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[1] 9(2)(a) - to protect the privacy of natural persons, including deceased people

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Vote Transport

Four-year Budget Plan

Version 4

30 November 2010

Submitted by:

Ministry of Transport

INTRODUCTION

This Four-Year Budget Plan document is submitted by the Ministry of Transport (the Ministry). The plan covers the Minister of Transport's full Vote responsibilities and goes beyond the accountabilities of the Ministry. It includes financial information relating to the other transport agencies that are funded through Vote Transport. It also includes information on some of the work programme priorities for those agencies, and for which the Ministry has no responsibility or accountability.

SECTION 1: NEW BASELINE AND SUMMARY OF CHANGES

The government's top priority for transport is to maximise the sector's contribution to economic growth and productivity. To meet this goal, the Minister of Transport has identified the following priorities for transport.

Investment in infrastructure

Increased transport infrastructure funding will have a direct influence in growing New Zealand's economy through increases in productivity growth, securing jobs and increasing employment.

The government wants to continue momentum in this area, in particular continuing to build the Roads of National Significance (RoNS), evolving KiwiRail's freight operations into a commercial transport business, developing the next Government Policy Statement on Land Transport Funding and improving the operating models for Auckland and Wellington metro rail.

Better regulation and reduction in compliance costs

Simplifying, modernising and streamlining transport's legislative and regulatory framework will remain a high priority in order to reduce compliance costs and improve the efficiency and effectiveness of the regulatory framework, for example, fee reviews and legislation overhaul.

Efficient and cost-effective performance of transport Crown entities is vital to reduce costs for transport users and help make New Zealand more competitive.

Road safety

Road safety will also be a high priority for the government. Promoting a safe system approach is acknowledged as integral to achieving safety gains. The approach recognises that all components of the safe system must play their part to enhance road safety.

The success criteria for this portfolio remain as follows.

- Government investment in land transport supports the overall goal of growing the economy and improving productivity.
- Tangible progress 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.

Summary of changes

The majority of funding in Vote Transport is fully hypothecated to the National Land Transport Fund and cannot be used for other purposes. Given this, it is believed that work on current and additional priorities will be able to be funded through the existing Vote Transport funding. The exceptions to this are rail and joint venture airports, which are explained in more detail in section 3.

Overall Impact

Operating	**Impact ($000s)**				
	2010/11	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Current baseline	2,488,919	2,111,568	2,041,269	2,058,950	2,058,950
Cost of new/increased activities (detail in section 3)	0	0	0	0	0
Amount reprioritised	0	0	0	0	0
New baseline	2,488,919	2,111,568	2,041,269	2,058,950	2,058,950

Capital	**Impact ($000s)**				
	2010/11	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Capital proposals seeking new funding in Budget 2011 (detail in section 3)	0	532,010	9,300	9,300	9,300
Capital proposals seeking decisions in Budget 2011 funded within baselines.	0	0	0	0	0
Total capital intentions	0	532,010	9,300	9,300	9,300

SECTION 2: VOTE PRIORITIES AND PRESSURES

The key focus over the short term will be on continuing the momentum in the priority areas outlined in section 1 by:

- identifying options for making the land transport funding system more financially sustainable
- working with the Auckland Council on its transport aspirations
- developing a more efficient rule making process
- setting the KiwiRail feight business on a commercially sustainable pathway
- clarifying funding, ownership and performance issues for metro rail services

- identifying opportunities to reduce compliance costs for users and government in the core operations of the NZ Transport Agency, and increasing its operational effectiveness
- driving value for money initiatives to improve the efficiency of operations of the Ministry and transport Crown entities
- implementing the Safer Journeys road safety action plan
- examining the road policing programme to ensure the allocation of resources and funding is well-directed

Vote Transport Funding from the Crown (operational and capital baselines)

