The Treasury

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Budget 2012: Four-year Budget Plan

Ministry of Transport

Covering:

Vote Transport

Four-year Budget Plan

Final

January 2012

Forwarded by:

Minister of Transport

Section 1: Overview

Vote Transport is made up of $2.3 billion in operating expenditure (the majority of which is funded with road tax from Fuel Excise Duty and Road User Charges and a further $2.3 billion for capital (which includes land transport infrastructure and the KiwiRail Turnaround plan).

This Four-Year Budget Plan covers the overall Vote. It includes financial information relating to the five transport agencies that are funded through Vote Transport. These are the New Zealand Transport Agency, KiwiRail, the Civil Aviation Authority, Maritime New Zealand and the Transport Accident Investigation Commission. This document also includes information on key budget priorities for those agencies.

The Vote is administered by the Ministry of Transport.

The coming four years are going to be very busy ones for the Vote. The main areas of focus for expenditure are the delivery of the National Land Transport Programme and the KiwiRail Turnaround Plan. Both are multi-billion dollar investments.

Strategic direction for Vote Transport is set through *Connecting New Zealand* and the *Government Policy Statement on Land Transport Funding*. These are Government documents that summarise the broad policy direction for the transport portfolio, and align long-term transport expenditure with the Government's priorities for the sector. These documents which were published in late 2011 take a 10 year perspective and set three key priorities for the sector:

- economic growth and productivity
- value for money
- road safety.

Detailed priorities for the Ministry and for the NZ Transport Agency, Civil Aviation Authority, Maritime NZ and the Transport Accident Investigation Commission are set through Statements of Intent, and through annual Ministerial letters of expectation.

Land Transport Infrastructure Funding

The NZ Transport Agency continues to implement and deliver an aggressive programme of highway construction, led by the seven designated Roads of National Significance, which will place considerable pressure on the National Land Transport Fund to manage commitments within the likely revenue stream. The key focus within the Fund is going to remain value for money as the NZ Transport Agency seeks to extract value through implementing high quality investment strategies and manage cost pressures.

Current forecasts of the funding available have been modelled based on an expectation that Government will legislate for increases to road taxes that match the Consumer Price Index to keep funding constant in real terms.

In the medium term there is a “funding gap” between the Government Policy Statement expenditure targets and the revenue stream. As at October 2011, the gap over the next ten years had shrunk from over $1 billion in 2010, to approximately $450 million (this represents 1.3% of the expenditure target for the period). This is being managed through the NZ

Transport Agency's value for money processes and programme planning. Unforeseen events such as the Christchurch recovery costs funded from the National Land Transport Fund will put added pressure on the gap (see below). However Government, once it is confident that no further opportunities for efficiency gains exist, retains the option of legislating for additional increases to road taxes, or reducing the Government Policy Statement targets and thus the scope of the Programme. Neither of these options is proposed at this time.

Canterbury Recovery and the Impact on Vote Transport

The Christchurch earthquakes have had a significant impact on transport infrastructure. Initially the NZ Transport Agency hoped that the cost of repair and rectification could be managed within the emergency provisions of the National Land Transport Programme. Following the February 2011 earthquake, it became increasingly clear that the total transport related costs of the Canterbury events would be beyond the capability of the Programme to absorb. Both the NZ Transport Agency and Canterbury authorities have been keen to achieve certainty around funding.

A funding approach has been proposed to the Ministers of Transport and Canterbury Earthquake Recovery in January 2012, and a Cabinet paper is being completed for early consideration in February setting out the funding required for 2012 and outyears.
[6]

Rail and the KiwiRail Turnaround Plan

The second largest element within Vote Transport is funding for Rail. This is primarily project funding to support the KiwiRail Turnaround Plan and rail developments in Auckland (to 2013/14) and Wellington (to 2018/19). The total rail programme is an investment of $4.6 billion over ten years, with a total of $1.1 billion anticipated from the Crown. While the Turnaround Plan is a multi-year commitment, funding is currently appropriated year by year. A bid for 2012/13 is part of this document. Outyear funding will be considered by the Government based on progress by KiwiRail in meeting performance targets.

