutory mass and dimension limits on specified routes. I expect the amendment will come into force in May 2010.

Section 2: Reprioritisation

Crown Funding

Total Crown Funding	2010/11 \$000	2011/12 \$000	2012/13 \$000
Funding hypothecated to the NLTF	2,358,367	2,465,751	2,562,736
Funding for Rail	580,765	232,198	242,770
Crown funding to NLTF	38,765	5,065	5,065
Funding to Crown entities	18,330	18,330	18,330
Other	103,641	84,611	79,308
Total Crown Funding	3,099,868	2,805,955	2,908,209

National Land Transport Fund

As noted last year, Vote Transport has limited reprioritisation options because the vast majority of funding is hypothecated road tax revenue to the NLTF, which funds the National Land Transport Programme (NLTP), and legislation provides that it cannot be used for other purposes.

Vote post FBU 2010	2010/11 \$000	2011/12 \$000	2012/13 \$000
Funding hypothecated to the NLTF	2,358,367	2,465,751	2,562,736
Crown funding to NLTF	38,765	5,065	5,065
Percentage of total Crown Vote Transport	77%	88%	88%

While the hypothecated funding cannot be reprioritised to activities outside the NLTP, I took steps last year to realign the *Government Policy Statement on Land Transport Funding 2009/12* to balance the overall investment approach to focus more of the funding available on roads, in particular the RoNS. The four key changes to the document were to:

- make economic growth and productivity the primary objective for investment in land transport infrastructure and services

- ensure the allocation of funds within activity classes represents a more economically efficient allocation of those funds
- reallocate funding over three years from the non-State highway related activity classes to the “New and improved infrastructure for State highways” activity class.
- signal that public transport rail infrastructure will be funded from the Crown account and not from the National Land Transport Fund. This will free up approximately [\$258 million] of funds over the next two financial years for road-related activities.

The government is now planning to spend over \$1 billion a year on improvements to the State Highway network.

As already mentioned, a second GPS is required to be published in 2011. Work is already commencing on this. A key focus of this work will be to further review the allocation of funding within the NLTF to various activities. I would expect some reprioritisation of the funding to be reflected in the 2011 GPS.

I have also asked the NZTA (which manages the bulk of the expenditure in the NLTF) to review its operations in relation to each of the GPS activity classes to ensure they are delivering greatest value for money. These reviews are well underway.

In addition, current appropriations for Search and Rescue funding will expire at the end of this financial year. I am proposing that this Crown funding be replaced by funding from the NLTF pursuant to section 9(1) of the Land Transport Management Act. This decision requires our joint agreement. Officials are working on a business case for our consideration.

Funding of Crown Entities

Transport Crown entities receive limited Crown funding (\$18 million p.a. or 1% of the Vote) with most of their funding being raised from third party levies, fees, and charges (of \$118 million p.a.).

I have stressed to board chairs and chief executives in multiple interactions with them that the government expects them to demonstrate a strong understanding of their businesses and services to ensure they provide value for money to the public. As such, I expect these entities to review their business models to ensure they are providing the right services, at the right price, and that the right people are paying for those services. In a number of instances fees have not been reviewed for several years creating financial pressures on entities. I have signalled that proposals for fee increases will only be considered after it can be demonstrated that the fee and levy payers value the services being provided, that options for maintaining and reducing expenditure are being considered, and that the entity is delivering these services cost effectively.

The NZ Transport Agency, which was formed by the merger of two Crown entities on 1 August 2008, is funding the costs relating to the merger from within its operating budget or reserves and has undertaken to meet all internal cost pressures over the next three years from its 2008/09 baseline. The Agency is one of the participants in

the Better Administrative and Support Services project being undertaken by central government. I have asked it to undertake a line by line review of its costs consistent with the approach being taken in the core public sector. It will be delivering the same services with at least a \$3 million reduction in operating cost for the 2010/11 financial year. I have asked that they also progressively look at all aspects of their business to look for opportunities to deliver better value. For example, in the case of driver licensing, the proposed fee increase already considered by Cabinet assumes NZTA will reduce costs by \$0.85 million per year.

Maritime New Zealand is realigning its structure and resources to priority areas, and is developing a more comprehensive funding strategy and performance information system. This should enable it to both 'right size' its services and ensure that revenue is received from the right sources. I expect to announce a reduction in one of its fees shortly.

The Aviation Security Service is also in the process of completing a review of its fees and charges and I anticipate announcing a reduction in its fees shortly. We will also explore options to increase the downward flexibility on its major fees if passenger travel rates increase faster than currently anticipated.

The Civil Aviation Authority is also reviewing its services, funding model, levies and fees in 2010. I have asked that it consider options for containing its total operating costs to current levels as part of this review.

Rail

Rail is the second largest component of the Crown funding in Vote Transport.

Vote post FBU 2010	2010/11 \$000	2011/12 \$000	2012/13 \$000
Funding to Rail	580,765	232,198	242,770
Percentage of Crown Vote	19%	8%	8%

I have already noted general initiatives to ensure value for money from Rail.

In relation to existing rail appropriations, officials have been reviewing the projects these fund, to ensure they are delivering value and to look for opportunities to reprioritise budget to meet the cost escalations.

