



Ministry of **Transport**  
TE MANATŪ WAKA

# BRIEFING TO THE INCOMING MINISTER OF TRANSPORT

DECEMBER 2011

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Policy challenges and upcoming decisions



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## Section 1: Purpose

*The briefing is intended to serve as an input to help you to decide on your priorities for the transport portfolio over the coming months. It does not cover all issues. It focuses on the issues where decisions over the term of the Government could provide material economic and social benefits.*

1. This briefing provides you with an overview of our assessment of major transport policy challenges and opportunities. It does not attempt to cover all issues. Rather, it focuses on areas of transport policy where future decisions about investments, regulation, or other policy settings offer opportunities for enhanced economic or social benefits — decisions about Auckland transport investment is a good example.
2. The briefing does not set out specific policy recommendations. Rather it provides a basis for discussion with you and an input to help you to decide on your priorities for the transport portfolio over coming months. Our assessment of policy challenges and opportunities is in Section 2 of this briefing.
3. The briefing also provides a list of specific matters that we anticipate requiring your attention before Christmas 2011, and through to the end of June 2012. Again, this list does not attempt to cover every possible issue, but rather those that the Ministry of Transport (the Ministry) sees as being important. For each issue we have provided a brief assessment of the consequences of a decision being deferred. This is to aid you in considering your own priorities. The list of issues is in Section 3.
4. An accompanying briefing, 2011 Briefing for the Incoming Minister of Transport — Introduction to the Transport Portfolio, provides background to the Ministry, Vote Transport, and the land transport planning and funding system. You will receive separate briefings from the transport Crown entities.

## Section 2: Transport policy challenges

### The importance of transport for growth

*Transport is important for economic growth. A high performing transport system provides access to new and developing markets, lowers business costs, and provides access to and for skilled labour in major centres like Auckland.*

5. A flexible and resilient transport system that offers greater accessibility, responds to changing patterns in demand, and provides improved journey times and reliability is a necessary condition for economic and social development. An effective transport system supports economic growth by:
  - (a) providing access to new and developing markets
  - (b) lowering delivery costs
  - (c) providing reliable delivery times essential for higher-value goods, and allowing firms to operate with minimum inventories
  - (d) increasing access to skilled labour, and attracting and retaining skilled people in production centres
  - (e) attracting investment as profitable business opportunities expand
  - (f) reducing the incidence of accidents, deaths and serious injuries
6. Efficient transport infrastructure can allow economies of scale in production<sup>1</sup>. These economies of scale provide impetus for investment, further increases in production, and further increases in demand for transport services. Transport is also important to allow people to participate in society, and access social networks, education and training. Improving such access lifts skill levels and societal participation.

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<sup>1</sup> For example, Fonterra operates the world's largest dairy ingredients manufacturing site in Whareroa, Taranaki; a facility that would be impossible without efficient transport infrastructure both to and from the plant.

# Trade and international connections

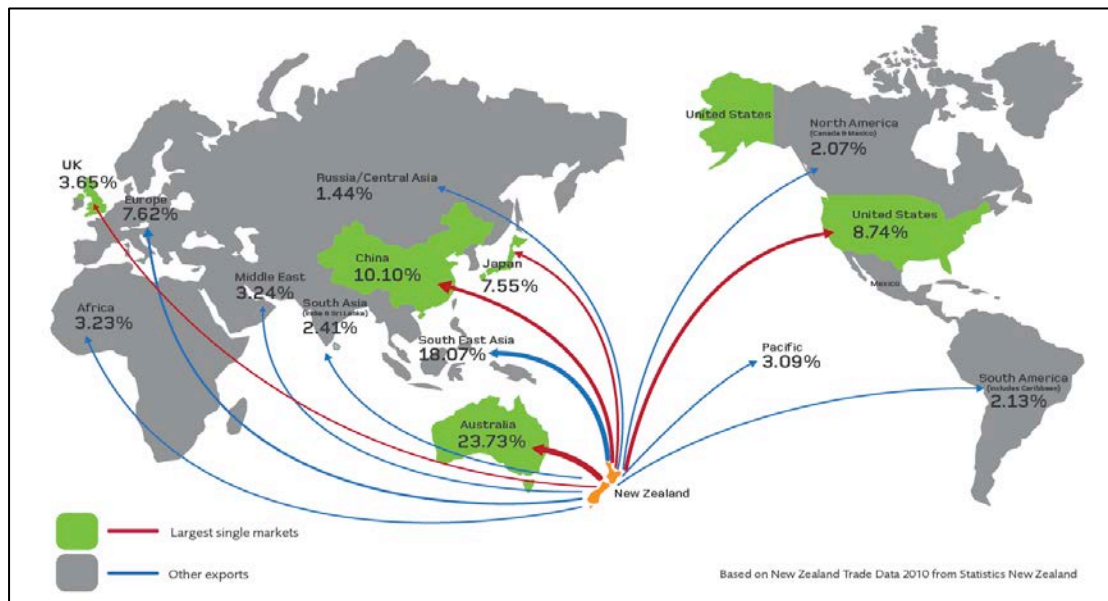
## Export performance

*Goods exports are increasing rapidly. Recent export growth has been dominated by the China and Australia markets. Domestic and international transport links need to work well to allow export growth to continue without congestion points or cost pressures emerging.*

7. A high priority for recent governments has been to increase New Zealand's export performance.
8. Improving New Zealand's export performance will be more likely with domestic policy settings that:
  - (a) provide an operating environment for exporters and importers that promotes export growth
  - (b) lift productivity across the domestic economy
9. Transport is important for both of these dimensions — it is critical for exporters and importers, and it affects the performance of the domestic economy.
10. Transport services enable export growth, and need to respond to both export and import growth, and domestic growth pressures. Transport services also need to respond to strategic global trends.
11. Geographically, New Zealand is further away from the economic centres of the world than any other developed country. New Zealand's export markets are shown in Figure 1.