KiwiRail also receives a significant amount of loan funding which is disclosed separately in the capital table below. The loan total shown also includes $500 million of loan funding provided to the Auckland region for metro rail developments as part of a package agreed in 2011.

[6]

Other priority funding areas within the Vote

Other operating funding is mainly contractual funding with the NZ Transport Agency to run the Motor Vehicle Register ($41 million funded from charges), weather forecasting ($19 million) purchased from the NZ Meteorological Service, SuperGold card transport concessions ($21 million) and the Rena maritime incident ($25 million 2011/12 only).

The Ministry receives departmental funding of $52 million, spent in the following areas:

	$m
Fee funded appropriations used to purchase Road User Charges collection and Fuel Excise Duty refund management from the NZ Transport Agency and to fund the operation of the Milford aerodrome.	20
Permanent Legislative Authority funding for the running costs of the NZ Search and Rescue Secretariat which is housed within the Ministry.	1
Purchasing Rules development from Crown entities.	3
Ministry delivered outputs	28

Current Operating Funding

$m	2011/12	2012/13	2013/14	2014/15	2015/16
Non departmental funding					
National Land Transport Programme and other roading	1,806.000	1,767.000	1,817.000	1,822.000	1,827.000
Rail	338.357	83.190	36.206	93.770	3.770
Crown entities	14.941	14.941	14.941	14.941	14.941
Other	121.930	91.655	91.691	87.055	87.055
	2,281.228	***1,956.786***	***1,959.838***	***2,017.766***	***1,932.766***
Departmental funding					
Crown revenue	31.468	31.108	31.108	31.108	31.108
Fee funded appropriations	20.258	18.773	18.773	18.773	18.773
Permanent Legislative Authority funding	1.136	1.136	1.136	1.136	1.136
	52.862	***51.017***	***51.017***	***51.017***	***51.017***
Total	**2,334.090**	**2,007.803**	**2,010.855**	**2,068.783**	**1,983.783**

Current Capital Funding

$m	2011/12	2012/13	2013/14	2014/15	2015/16
National Land Transport Programme and other roading	679.739	819.428	922.313	1,065.132	1,199.052
National Land Transport Programme - loans	930.000	770.000	850.000	767.000	750.000
Rail - funding	258.552	17.393	11.203	12.813	7.863
Rail - loans	450.000	100.000	200.000	0	0
Crown entities	0.303	0	0	0	0
Joint venture airports	0.601	0.500	0.500	0.500	0
Total	**2,319.195**	**1,707.321**	**1,984.016**	**1,845.445**	**1,956.915**

Direction of the Vote

New Zealanders and our businesses rely on the transport system for the movement of domestic and export goods, and to provide social connectivity. Our goal is to create a transport system that maximises its economic and social benefits for New Zealand, while at the same time minimising the harm that can arise from the system. To that end, we are seeking to improve the efficiency, effectiveness, safety and resilience of the transport system. The Government has three priority areas of focus to achieve these outcomes.

Economic growth and productivity

The transport network makes a vital contribution to the successful functioning of the New Zealand economy. Better transport services and infrastructure can lower costs and increase accessibility for businesses by expanding markets and improving access to suppliers. It is important, therefore, that the arteries of our cities, and access to our key rail hubs, air and sea ports are free moving; while the corridors that form our key supply chains also need to be protected from congestion.

Value for money

The Government invests more than $3 billion a year on transport each year through the National Land Transport Fund and also invests outside that Fund (primarily on rail). It is essential that it gets the best possible value from that investment. Central and local government transport agencies need to deliver the right transport infrastructure and services at the right level, and for the best possible price. This requires the provision of integrated transport services that allow more seamless options for users. Transport agencies will focus on how their activities and projects are delivered, how assets are managed, and how costs can be minimised over time.