Vote Transport	**2010/11 $000**	**2011/12 $000**	**2012/13 $000**	**2013/14 $000**	**2014/15 $000**
Funding hypothecated to the National Land Transport Fund (NLTF)	2,377,124	2,491,422	2,598,190	2,725,050	2,833,850
Crown funding to NLTF	47,731	4,554	5,065	5,065	5,065
Funding for Rail	906,380	289,282	238,828	191,770	32,770
Funding to Crown entities	32,570	24,077	24,379	24,379	24,379
Other	112,854	89,213	98,608	178,608	95,608
Departmental Funding	52,139	50,646	50,125	50,125	50,125
Total	**3,528,798**	**2,949,194**	**3,015,195**	**3,174,997**	**3,041,797**

Funding hypothecated to the NLTF

	2010/11 $000	**2011/12 $000**	**2012/13 $000**	**2013/14 $000**	**2014/15 $000**
Funding hypothecated to the NLTF	2,377,124	2,491,422	2,598,190	2,725,050	2,833,850

Priorities

Road tax revenues are hypothecated to the NLTF, which is used to fund the National Land Transport Programme (NLTP). While road tax revenue rates can be increased or decreased, careful management and reprioritisation of the existing fund is still essential to deliver on government priorities and achieve value for money.

The NLTP only funds value for money investments, as determined by criteria measuring strategic fit, efficiency and effectiveness. This is particularly important because potential expenditure exceeds revenue.

Government Policy Statement 2012

The Government Policy Statement on Land Transport Funding (GPS) is the lead policy document for the allocation of funding for land transport projects. The GPS was re-oriented in May 2009 to reflect the new government's priorities of increasing economic growth and productivity, and projects have been prioritised from a national perspective.

The government will release a new GPS for the period 2012–2022 by July 2011. Due to the size of the current commitments, the amount of discretionary funding available for new initiatives in the new GPS will be limited over the next 4 years and beyond.

The document will look to make progress on the priorities of the existing GPS, while managing the expenditure and revenue pressures facing the land transport sector. This includes ensuring further progress on key issues such as the Roads of National Significance.

Review of activity classes in the National Land Transport Programme

The NZ Transport Agency (NZTA) has reviewed four activity classes in the NLTP to ensure they are aligned with the re-oriented GPS. As part of the development of the new GPS, a wider activity class review will be conducted and some realignment or consolidation is possible. The NZTA is expecting to deliver better value for money as a result of this improved alignment to the objectives.

Options for further funding

The Ministry is planning further work on the long-term viability of the present PAY GO funding model for transport. This is likely to include potential transition paths to different forms of transport pricing and funding options for very large projects. This will ensure that the funding system is fit for purpose longer-term.

Cabinet has recently agreed that the NLTF may borrow short term against future revenue to manage timing differences between expenditure and revenue. This will facilitate a more efficient delivery of the investment.

Auckland transport issues

The Auckland Spatial Plan is likely to have a significant transport infrastructure component. Officials will have significant engagement with the Auckland Council over the coming months on the government's transport objectives and the expectations that would need to be met before further infrastructure investment could be considered for Auckland.

Regulatory reform

The current legislative framework is, in places, overly prescriptive and onerous. The Ministry and transport Crown entities are undertaking a review to provide options to make the framework more efficient, effective, adaptable to change and at a reduced compliance costs to customers. An example of this is the simplification of the process for approval and use of public-private partnerships and tolling.

Work is also underway to speed up how land, maritime and aviation rules are developed, and scrutinising closely the rules that are on the programme. A process redesign process has begun. The sector is also working towards better-focussed and streamlined fees and charges reviews that are more aligned to governmental priorities.

Road Safety

The road safety strategy Safer Journeys released in March 2010 has gained wide public support. The second action plan is due for release early in 2011 and will cover how the agencies will reprioritise education, enforcement and engineering to align with Safer Journeys. The actions are intended to reduce the number of fatal and serious crashes on New Zealand roads, which in turn will reduce the cost to the economy of such crashes and the related lost productivity.