**Figure 1: Where our exports go**

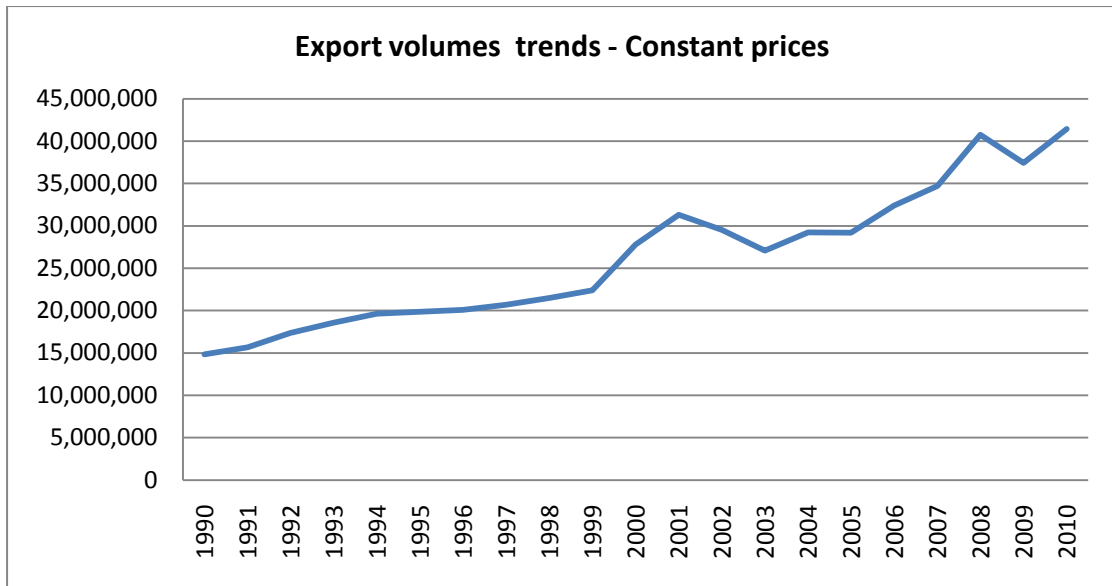
(Source: Statistics New Zealand)



12. Since 1990, exports of goods have grown strongly. Figure 2 shows export volumes over this period. This growth in exports generates demands on international shipping and air routes from New Zealand to key markets. The growth in goods exports also places demands on domestic transport services — road, rail and coastal shipping. Transport links between key manufacturing and production locations and domestic hubs and ports will need to be able to accommodate export growth.

**Figure 2: New Zealand’s export volumes 1990–2010**

(Source: Statistics New Zealand)



13. New Zealand’s export destinations are changing. There has been a shift away from Europe towards Asian markets. Recent export growth has been concentrated in China and Australia<sup>2</sup>.
- (a) Growth in exports to China are dominated by dairy and timber products. Dairy products exports to China increased fourfold between 2008 and 2010 — from just over \$500 million to more than \$2 billion.
  - (b) Growth in exports to Australia has been much more diversified, covering a wider range of product groups.

<sup>2</sup> Minister of Finance, Paper for Economic Growth and Infrastructure Committee: *An internationally-focused growth strategy for New Zealand*, August 2011.

## International shipping

*The Government has little influence over routing and pricing decisions by international shippers, but the Government can play a major role in determining domestic transport costs through its investment and regulatory decisions.*

14. New Zealand is heavily dependent on international shipping to move exports to markets. This is illustrated in Figure 3.

**Figure 3: Exports and imports by mode, year ending June 2011**

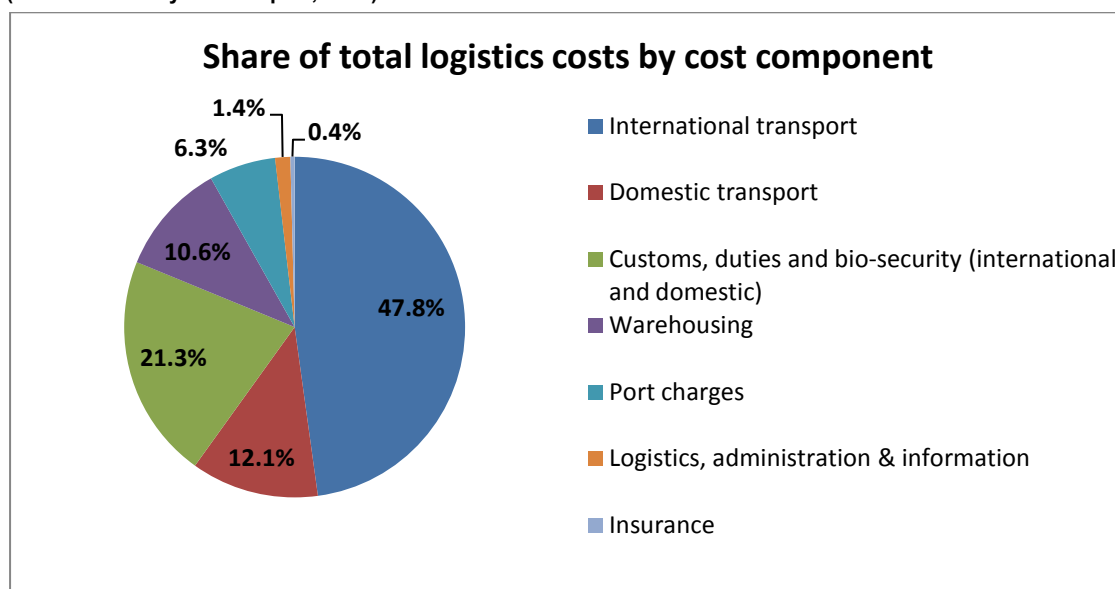
(Source: Statistics New Zealand)

Mode	Exports		Imports	
	By value %	By weight %	By value %	By weight %
By sea	86.0	99.7	77.7	99.5
By air	14.0	0.3	22.3	0.5

15. Results from a 2010 business survey<sup>3</sup> of large volume importers and exporters conducted by the Ministry show, on average, logistics costs represented 8.4 percent of the value of traded products. Figure 4 shows the components of these logistics costs.