Road safety

Road crashes carry a high cost with the social cost of road crashes estimated to be $3.7 billion per annum. Reducing the road toll and the cost of road crashes is a key priority for the transport sector. The government released the Safer Journeys Strategy in 2010 and has a vision for 'a safe road system that is increasingly free of serious injury and death'.

Summary of Changes (applies to all agencies)

1. *Operating changes sought*	Impact $m increase/(decrease)				
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Current Operating Expense Baseline	2,334.569	2,008.203	2,011.255	2,069.183	1,984.183
[6]					
[6]					
[6]					
[6]					
[6]					
[6]					

**The figures for cost pressures and new / increased activity do not include costs relating to the Christchurch Earthquake or the reprioritisation within the National Land Transport Programme as these are difficult to quantify.*

Operating	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Departmental baseline	53.341	51.417	51.417	51.417	51.417
Non departmental baseline	2,281.228	1,956.786	1,959.838	2,017.766	1,932.766
Current Operating Expense Baseline	**2,334.569**	**2,008.203**	**2,011.255**	**2,069.183**	**1,984.183**
[6]					
[6]					
[6]					
[6]					

2. *Capital investments being considered for new funding in Budget 2012* **[section 4]**	Impact $m increase/(decrease)					
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**Outyrs**
KiwiRail Turnaround Plan year 3	*0*	*250.000*	*0*	*0*	*0*	*0*
[6]						
[6]						
[6]						
[6]						

3. Capital investments likely to require new funding in future Budgets **[section 4]**	**Total impact across years $m increase/(decrease)**		
	Budget 2013	**Budget 2014**	**Budget 2015**
KiwiRail Turnaround Plan year 4-5	*243.000*	*90.230*	*0*
[6]			

4. Baseline capital expenditure	**Impact $m increase/(decrease)**				
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Departmental					
Baseline funding available for departmental capital expenditure **[section 5, table 5, row e]**	*1.306*	*1.422*	*1.636*	*1.955*	*2.325*
Investments funded from departmental capital expenditure **[section 5, table 5, row f]**	*0.750*	*0.750*	*0.750*	*0.750*	*0.750*
Non departmental					
Total **[section 5, table 6]**	*2,319.195*	*1,707.321*	*1,984.016*	*1,845.445*	*1,956.915*

Section 2: Priorities

The priorities for Vote Transport to 2015/16 have been clearly articulated, they are:

- economic growth and productivity
- value for money
- road safety

The projects to deliver these priorities are listed below. Several of them contribute to more than one priority.

Economic Growth and Productivity

Roads of National Significance

The State highway system is a critical contributor to New Zealand's prosperity. The Roads of National Significance programme, initially focuses on the delivery of seven essential State highways that are critical to New Zealand's key supply chain routes. The seven Roads of National Significance are:

- Auckland Western Ring Route
- Auckland Victoria Park bottleneck
- Christchurch motorway projects
- Puhoi to Wellsford
- Tauranga Eastern Corridor
- Waikato Expressway
- Wellington Northern Corridor

Funding for these roads over the next four years represent continuation of a $9 billion investment intended to ease prominent traffic bottlenecks within and around our five largest metropolitan areas, and link our major sea and airports more effectively into the State highway system. Funding has been sourced from within the National Land Transport Fund by a major reprioritisation of expenditure, and careful procurement by NZ Transport Agency.

Delivery of the Wider National Land Transport Programme

The NZ Transport Agency continues to focus on improving investment from the National Land Transport Programme. Its priorities are:

- Improving road safety by embedding a safe system approach
- Improving the efficiency of freight movements by optimising the use of existing network infrastructure
- Improving the effectiveness of public transport to make better use of existing transport capacity
- Reducing compliance costs by improving clarity in investment decision making by concentrating on influencing and alignment at an earlier stage in the project development process

KiwiRail and Metro Rail

Getting results from the investment that Government has made in KiwiRail and in the major metropolitan areas of Auckland and Wellington will remain priorities for the Vote over the four year period. The KiwiRail Turnaround Plan is a multi-year package, and the Government will be considering outyear funding as part of Budget 2012. We have provided more detail in Sections 4, and 5 of this document.