In August 2009, the Ministry commissioned Booz to review the programme and capital expenditure of the Auckland rail network upgrade (Projects DART and AEP). Some opportunities were identified. The Ministry is keeping a watching brief over this and will report back to me in mid 2010 on progress of the projects and any risks.

As part of the review of new rolling stock programme for Auckland, the Ministry has undertake an analysis of the expected operating costs and revenue up to 2023. Initial analysis shows that there is a funding gap from 2013 and further cost pressures are expected following the review of the GPS and the resetting of track

access charges. Further work is planned with stakeholders to address the funding gap and the Ministry expects to report back to me on this mid 2010.

information deleted in order to enable the Crown to negotiate without disadvantage or prejudice

Other Crown Funding

Vote Transport contains a number of other initiatives (3% of the Vote) for specific projects.

Canterbury Transport Project (\$14 million for 2010/11 and \$5 million for 2011/12)

This funding is a contribution to the Canterbury region's transport infrastructure development. It is being used to fund the region's contribution to the Christchurch Southern motorway which is a RoNS. A value for money review of this funding is just being completed for submission to Cabinet.

Motor Vehicle Register (\$36 million per annum)

The motor vehicle register is owned by the NZTA and this appropriation is funded from the fees collected on each vehicle register transaction. This activity is closely aligned with the collection of Road User Charges and Fuel Excise duty activity referred to under Departmental Funding below. The cost of operating the register is heavily influenced by its age and functionality. The NZTA is reviewing options for replacing the register to address these issues. I have signalled the cost of the register upgrade as a potential budget issue for 2011, although options not involving Crown funding are to be explored.

Other significant projects that receive Crown funding under the Vote Transport are:

1. Weather Forecasts and Warnings – forecasting and the provision of the weather radar and the IT infrastructure (\$19 million per annum)
2. Regional Development Transport Funding (\$10 in 2010/11)
3. SuperGold Card transport concessions (\$18 million per annum)

I continue to look for improvements in value for money from these projects. For example, the eligibility criteria for SuperGold card transport concessions are being reviewed to contain increasing demands on the concessions. The weather forecasting service is provided under contract from MetService. The contract is due for renegotiation. The Ministry and MetService are both exploring options for cost savings in the provision of these services, so the total value of the contract does not rise and might reduce over time, without compromising the safety of New Zealand travellers from extreme weather events.

Departmental Funding

The departmental baseline is \$31.5 million plus \$1 million for revenue forecasting which is funded from fees. The Ministry will also contribute to the cost of establishing a Productivity Commission from this base line.

The Chief Executive of the Ministry has committed to manage operations of the Ministry within the existing baseline for at least the next two years. He has restructured the Ministry to increase its flexibility in responding to changing priorities and ensure it is efficient and effective. Key to this is a structure that allows staff resource to be moved to where it is required, rather than being limited by a fixed team structure.

Part of the reorganisation strategy is to manage the head count of the Ministry down from 182 to 162 at 30 June 2011. The reductions are expected to come from support and management roles, while preserving policy and other expert advice as far as practicable. The Ministry is on track to this target.

Of the \$31.5 million, \$3.1 million is paid under contract to Crown entities, the New Zealand Transport Agency, Maritime NZ and the Civil Aviation Authority for work on land, aviation and maritime rules. The Ministry and entities have reviewed this amount and in 2009/10, the total funding remained the same but was reallocated between the entities to allow for the targeted progression of more urgent rules. The need for this reprioritisation will be considered for 2010/11 to ensure that the rules programme is managed as efficiently as possible.

In addition to the \$31.5 million the Ministry receives \$18 million for Road User Charge collection and enforcement and refund of Fuel Excise Duty activity. This work is contracted to the NZTA and the funding paid 100% to them.

Growth in Ministry of Transport Policy Analysts

The Ministers of Finance and State Services have drawn my attention to the growth in policy analysts at the Ministry over the last 8 years. The greatest rate of increase in policy analysts is for the two years between June 2004 and June 2006. This growth is a direct consequence of the Transport Sector Review sponsored by the then Ministers of Transport and State Services. They found a Ministry that was incapable of delivering its key policy advice functions. Amongst the key conclusions of that review were:

- insufficient leadership by the Ministry;
- less than ideal placement of some functions;
- poor policy performance of the Ministry.

The main impact of these conclusions for the Ministry was the transfer of 30 roles from Crown entities in the FY ended June 2005, and funding for an additional 30 policy roles over the following three years to June 2008.

In the 2009/10 year, the funding of Rail moved from Vote Finance to Vote Transport and the Ministry of Transport became the lead policy agency. No additional funding was provided for this work. It is estimated that 12 policy analysts have been used to fulfil this ongoing responsibility. The new structure of the Ministry will enable it to

continue to respond to changes in government priorities, while delivering the best use of taxpayers funding for transport policy advice.

As I indicated last year, the nature of the Ministry's activities is fully scalable. I do not believe however the current level of policy capability for Transport is excessive for what is currently required to support my programme, or is out of step with other areas in government, especially having regard to the heavy focus we have on economic growth and the role of transport must play in this. The projected reduction in staff numbers will require significant productivity increases to continue to meet my expectations in this portfolio. I will continue to work with the Ministry's Chief Executive to ensure the Ministry focuses on the government's key priorities and that the policy capacity is 'fit for purpose'.

Section 3: Summary of Financial Movements

Nothing to report.