**Figure 4: Understanding freight transport costs for business**

(Source: Ministry of Transport, 2010)



<sup>3</sup> Source: Ministry of Transport (2010), *Understanding Transport Costs and Charges Phase Two – Transport Costs in Freight Logistics*.

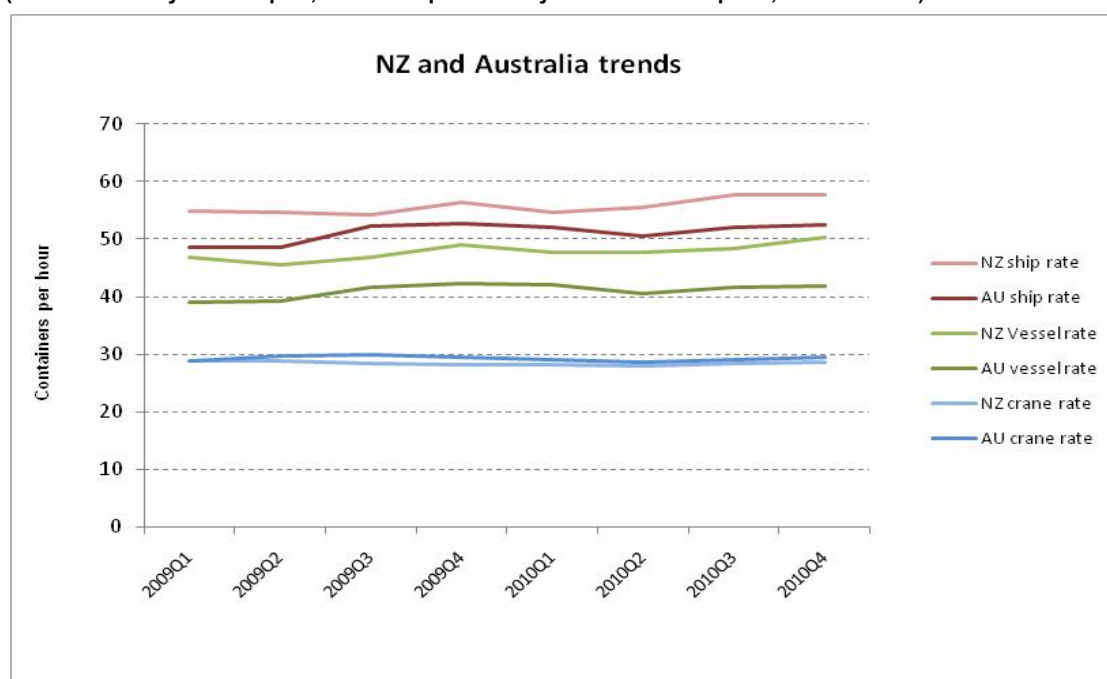
16. The relative burden of transport and logistics costs varies between exporters depending on:
  - (a) volume
  - (b) the characteristics of the exported goods
  - (c) the export destination
  - (d) the cost of the domestic component of the freight task, which can vary significantly across modes (coastal shipping, rail, road)
17. The Government has little influence over routing and pricing decisions by international shippers. These routing decisions can impact on New Zealand's trade interests. The Ministry represents New Zealand at the International Maritime Organization where global decisions on pricing pollutants, like greenhouse gas emissions, are made to ensure New Zealand's economic trade interests are protected.
18. Conversely, the Government can play a major role in determining domestic transport costs through its investment and regulatory decisions. Some of the policy challenges in this area are covered in the section on land transport on page 20.

## Port performance

*Productivity and charges of container ports in New Zealand are comparable or better than container ports in Australia, but container ports in both Australia and New Zealand have lower productivity than many ports overseas.*

19. Auckland and Tauranga account for almost half (49.1 percent) of sea freight exports (by value). Most of the remainder are transported via New Plymouth (7.8 percent), Napier (8.2 percent), Lyttelton (10.4 percent) and Port Chalmers 12.3 percent<sup>4</sup>. Auckland, Whangarei, and Tauranga account for over 78.2 percent of sea freight imports (by value).
20. Productivity and charges at the main container ports in New Zealand (Auckland, Tauranga, Lyttelton) are at least comparable — if not better than — main container ports in Australia (Brisbane, Sydney, Melbourne, Fremantle, Adelaide) as shown in Figure 5. However, container ports in Australia and New Zealand have lower productivity than many ports overseas<sup>5</sup>.

**Figure 5: Port productivity: New Zealand and Australia average trends**  
(Source: Ministry of Transport, Container productivity at New Zealand ports, October 2011)



**Ship rate** the average number of containers handled per crane hour per ship  
**Vessel rate** the average number of containers handled per labour hour per ship  
**Crane rate** the average number of containers handled per crane hour

<sup>4</sup> New Zealand Productivity Commission, *International Freight Transport Services*, July 2011.

<sup>5</sup> Australian Bureau of Infrastructure, Transport, and Regional Economics, Information Paper 65 — *Australian container ports in an international context*, 2009.

## International air services

*Air transport is the primary mode of transport for tourists, immigrants, and international business visitors. It maintains New Zealand's international connections and allows exports and imports of high value and time sensitive freight.*

*The importance of international air services will increase over the next few decades as more people and goods are transported by air in the Asia-Pacific region.*

*Emerging markets have grown strongly. This has implications for the focus of future efforts to liberalise international air services agreements.*

24. Air transport is important to the economy as it is the primary mode of transport for tourists, immigrants, and international business visitors. Air transport is also important for maintaining international connections and for transporting high-value and/or time sensitive freight. Most goods exported by air are carried in the cargo holds of scheduled passenger air services rather than dedicated cargo aircraft. The importance of international air services will increase over the next few decades as more people and goods are transported by air in the Asia-Pacific region<sup>6</sup>.