Assessing the Feasibility of New Nationally Significant Transport Infrastructure

Over the coming years the Ministry expects to be assessing the economic value of key new projects that may be critical to economic growth and productivity:

- Clifford Bay – the Ministry has been directed to further examine the business case for developing a port facility at Clifford Bay. Such a development could have significant implications for domestic supply chains.
- Auckland Transport Infrastructure – the Auckland Plan is likely to include several major transport infrastructure projects seen as critical to unlocking the future potential of the region. These projects are likely to require government funding and statutory powers for revenue gathering to make their development possible, if they prove feasible.

Network Optimisation Tools and Funding

While new infrastructure investments are necessary, so too is the need to ensure we optimise the use of our transport infrastructure. Work continues on future revenue raising and/ or demand management tools for land transport and the development of policy frameworks at a national level to support the discussion likely to arise in the Auckland context. The Auckland Council is expected to approach the government seeking legislative change in this area in 2012.

Fuel Excise Duty as a funding mechanism will become less effective over time as vehicles become more efficient and other technologies are adopted. The impact is unlikely to be material in the next decade, but it is desirable that we future proof our systems by being prepared to extend the road user charges system to a wider range of vehicles. This will enable the government to take informed decisions on the sustainability of funding for the transport system in the medium-term.

Work also needs to be completed on the biggest reform of the Road User Charges regime since it was introduced in 1977. The legislation has been consulted on but has yet to pass its final reading. It is intended that new regulations and allocation of charges be operational from 1 July 2012.

Regulatory Reform Programme

The government is a significant regulator of the transport system, mainly with a focus on promoting safety outcomes. Consistent with the Better Regulation: Less Regulation initiative, the focus in transport is to improve the quality of regulation, including reducing compliance costs on business and the community.

This includes three key workstreams:

- strategic – identification of opportunities for reform in the short, medium and long term that can deliver substantial improvements to the transport regulatory system. Two initiatives to be scoped are the Land Transport Reform Package and the Regulatory Rule Rationalisation Package.
- business improvement - improving the efficiency of regulatory development, implementation and delivery (including a review of the effectiveness of the Transport Rules Redesign Process in improving rules regulation)
- business as usual - coordination and oversight of the annual transport regulatory plan, and delivering against those plans.

Value for Money

National Land Transport Fund

As has been mentioned above, NZ Transport Agency and the Ministry are leading an active programme to deliver better value for money across all investment activities in the National Land Transport Fund. Two examples of aggressive efforts to deliver value-for-money are:

- The Road Policing Investment Programme – Approximately $300m p.a. is allocated to Vote Police to fund road policing. Significant progress has been made in clarifying the investment strategy and performance expectations of the police, including options to deliver better value for money.

- Public Transport Funding – the Government Policy Statement has provided a range of $240 - $350 million for public transport in 2012/13 and the NZ Transport Agency has led a Public Transport Effectiveness Project designed to lift the performance of that sector. The Ministry has led the development of the public transport operating model (recently confirmed as government policy) designed to promote greater commerciality in the delivery of service, together with reduced dependence on public funding.

Crown Entity Performance

The critical issue facing the Crown entities is the constant need to ensure that they are delivering the appropriate level of service and are not exposing the system to the risk of either under or over regulation.

Key challenges for the Civil Aviation Authority and Maritime NZ over the funding period will be realigning fees and charges to deliver the level of service that New Zealand needs and to then appropriately allocate the costs of these services across the sector. There are also challenges associated with maintaining a critical mass of expertise at the lowest ongoing cost, for example, rules development.

Both Civil Aviation Authority and Maritime NZ have completed Value for Money reviews that considered the appropriateness and effectiveness of their activities. Both entities have programmes of work underway to address the issues and opportunities identified, including major funding review projects. These reviews include active engagement with sector reference groups.