Pressures

Significant progress has been made in delivering the re-oriented State highway programme. There are a number of funding pressures and expectations that will intensify over the period of the next GPS and the key ones are:

- the Roads of National Significance (RoNS) and other large multi-year construction projects have resulted in a 'lumpier' expenditure profile with a higher level of committed funding. This is making the management of the NLTP more challenging and regions expect that some projects may not proceed.
- The new road safety activity has been prioritised for funding in 2011/12. Giving meaningful effect to the Safer Journeys road safety goal of significantly reducing the crash risk on New Zealand's high risk routes by 2020, both for State highways and local roads, could require additional resources.
- the cost of strengthening and maintaining infrastructure on key freight routes to allow for heavy vehicles operating between 44 and 53 tonnes. Whether the total budget amount will need to be spent over the period 2012 to 2015 will depend on the level of demand for heavier vehicle transport movements.
- ongoing requests from regions for major new transport infrastructure.

Crown funding to NLTF

	2010/11 $000	2011/12 $000	2012/13 $000	2013/14 $000	2014/15 $000
Crown funding to NLTF	47,731	4,554	5,065	5,065	5,065

Priorities

The full hypothecation of road tax revenue is intended to be the principal source of revenue for the NLTF, but this does not preclude the Crown providing additional funding. 2010/11 is the final year of the 3-year economic stimulus package of $142.5 million that the Crown invested into the Fund. This was to speed up investment in transport infrastructure and roads, improving the productivity of the transport sector and bringing lasting economic benefits to New Zealand. From 2011/12, the only direct Crown funding will be the surplus revenue generated from motor vehicle registration and road user charges administration fees. This is an interim arrangement arising from 2008 changes to legislation. The Minister of Transport presented a Cabinet paper in November 2010 outlining a plan to review these fees with the intent of eliminating this surplus.

Funding for rail

	2010/11 $000	2011/12 $000	2012/13 $000	2013/14 $000	2014/15 $000
Funding for rail	906,380	289,282	238,828	191,770	32,770

Priorities

Rail freight operations are an integral part of transport logistics and the provision of competitive rail freight operations is essential to economic growth. Effective development and expansion of the metro rail network in Auckland and Wellington will provide a preferred transport alternative to an increasing number of commuters on a daily basis, reducing travel time and congestion.

Pressures

Rail Freight Business

For rail to contribute to the government's priorities, it is vital to ensure that the rail freight operation is conducted on a commercial and sustainable basis. A Turnaround Plan business case, which provides milestones and performance measures has been approved by the KiwiRail Board and has been provided to the Ministers of Finance, Transport and State Owned Enterprises for approval.

In December 2010, the KiwiRail Board will submit its comprehensive 3-year investment profile for 2010/11 to 2012/2013. The prioritisation of the various projects within the Turnaround Plan will be continually reassessed by the Board so that outcomes can be optimised, while KiwiRail's contractual capital commitments remain within the overall funding envelope, without breaching the appropriation rules.

Metro Rail Business

There has been strong oversight of the $1.1 billion combined budget for urban passenger rail networks in Auckland to provide headroom for the funding of additional network infrastructure. This will also ensure Auckland Transport and KiwiRail deliver more from the existing appropriation and contribute to the procurement of the electric multiple unit trains.

Durable funding and operating arrangements for metro rail are essential and the focus is currently on ownership and performance issues relating to the metro rail networks and services. A sustainable funding solution for the new trains and metro rail operational costs must be found. New projects will require serious consideration across a range of factors including costs and benefits, effectiveness, affordability and timing.

The intention is that the Auckland and Greater Wellington regional councils will make decisions about service levels (in the full knowledge of the costs) and hold KiwiRail accountable for their delivery. The councils also need the right incentives to ensure capital and operating costs are funded. Regional councils will be expected to step up in providing a greater proportion of metro rail funding and any predicted shortfalls.

Funding to Crown entities

	2010/11 $000	2011/12 $000	2012/13 $000	2013/14 $000	2014/15 $000
Baseline funding to Crown entities	32,570	24,077	24,379	24,379	24,379

Priorities

All of the Crown entity board chairs and chief executives within the transport sector recognise 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 a result of this, each entity is expected to review its business models to ensure it is 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 and cross-subsidisation for entities. Any proposal for fee increases will only be considered once they can demonstrate that the fee and levy payers value the services being provided, that options for maintaining and reducing expenditure are being robustly considered, and that the entity is delivering these services cost-effectively.