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<sup>6</sup> The International Transport Forum (ITF) has forecast that air transport's modal share for OECD Pacific countries will increase from 13 percent in 2005 to 28 percent in 2030. *ITF, Transport Outlook 2011.*

25. Figure 6 shows changes to incoming passenger traffic across markets between 2000 and 2010. Emerging markets have grown strongly, and this will continue. This growth has implications for the focus of any efforts the government may wish to adopt to liberalise, and expand, international air services agreements. These are bilateral, inter-government agreements that must be in place before international airlines can operate scheduled services.

**Figure 6: Trends in incoming passenger volumes**

(Source: Statistics New Zealand)

	2000	2010	Change +/-	
Japan	155,000	90,000	-42%	MATURE
United States	198,000	193,000	-2%	
South Africa	19,000	19,000	0%	
United Kingdom	214,000	249,000	+16%	
Germany	52,000	67,000	+29%	
Canada	34,000	51,000	+50%	
Australia	585,000	1,137,000	+94%	
<b>South America</b>	<b>13,000</b>	<b>26,000</b>	<b>+100%</b>	EMERGING
<b>China</b>	<b>39,000</b>	<b>129,000</b>	<b>+231%</b>	
<b>India</b>	<b>11,000</b>	<b>37,000</b>	<b>+236%</b>	

26. Australia accounts for 45.3 percent of international passenger arrivals. Although passenger arrivals from Australia have consistently grown over the last decade, in recent years the highest growth has occurred in a number of emerging markets including India, China and South America. Many of New Zealand's traditional markets (Japan, the United Kingdom and United States) have been in decline since 2005.

### ***International air services are important for the economy***

27. New Zealand already has international air services arrangements with 49 other countries or territories. These arrangements determine the frequency and routes that can be used by the airlines of the two parties.
28. Over time, it is likely that the traditional approach of using bilateral, government-level agreements to regulate the conduct of international aviation will be liberalised, reflecting general moves to liberalise international trade in goods and services. However, for now, New Zealand is likely to see incremental progress in air services liberalisation through the lifting of

restrictions in bilateral arrangements as more countries adopt ‘open skies’<sup>7</sup> policies and join regional arrangements.

29. New Zealand’s approach to its air services negotiations has been underpinned by the 1998 International Air Transport Policy of New Zealand, which seeks to maximise benefits to New Zealand while maintaining a New Zealand-based airline industry. Open agreements have been negotiated with most of New Zealand’s major developed country markets.

### ***Further liberalisation of air services will be important***

*Further liberalisation of air services will be important for international connections and trade. The Government will need to decide how aggressively it pursues a liberalisation agenda in air services agreements negotiations.*

30. Future air traffic growth will be driven by emerging markets, with large populations and an expanding middle class. New Zealand’s current air services arrangements with some of these markets do not allow for forecast growth. For example, if current growth rates with China and India continue, the arrangements with these countries will not provide sufficient capacity to meet demand with non-stop services.
31. The Ministry has mandates from the previous Government to enter into air services negotiations with China and other emerging markets in East Asia and South America. However, not all candidate countries have been formally approached. Stakeholders have differing perspectives on liberalisation. The New Zealand Airports Association is proposing a unilateral policy that is significantly ‘more liberal’ than the existing policy. Air New Zealand is advocating a less aggressive liberalisation policy.

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<sup>7</sup> Open skies agreements are bilateral or multilateral agreements between governments that liberalise the rules for international aviation markets. They can include liberalising rules around pricing, routes, flight volumes, and airline ownership.

## Transport and the domestic economy

### The size of the transport sector

*The transport and storage sector is an important part of the domestic economy. At 5.2 percent of GDP it is only slightly smaller than agriculture.*

32. The transport sector employed 83,800 people in 2011. A total of 14,351 businesses provided transport services<sup>8</sup>. Transport is in its own right an important sector in the economy. Transport and storage accounts for around 5.2 percent<sup>9</sup> of GDP. It ranks as the eighth biggest sector in the economy, somewhat smaller than finance and insurance (8.3 percent) and retail trade (6.8 percent), but comparable in size to agriculture (5.7 percent).
33. Figure 7 shows there has been a slight decline in transport-related employment in recent years, which mainly reflects economic conditions. There could also be a small substitution between labour and capital, for example, with the use of larger and heavier trucks or more automated logistics processing.

**Figure 7: Proportion of enterprises and employees involved in the transport sector**

(Source: Statistics New Zealand)



<sup>8</sup> These measures exclude owner proprietors (such as truck owner drivers) who engage in the transport services industry, and the contribution from businesses who make their own transport and logistics arrangements.

<sup>9</sup> For the year ending June 2011. Source: Statistics New Zealand.

## The importance of effective regulation

*Transport regulation is designed to improve welfare — but regulation imposes compliance and fiscal costs.*

*Poor transport regulation can raise business costs.*

*There are benefits in continually assessing the quality of transport regulation and identifying ways to make regulation work better — either by better design or, in some cases, through the use of regulatory tools other than formal rules or requirements that might achieve better outcomes, at a lower cost.*

34. Effective regulation is necessary for a high-performing transport system in a developed country such as New Zealand. Good regulation:
  - (a) promotes efficient markets
  - (b) ensures fair access
  - (c) supports interoperability between different aspects of the system
  - (d) facilitates the safe movement of people and goods
  - (e) minimises health and environmental impacts of the transport system
35. For much of the twentieth century, both in New Zealand and globally, a large body of transport regulation was designed to curb market power of providers, to promote particular sectors, or to regulate prices. Examples in New Zealand of this type of regulation include historic restrictions on road freight to promote rail, and historic regulation of prices and market entry in the taxi industry. These types of regulations have receded internationally, with more reliance on markets and competition to promote efficient delivery of services. Economy-wide regulation of anti-competitive behaviour, such as collusion on prices, protects consumers and businesses.
36. There is still much transport regulation in New Zealand, and globally. Typically, its focus is on managing the social costs of transport, and 'negative externalities'. For example:
  - (a) Unlicensed drivers of unsafe cars kill other people, not just themselves.
  - (b) Unsafe airlines would endanger lives, and cause immense damage to New Zealand's trade interests, international connections, and reputation.
37. Transport regulation is designed to improve welfare. At the same time, regulation imposes compliance and fiscal costs. Poor transport regulation can stifle innovation and raise business costs, just like poor regulation in any other sector of the economy.
38. One way to improve the efficiency of the transport system is to assess the quality of transport regulation and identify opportunities to make regulation work better. In some cases this may involve better design of the regulations. In other cases it may be possible to identify regulatory tools other than formal rules or requirements that might achieve better outcomes, at a lower cost.