Maritime NZ's funding review is well advanced, and has identified significant mismatches between funding sources and the beneficiaries of its activities. It is proposing to rebalance their funding model so it is more sustainable, more closely linked to activities, and more transparent for all stakeholders. Overall, this should be fiscally neutral for the Crown.

The Civil Aviation Authority funding review is also rebalancing mismatches between revenue and beneficiaries within its funding model to ensure appropriate charging. This rebalance assumes no change to Crown funding. In addition, this Value for Money review has confirmed the need for additional investment to ensure a 'step change' in performance so the entity meets government and international expectations of an effective regulator. The entity indicates this 'step change', and increased service demand from sector growth, will likely require significant overall increases to revenue. This is proposed to be sourced from increased levies and more active use of fee charging. The Ministry will be working with the Civil Aviation Authority to ensure that the business case for any increase in levies or charges is robust. The entity will offset this investment by efficiency savings over time, and has already completed a consolidation of support services with the Aviation Security Service.

Hypothecated Funding

The NZ Transport Agency is largely funded by road users paying Fuel Excise Duty and Road User Charges. These taxes are 'hypothecated', that is, all of the tax collected from road users is spent on the roading system, and is therefore unavailable for redistribution to other governmental activities. 'Hypothecation' creates benefits, in that the certainty of future revenue enables medium term projects to be established with greater confidence but there are considerable pressures on road funding to meet the competing needs of national and local infrastructure and between new roads and system maintenance. The system is also consistent with the requirements that will be necessary in the long term if a greater emphasis is put on road pricing.

A potential weakness of hypothecation is that there is no incentive to spend less than the available resource or to set a lower level of funding.

Hypothecation brings with it a critical responsibility to ensure that all funding is wisely deployed. The Government Policy Statement provides the mechanism for government to decide the overall quantum of investment that it wished to make as well as the mix of expenditure expected. The NZ Transport Agency is responsible for ensuring it delivers the programme effectively and efficiently.

At present, with New Zealand facing a deficit in roading infrastructure and a funding gap, this issue does not pose a risk but in the medium term, the issue of the right level of roading investment may need to be explored.

Ministry of Transport Performance

The Ministry has led an active programme of change over the last three years to improve productivity and performance, and to reduce its costs. It has focused on the shape (cost structure) of the organisation to ensure it has the appropriate number of staff at all levels to deliver as a high performing policy shop. An exercise was done to identify the optimum number of policy staff at each level which has resulted in redundancies. All business services functions have also been subject to review and a programme of change is underway that will reduce costs. No vacancy is filled without the approval of senior management and an ongoing need for the role must be demonstrated.

The Ministry has identified the key skills for each staff level and identified the appropriate training required so that expectations of staff are clear. There is increased emphasis on performance management to ensure that all staff are performing acceptably.

It has reduced its headcount by 20% since 2008 and introduced a flexible operating model (working in a matrix structure like a professional services firm).

It is currently mid way through a further programme to strip another 10% in costs to deliver the efficiency dividend in 2012/13, and remain financially sustainable for the next three years. Wage pressure is being managed by a combination of the shape work and the other initiatives.

Road Safety

Safer Journeys Action Plan

Implementation of the Safer Journeys Action Plan 2011-12, and development of the second action plan (2013-2015) to continue the cross-government focus on reducing both the annual road toll and the estimated $3.7 billion annual social cost of road crashes in New Zealand. This plan involves joint effort by the Ministry, NZ Transport Agency, Police, Accident Compensation Corporation, Local Government NZ and a range of other entities. The programme is funded from within baselines.

Section 3: Cost Pressures

The significant cost pressures within the Vote are as follows:

NZ Transport Agency

As noted earlier, there is a medium term gap between revenues received from road taxes, and the commitments entered into by the NZ Transport Agency to deliver the Government Policy Statement targets. This gap creates pressure on the NZ Transport Agency to explore and generate efficiency savings. The funding gap and the scrutiny of other players in the system (road user groups, local government, motorists) require the Agency to be transparent about its prioritisation and contract negotiation processes and provide strong incentives to deliver value for money.