Pressures

NZ Transport Agency

The NZTA receives little funding directly from the Crown ($3 million) with the majority of its activities funded by the NLTF and third party fees and charges.

The NZTA has met the costs of its creation (the merger of two Crown entities on 1 August 2008) from within its operating budget or accumulated reserves and has undertaken to meet all internal cost pressures over the next three years from within the level of its 2008/09 operating budget.

The NZTA is one of the participants in the government's Better Administrative and Support Services project. The NZTA is 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.

The NZTA is also looking at all aspects of its business to reconsider the related business models and to seek opportunities to deliver better value and reduce costs further. The current Performance Improvement Framework (PIF) review of the NZTA undertaken by central agencies will provide an authoritative, independent view of its performance and provide further options for improvement.

Maritime New Zealand

Maritime New Zealand is realigning its structure and resources to priority areas, and is developing a more comprehensive funding strategy and performance information system. It is currently considering the results of a value for money review, with a view to continuing the move to both 'right size' its services and ensure that revenue is received from the right sources.

Aviation Security Service

In April 2010, Cabinet reduced domestic and international passenger security charges to enable the Aviation Security Service to reduce an accumulated surplus of $50 million to an agreed level of $7.5 million by 2012/13. Cabinet expressed concerns about the future cost structure and the need to minimise future over-recovery of fees. Accordingly, further work is underway to ensure high levels of transparency and improved performance reporting, and to provide options for a faster process for amending passenger security charges, where appropriate.

Civil Aviation Authority

The Civil Aviation Authority reviewed its services, funding model, and related levies and fees in 2010, and is currently consulting on a range of proposals. The Board is considering particularly how it can demonstrate that any proposals provide value for money and it has initiated a more explicit value for money project to inform this review.

OTHER

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

	2010/11 $000	**2011/12 $000**	**2012/13 $000**	**2013/14 $000**	**2014/15 $000**
Other baselines	112,854	89,213	98,608	178,608	95,608

Significant initiatives that receive this Crown funding are:

Motor Vehicle Register ($36 million per annum)

This appropriation is funded from the fees collected on each vehicle register transaction. This activity is closely aligned with the Road User Charges and Fuel Excise Duty activity referred to under Departmental Funding below. The Minister presented a paper to Cabinet on this area in November 2010. Officials are currently scoping a full review of this area to look at the services delivered, the fees collected and the costs of the business to ensure efficiency.

Tauranga Eastern Link ($20 million in 2012/13, $100 million in 2013/14 and $17 million in 2014/15)

The Tauranga Eastern Link is a Road of National Significance. Construction of the road has been advanced through borrowing to be repaid by tolling. This approach was agreed to by Cabinet during 2010/11, as the benefits of advancement were felt to be significant in terms of regional development.

Weather Forecasts and Warnings – forecasting and the provision of the weather radar and the IT infrastructure ($19 million per annum)

This service is provided under contract with the Meteorological Service of New Zealand (the MetService) and was renewed from 1 July 2010 for one year at an unchanged price. The Ministry and MetService are exploring options for managing costs within the current price, whilst not compromising safety or economic productivity.

SuperGold Card transport concessions ($22 million 2010/11 and 2011/12, $17 million per annum thereafter)

The SuperGold Card has been the subject of a recent review that resulted in an increase in funding for 2010/11 and 2011/12 while the long-term funding of the scheme is reviewed. The scheme is giving value for money and is a benefit highly regarded by cardholders. [6]

Departmental Funding

	2010/11 $000	**2011/12 $000**	**2012/13 $000**	**2013/14 $000**	**2014/15 $000**
Departmental Funding	52,139	50,646	50,125	50,125	50,125

Of the funding above, the Ministry receives $18 million for services related to Road User Charges and the refund of Fuel Excise Duty. This work is contracted to the NZTA and the funding is paid to them. The Ministry's departmental baseline is $31.3 million plus $1 million for revenue forecasting which is funded from fees.

Priorities

The Ministry considers that with the current level of policy capability and funding, it will be able to deliver a demanding government transport work programme. The Ministry is focused on the government's key priorities and on ensuring that the policy capacity and capability is 'fit for purpose' and not excessive.