## **Agriculture**

40. Efficient transport services are important for the productivity of agriculture. Transport services are used to harvest crops. In 2010, rural contractors employed around 20 percent of all people employed in the agricultural sector.
41. There is some evidence that current transport regulation may impose unnecessary compliance costs on agriculture. Examples include:
  - (a) *Time restrictions* on operators of vehicles that can affect peak operations during harvest seasons, when transport equipment is used intensively.
  - (b) *Dimension and weight restrictions* that limit the size and movements of vehicles on the road, and require special permits from authorities when vehicles exceed the limits.
  - (c) *Vehicle certification and inspection requirements* that do not align well with the nature of agricultural vehicles.
42. We are currently reviewing the impact of transport regulation on agriculture. The objective is to reduce compliance costs, without compromising safety. We will provide you with further advice on emerging issues and options.

## Oil prices

*Almost all road transport is fuelled by petroleum products. This fuel source will persist over the next 20 years, but electric and plug-in hybrid vehicles will gradually become more widely used, as the real price of oil continues to increase. However, petrol and diesel will probably still fuel around 85-90 percent of vehicles in 2030.*

*In the short-term, people resist changing transport usage as costs increase. However, over longer time periods, oil price increases are more likely to induce changes in travel, lifestyle, and locational decisions.*

43. Oil accounts for around 98 percent of New Zealand's transport fuels. Oil prices will almost certainly increase in real terms over the next 20 years. In the short term, the demand for petroleum transport fuels is highly inelastic, that is, demand does not tend to reduce very much as price increases.
44. New Zealanders have a range of preferences for how they arrange work, shopping, socialising, and participation in education. These lifestyle preferences usually require travel. In the short term, individuals are reluctant to make lifestyle changes when the cost of transport increases. However, sustained oil price increases are more likely to induce change in travel patterns over longer periods:
  - In the medium term (say 2–5 years), people can purchase more fuel efficient vehicles and make greater use of public transport, cycling and walking, where those choices are feasible.
  - In the longer term (5–20 years), people will be more willing to make substantive and permanent changes to lifestyles in order to reduce their transport demand. For example changing patterns of social interaction, and living closer to places of employment and education.
45. Oil prices will almost certainly increase in real terms over the next 20 years. There are a range of forecasts. The Ministry of Economic Development's 2010 'reference oil price scenario' assumes that oil prices will be \$115 per barrel in 2030 (in 2010 dollars). This would translate to a petrol price of \$2.70 per litre (in 2010 dollars)<sup>10</sup>. Under this scenario the market share of full electric and plug-in hybrid vehicles is expected to increase from a negligible level now to about 10 percent. There would also be an increase in the uptake of biofuels as a transport source.
46. The Ministry of Economic Development's 'high oil price scenario' assumes that international crude oil prices could reach \$US 172 per barrel by 2030 (which would result in petrol pump prices of around \$3.50 per litre in 2010 prices). Under this scenario we could expect to see the market share of electric and hybrid vehicles increase to about 14 percent. Significantly, even at these prices, total transport energy demand would only decline by 2.5 percent.

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<sup>10</sup> Ministry of Economic Development: *New Zealand's Energy Outlook 2010*.

## Transport and greenhouse gas emissions

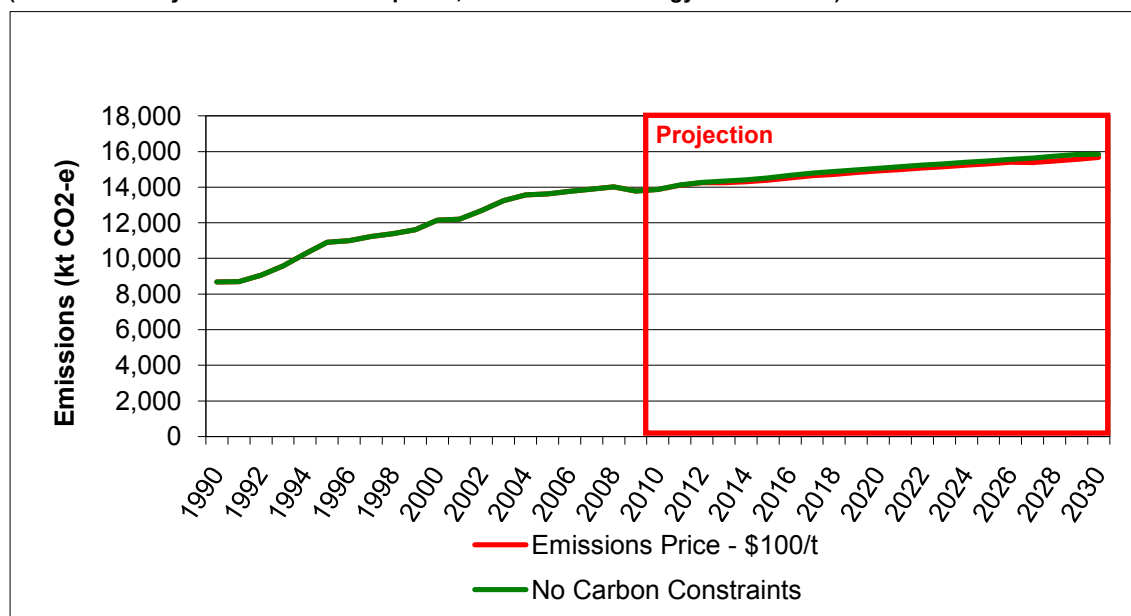
*Greenhouse emissions from transport will continue to increase because petrol and diesel will continue to be the primary transport fuel source, and economic growth will drive an increase in demand for freight and passenger transport services.*