The NZ Transport Agency faces a range of funding pressures, including cost increases in maintenance and operations contracts, the unprecedented scale of the Christchurch earthquake and delivering very large capital projects (such as Roads of National Significance) from an annual operating revenue stream.

At present, the NZ Transport Agency is seeking to manage this pressure through improving the quality of its operations, innovating with contract management and procurement practices, looking to increase flexibility in how resources can be deployed through the Government Policy Statement, and improving national and regional classification systems and maintenance standards.

[6]

Maritime NZ [6]

Maritime NZ had agreed with the Minister of Transport to undertake a funding review, with a view to having recommendations implemented by 1 July 2012. This has identified some underfunding and cross subsidisation that need to be addressed if the organisation is to be sustainable. The key changes likely to be considered included:

1. [6]

2. some reprioritisation within baselines

3. Maritime NZ currently receives $0.400 million per annum from levies paid for Health and Safety in Employment. It currently spends almost $1 million per annum on this activity, with the shortfall subsidised from third party revenue. It therefore seeks additional funding $0.530 million from the levy surplus currently held by the Crown.

The Four Year Budget Plan currently includes a request for funding for item 3 above and item 1 may be approved by joint Minsters.

In October, the Rena grounded and the reviews and the Funding review was put on hold while the response was managed. Maritime NZ now faces the following cost pressures to:

a) Progress its 2011/12 work-programme which includes strategic projects in 2011/12
b) Continue to work on its strategic projects in 2012/13 [6]
c) Meet the cost of any ongoing costs from the Rena, including support for any inquiry
d) Action points 1 and 3 above.

The Ministry has reprioritised its departmental funding and requested a fiscally neutral transfer to Maritime NZ to cover the costs in a) above and so additional Crown funding is not required for 2011/12.

The costs in b) are currently under discussion for reasonableness.

Costs directly related to managing the Rena grounding of $25 million have already been appropriated for 2011/12 and further funding for 2011/12 will be sought from Cabinet in February. [6]

If an inquiry is announced, the costs of these will be considered separately.

[6]

[6]

[6]

Other Agencies or Funding

Auckland Transport Issues: NZ Transport Agency and the Ministry

Auckland Council will be making final decisions on the Auckland spatial plan in December 2011 and releasing the final plan in February 2012. The draft plan proposes construction of the City Rail Link by 2020 and that the project be jointly funded by the Council and the Government. The development of a further business case for this project is expected in 2012. The expert advice required to assess a project of this size would be costly but the Ministry intends to meet the cost of this from its baseline. It is likely that at some time in the 2012/13 year the Council will seek a commitment from the government for the capital cost in excess of $2 billion.

Third Party Fees and Charges within Crown Entities: All agencies

Both the Civil Aviation Authority and Maritime NZ have funding review underway that are proposing to change third party levies, fees and charges.

The Civil Aviation Authority funding review is likely to propose substantial overall increases to revenue from levies, fees, and charges. These increases reflect a combination of the need to rebalance the entity's funding model between these revenue sources, and the entity's intention to ensure that it meets growth in service demands and is an effective regulator and organisation. Without these changes, the Civil Aviation Authority indicates that airlines will continue to inappropriately subsidise general aviation costs, that it cannot continue current services, and that there are risks to New Zealand's reputation as a safe aviation environment.

Maritime NZ is proposing to rebalance fees and charges to more closely align them with costs. This will mean more fees for service arrangements, a stronger model for estimating what level of fee is appropriate, and less reliance on the industry levy (Maritime Safety Charge). If the entity does not make these changes, it will:

- continue to cross-subsidise activities
- risk acting outside of its legal mandate
- alienate stakeholders who have been heavily involved in developing the new model.