Pressures

The Ministry has committed to manage operations of the Ministry within the existing baseline for at least the next 2 years. The Ministry has restructured 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.

Alongside this, in the 2009/10 year, the Ministry became the lead policy agency on rail. This covers both the freight business of KiwiRail and the metro rail issues. No additional funding was provided for this work. It is estimated that up to eight policy analysts are used to fulfil this ongoing responsibility.

Part of the reorganisation strategy is to manage the head count of the Ministry down from 182 to 162 by 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 meet this target. This reduction in staff numbers will require significant productivity increases for the Ministry to continue to meet the Minister's expectations in this portfolio.

Of the $31.3 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. As indicated earlier, the efficient and effective delivery of the rules programme is being reviewed.

SECTION 3: PROPOSED CHANGES FOR BUDGET 2011 (REPRIORITISATION)

Vote Transport has limited ability to release funds for use by the Crown for other purposes due to the large percentage of funding being hypothecated by legislation to the NLTF. As noted in section 2, there has been significant reprioritisation within the NLTF and ongoing work to ensure value for money is being delivered.

There are two areas, rail and joint venture airports, that will require additional funding that goes beyond the current appropriations in Vote Transport.

Rail Freight Business

KiwiRail Turnaround Plan – second tranche of support funding

In the 2010/11 Budget, the Government committed in principle to a total package of $750 million to the KiwiRail Turnaround Plan with $250 million appropriated for 2010/11. The change outlined in section 4 is the next tranche of $250 million for 2011/12.

This investment will enable the rail freight business to become commercially sustainable within a decade. This will help meet future freight transport demands, which are expected to double over the next thirty years.

KiwiRail – rollover of existing Crown loans maturing in 2011/12

KiwiRail has a number of loans from the Crown. $250 million of loans mature in 2011/12. At this point, it is considered preferable that any working capital surpluses are reinvested in capital infrastructure, rather than loan repayment. The Crown financial statements assume that the loans are rolled over and so the proposal would be fiscally neutral.

Rail Metro Business

In relation to metro rail, the sector is working to put in place policies that require regional councils to pick up a greater share of operating costs and pay the full cost of capital financing. [5]

[5] Both of the bids below relate to the Wellington metro rail infrastructure network owned by the Crown through KiwiRail Group. The Minister is in the process of negotiating a Wellington rail package with the Greater Wellington Regional Council (GWRC) and the bids shown represent the 'worst case' scenario. The negotiations will try and minimize the financial exposure through reducing, or, trading off some of the responsibility for these two items with other items under discussion with GWRC.

Upgrade of Metro rail Wellington (deferred renewals)

Deferred renewal work on the Wellington network is a historical legacy from previous under investment. Not addressing the issue may result in an underperforming network infrastructure and deterioration in asset value once new trains are in operation. Further work is being done to allocate costs between operating costs (ongoing renewals) and capital upgrade requirements. In order to ensure a more reliable metro rail public transport system and to reduce the risk of delays to rail freight, a multi year capital appropriation of $88.4 million over 10 years is being requested

Metro rail Wellington Rolling Stock and Infrastructure shortfall

Cabinet appropriated $258 million for Wellington metro rail rolling stock and infrastructure over 2009/10 and 2010/11, to replace funding that had been allocated in the NLTF. At that time, the GWRC stated they did not believe the $258 million was sufficient to cover the approved and committed expenditure from the NLTF. [5]

Auckland EMUs

Cabinet has approved a loan to KiwiRail of $500 million to purchase new EMUs and a maintenance depot for the Auckland metro system (Cab Min (09) 41/11). [5]

Joint Venture Airports

The Crown has a legal obligation under the Partnership Deeds to share surpluses and deficits and contribute to the operation and maintenance of the six joint venture airports. The existing appropriation will end on 30 June 2011. A new appropriation is therefore needed and a budget bid of $2 million over 4 years is proposed.

The Ministry is currently looking at the longer term issues of airport ownership and will be putting a policy paper to Cabinet. One option is to transfer ownership of the airports from the Crown and one airport was divested during the life of the current appropriation.