*Prospective carbon prices in the Emissions Trading Scheme will have only a very small effect on transport greenhouse gas emissions, because the price effect (about \$0.03 per litre) is small. This means that the Emissions Trading Scheme will not be a sufficient policy should the Government seek to reduce significantly projected growth in transport greenhouse gas emissions.*

47. New Zealand's transport system is dominated by road transport and almost universally powered by petrol and diesel. Since 1990, greenhouse gas emissions from transport have increased by more than 60 percent.
48. Demand for transport has recently dipped, due to oil price volatility and the 2008 recession. Current forecasts are for a resumption in the growth of transport emissions over the next few years. The Government's key policy to address greenhouse gas emissions is the Emissions Trading Scheme. The Emissions Trading Scheme currently prices carbon at up to \$12.50 per tonne and increases the price of fuel by about \$0.03 per litre. Price effects are forecast to have a very minor effect on transport emissions, compared to a situation where there was no carbon price.
49. The inelastic demand for transport services means that any likely carbon price in the medium term will only have a very minor impact on transport emissions. To illustrate, even at a carbon price of \$100 per tonne, the price effect at the pump would amount to around \$0.27 per litre, reducing the growth in emissions by about 1 percent in the period 2010 to 2030, compared to a situation where there was no carbon price. This is illustrated in Figure 8.

**Figure 8: Forecast transport emissions**

(Source: Ministry of Economic Development, New Zealand's Energy Outlook 2010)



## Technology

*New technologies in the transport sector offer opportunities to lift economic efficiency and improve services for consumers. The Government has choices about how to influence the uptake of these technologies.*

50. Information and communications technologies will improve the safety and functioning of the transport sector. For example:
  - (a) Better traffic management using variable message signs, traffic signal optimisation, and lane-control systems will allow highly cost-effective investments to reduce congestion.
  - (b) Transport users will have much better information to help make choices on routes and modes.
  - (c) Freight management and logistics will achieve productivity improvements.
  - (d) Vehicles will be safer through the application of advanced in-vehicle safety features.
  - (e) Cost effective road charging by place and time will progressively become more cost effective.
  
51. New Zealand will primarily be a 'follower' on all of these technologies; for example, over time the vehicles landing in New Zealand will incorporate advanced safety features. The speed with which these opportunities can be secured will be constrained by the turnover of our vehicle fleet. At an average age of 12.7 years in 2010, New Zealand has one of the oldest light fleets in the world. Over the next 10 years our fleet will, on average, get older. However, the Government can make choices about policy settings that affect the uptake of these technologies; for example, whether to mandate active safety features in motor vehicles, and how, and at what time to take advantage of new technologies, for example, in enabling road pricing.

## Land transport

### The importance of land transport

*It will be increasingly important to manage the existing land transport network to its full potential.*

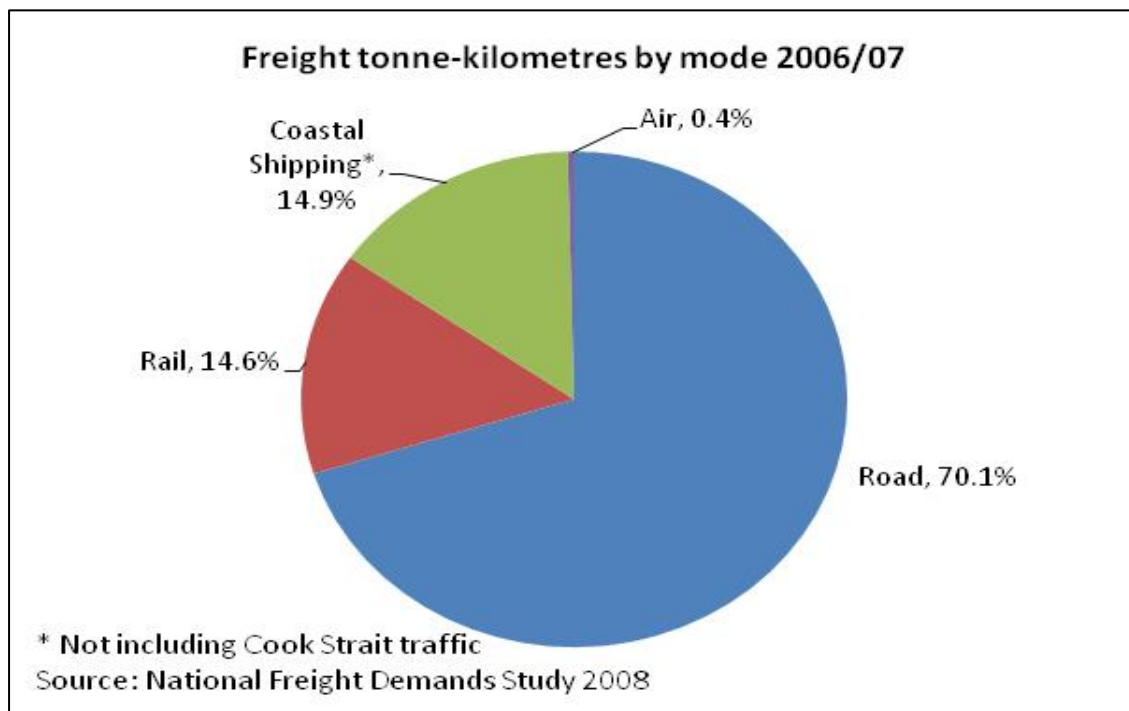
*There are wider economic impacts that cannot easily be estimated and considered in the traditional benefit cost ratio (BCR) evaluation framework. The current BCR assessment is based on a relatively high discount rate (8 percent real) and a 30-year horizon. This rate tends to discount away the benefits of long-life projects, such as motorways.*

*In the cities, cars remain the dominant means of people transport. Urban transport networks will need to become more effective through better use of infrastructure, urban planning, demand management tools and public transport increasing its role.*

52. New Zealand's transport network is relatively mature and supports freight and people movements across the country in various modes. Currently 70 percent of freight tonne-kilometres<sup>11</sup> are on road, with 15 percent carried on rail. Most commuter travel is also on the road with a small amount of public transport being carried by rail or ferries in Auckland and Wellington.