Both funding reviews are still underway, with proposed changes to third party revenue expected to start to flow in the 2012/13 financial year. A more regular cycle of reviews is planned in future, to ensure business models, performance, and costs are reviewed regularly and third party charges are aligned.

The NZ Transport Agency is continuing to work through a review of its fees and charges and has made good progress adjusting them both up and down as appropriate.

Meteorological Service of NZ

Vote Transport contains $18.6 million to purchase of severe weather warnings and forecasting services for NZ land and coastal areas, and for other areas for which New Zealand has international responsibility. The contract price is reviewed triennially, with no funding increase since 1 July 2009. The Meteorological Service has signalled continued cost pressures, which it is currently managing through cost reductions. However, it considers this situation is not sustainable, and has signalled the need to change or reduce the current services if there is no price increase when the contract is renegotiated for 2013/14 onwards. Planning is progressing on the basis of no new funding for this service.

SuperGold Card Transport Concessions

Demand has exceeded the funding of $18 million per annum and additional money was granted for 2010/11 ($4 million) and 2011/12 ($5 million) and the scheme was changed pending a review [EGI Min (10) 23/11]. From 2012/13, funding reverts to $18 million.
[6]

Summary of Cost Pressures Shown in Table 1

Operating	2011/12	2012/13	2013/14	2014/15	2015/16
[6]	0	[6]			
[6]	0	[6]			
Total	**0.000**	[6]			

The above table does not contain the pressures within the National Land Transport Fund including the Canterbury earthquake response which the NZ Transport Agency is managing as described, because these cannot all be quantified exactly.

[6]

Section 4: Proposed Changes for 2012/13 to 2015/16

Ministry Efficiency Savings

The Ministry must meet an efficiency target of $0.927 million, from 2012/13. This has two elements – reduction in Crown funding of $0.527 million and removal of the superannuation contribution from the SSC ($0.400 million). This is based on the Crown funding received by the Ministry of $31 million (made up of $28 million for Ministry operations, and $3 million for Rules purchased by the Ministry from the Crown Agencies within the Vote).

Other Ministry funding is from hypothecated revenue and third party fees, and efficiency is being driven by other means explained elsewhere in this document.

Proposed Changes

KiwiRail bids for additional funding

$m	2011/12	2012/13	2013/14	2014/15	2015/16
Turnaround Plan year 3	0	250.000	0	0	0
Turnaround Plan year 4-5	0	0	243.000	90.230	0
[6]	0	[6]			
[6]	0	[6]			
Total	**0**	[6]			

The Ministry works closely with the Treasury which is responsible for the shareholder interest in KiwiRail.

(a) Turnaround Plan - Rail Freight Business

The rail freight operation is expected to be conducted on a commercial and sustainable basis as a result of the investment in the turnaround plan. The government has committed to providing $750 million in support of the Turnaround Plan over 2010/11 to 2012/13 but outyears are not currently appropriated in order to keep the pressure on KiwiRail to drive the business as hard as possible. The Plan assumes a total contribution from the Crown of $1.1 billion over ten years.

KiwiRail is updating the original business case to reflect actual results after almost 18 months of funding. The prioritisation of the projects within the Turnaround Plan are continually reassessed by the Board so that outcomes can be optimised, while ensuring contractual commitments remain within the overall funding envelope, without breaching the appropriation rules. Ministers will need to decide whether to fund the 2012/13 tranche of the Turnaround Plan as part of the Budget 12 process.

[6]

[6]

Maritime NZ – Operational Funding

As noted in Section 3, the Maritime NZ funding review has identified some underfunding and cross subsidisation that need to be addressed if the organisation is to be sustainable. Ongoing work has also been affected by the need to prioritise the Rena response. The following requests aim to address these areas:

1. an increase in funding for Health and Safety work of $0.528m per annum, funded from a surplus in levy revenue held by the Crown. The Department of Labour which collects the levy has advised that the current levy is sufficient to cover this.