**Figure 9: Freight tonne kilometre by mode**

(Source: National freight demands study 2008)



53. Freight tonne-kilometres are forecast to increase by 24 percent over the next 20 years, with additional growth predicted if GDP grows at a faster rate than current forecasts. To manage the demand for transport, all modes will need to

<sup>11</sup> Freight-tonne kilometres measure tonnes of freight times the distance travelled. For example, if a tonne of freight is moved 2km, then that constitutes 2 tonne-km.

play a part. Investment will be required in transport corridors that support high population and traffic growth areas, and corridors to busy sea ports and airports.

54. Recent governments have been investing about \$3 billion annually in transport infrastructure with time horizons of 30–200 years.
55. New investment in State highways is evaluated by the NZ Transport Agency (NZTA) using three criteria.
  - (a) *Strategic fit* which considers national strategic objectives as specified in the Government Policy Statement on Land Transport (GPS)<sup>12</sup>.
  - (b) *Effectiveness* which considers how well proposed activity would achieve the GPS impacts identified in *strategic fit*.
  - (c) *Efficiency* which measures the BCRs<sup>13</sup>.
56. The National Infrastructure Plan 2011 and the NZTA's Annual Report both comment that investment analysis could be further developed.
57. The major highway projects tend to score well on strategic fit. The BCRs for major improvements to the network have declined in recent years. These trends are shown in Figure 10 overleaf.
58. BCRs are a blunt measure of returns on investment. There are wider economic impacts that cannot easily be estimated and considered in the traditional evaluation framework. While the NZTA has gradually extended the conventional benefits approach with 'add-ons' to capture a broader range of impacts, the BCR approach is still subject to certain criticism. For example, in New Zealand the current BCR assessment is based on a relatively high discount rate (at 8 percent real<sup>14</sup>) and a 30-year horizon. This rate tends to discount away the benefits of long-life projects, such as motorways<sup>15</sup>.

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<sup>12</sup> See the accompanying paper for an explanation of the Government Policy Statement on Land Transport.

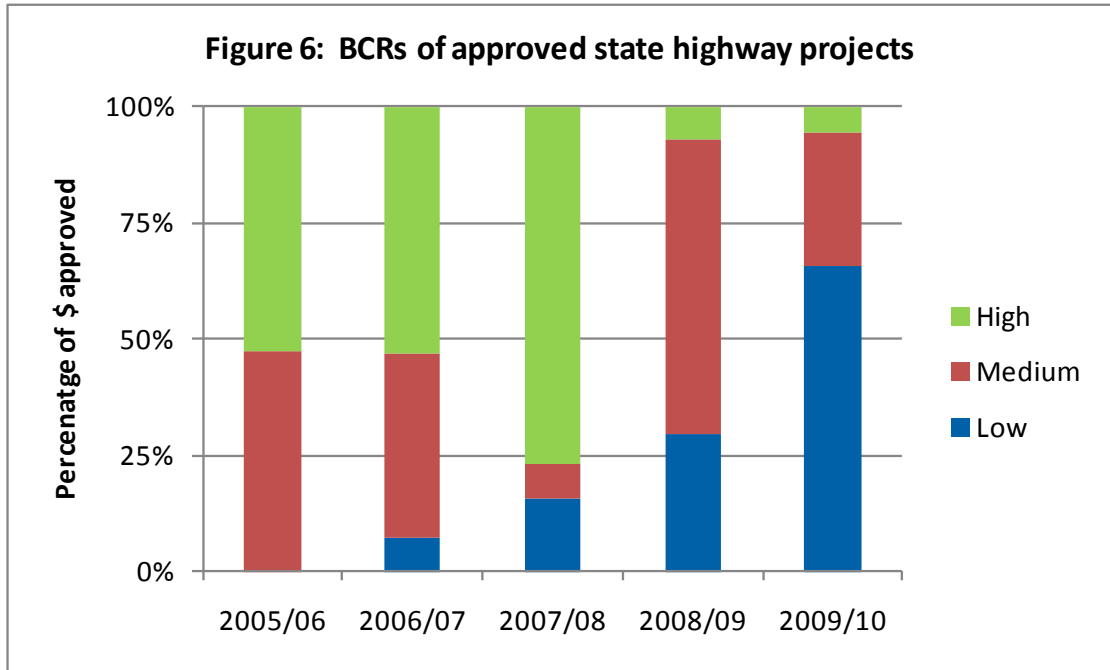
<sup>13</sup> The NZTA uses the BCR as a measure of economic efficiency from a national perspective as defined in the NZTA's *Economic Evaluation Manuals*. The ratio compares the benefits accruing to land transport users, and the wider community from implementing a project or providing a service, with that project or service's whole of life costs.

<sup>14</sup> As a comparator, the discount rate used to assess investments in the United Kingdom is 3.5 percent for the first 30 years of costs and benefits, with a rate of 3 percent for costs and benefits beyond 30 years.

<sup>15</sup> A higher discount rate will lead to greater value being placed on shorter-term benefits from an investment compared to longer-term benefits.