2. [6]

Item 1 is included in the Budget process. [6]

Summary of Proposed Changes Shown in Table 1

Operating $m	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Maritime NZ health and safety in employment funding	0	0.530	0.530	0.530	0.530

The above table does not contain the pressures within the National Land Transport Fund which the NZ Transport Agency is managing as described, because these cannot all be quantified exactly.

[6]

Section 5: Baseline Capital Expenditure

The two transport agencies with significant capital expenditure are the NZ Transport Agency and KiwiRail. Their actions to give effect to the Investment Intentions are detailed below.

NZ Transport Agency

The NZ Transport Agency uses its Investment and Revenue Strategy to ensure that capital funding is prioritised towards the impacts specified in the GPS, which specifies the impacts that the government expects from the three year National Land Transport Programme.

Within the Programme, in planning and managing the state highway network ($1.6b pa), the NZ Transport Agency use the State Highway Asset Management Plan 2012/15 that describes how the state highway assets will be managed effectively and efficiently to enable road users to plan and make trips across the network as reliably and safely as possible for the minimum long term cost.

In utilising private sector disciplines, the NZ Transport Agency uses a highly outsourced model for the state highway programme. It has published a Procurement Strategy manual as required by the Land Transport Management Act. The manual sets out a process which will increase the likelihood of maintaining or enhancing value for money outcomes through the procurement process. Any decision to utilise a 'public private partnership' arrangement would be based on a clear decision that identifies the benefits that exceed those offered by other methods of procurement.

KiwiRail Capital Prioritisation

The November 2010 Turnaround Plan Business Case utilized three key interrelated processes to develop a prioritized three year investment programme focused on delivering quick results for improving customer services and greater revenue generation, while mitigating capacity and capability risks associated with delivering the programme:

1. A top down risk review to identify key capacity constraints across business units to be addressed by the capital programme to enable and deliver revenue growth.

2. Root cause analysis of premier freight train service failures to identify priorities for addressing time keeping and reliability improvements required to meet revenue growth targets.

3. A corridor prioritization evaluation framework to assess by line segment (within each corridor) the interventions that will have the greatest impact across five overlapping business drivers that underpin revenue and earnings before tax and depreciation growth: capacity, time keeping, reliability, integrity/safety, and cost/efficiency.

These tools have now been incorporated into the annual budgeting process that sets and prioritizes KiwiRail's three year capital expenditure budget.

This process is informed by quarterly meetings of the Infrastructure and Asset Management Committee to assist Board decision making by reporting and forwarding recommendations relating to the management of risks associated with material assets (rail network infrastructure; significant operating plant and equipment such as locomotives, wagons, and ships; and maintenance facilities, equipment and stock).

5. **Departmental capital expenditure**	$m increase/(decrease)				
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**
a. Opening baseline funding available	*0.543*	*0.556*	*0.672*	*0.886*	*1.205*
b. Depreciation funding (1:51:1, 199)	*0.784*	*0.866*	*0.964*	*1.069*	*1.12*
c. Sale of assets (1:52:0, 1999)	*0*	*0*	*0*	*0*	*0*
d. Other – movement in term liabilities	*(0.021)*	*0*	*0*	*0*	*0*
e. Total baseline funding available	*1.306*	*1.422*	*1.636*	*1.955*	*2.325*
f. Capital investments funded from baselines	*0.750*	*0.750*	*0.750*	*0.750*	*0.750*
g. Closing baseline funding available	*0.556*	*0.672*	*0.886*	*1.205*	*1.575*

6. **Non-departmental capital expenditure**	$m increase/(decrease)				
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Capital investment in organisations other than departments (0:6:X & 0:7:X, 599)	*2,319.195*	*1,707.321*	*1,984.016*	*1,845.445*	*1,956.915*
Baseline funding available for the purchase or development of Crown capital assets (0:6:X & 0:7:X, 699)	*0*	*0*	*0*	*0*	*0*
Total	*2,319.195*	*1,707.321*	*1,984.016*	*1,845.445*	*1,956.915*

[7]