**Figure 10: BCRs of approved State highway projects**

(Source: Ministry of Transport, derived from NZTA Data)

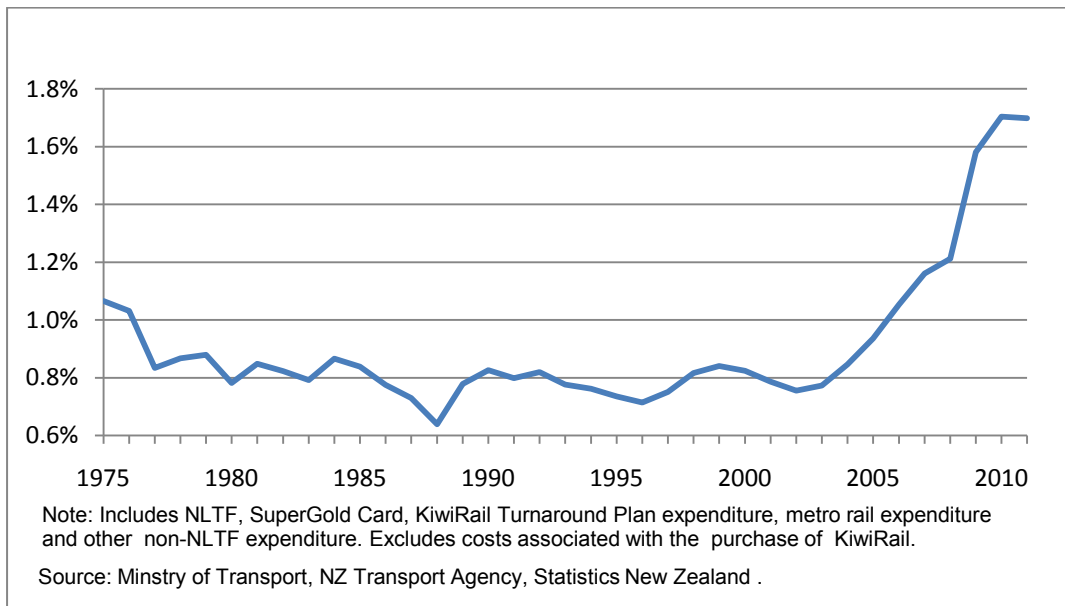


## Expenditure trends

59. Government expenditure on transport has increased in recent years, particularly in the last 8 years. This is illustrated in Figure 11. Recent governments have recognised the historical under-investment and addressed this with additional funding beyond that provided for roading through the National Land Transport Fund (NLTF). This investment includes funding for rail freight through the KiwiRail Turnaround Plan of \$750 million, over \$2 billion on the metro rail networks of Auckland and Wellington, and social expenditure such as the SuperGold Card off-peak free travel scheme.

**Figure 11: Government expenditure on transport as a percentage of GDP**

(Source: Ministry of Transport, NZTA, Statistics New Zealand)



## Investment in roads

*Roads are critical to the efficiency of urban centres, with private motor vehicles and buses providing transport modes for most people. This importance will continue.*

*Rail's role is supplementary. It provides commuter rail travel in Wellington and Auckland and reduces road congestion.*

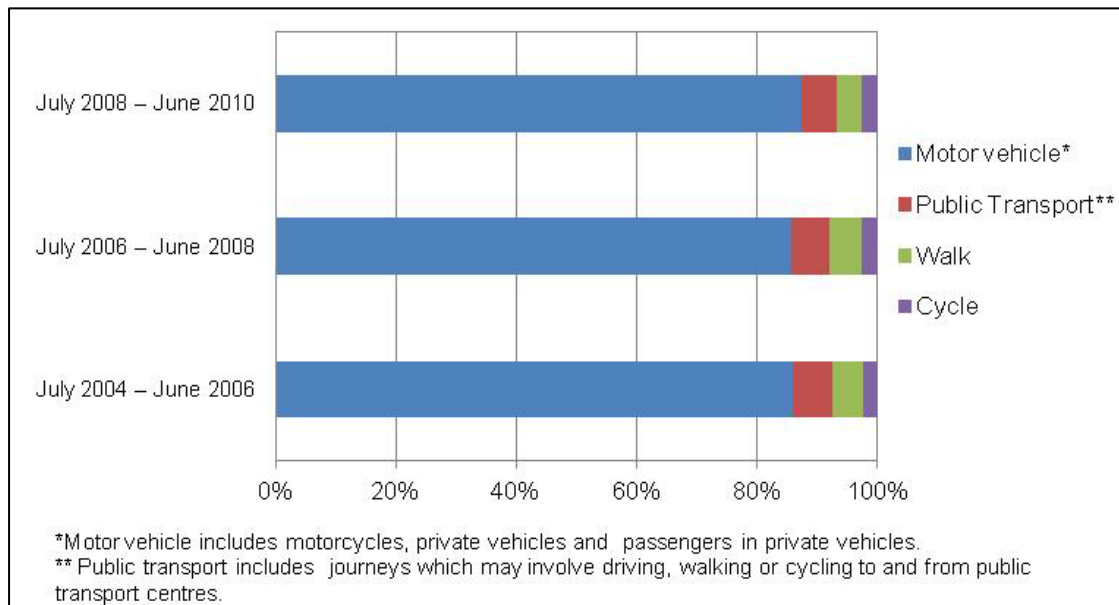
*Rail provides about 15 percent of freight movements. This share is expected to remain about the same through to 2031.*

*In Auckland, commuter rail travel will account for about 4 percent of peak commuter trips in 2041 compared to less than 2 percent now.*

60. Currently around 45 percent of products destined to become exports are moved around New Zealand by rail. Cars, however, remain the dominant people transport mode, by a large margin. This is illustrated in Figure 12.
61. Because the majority of New Zealand's growth will be in urban areas over the next 20 years (primarily in Auckland) urban transport networks will play an increasing role. This means they will need to become more effective through better use of infrastructure, urban planning, and demand management tools.

**Figure 12: Mode share of journeys to work (full-time workers' travel 6–9.30am)**

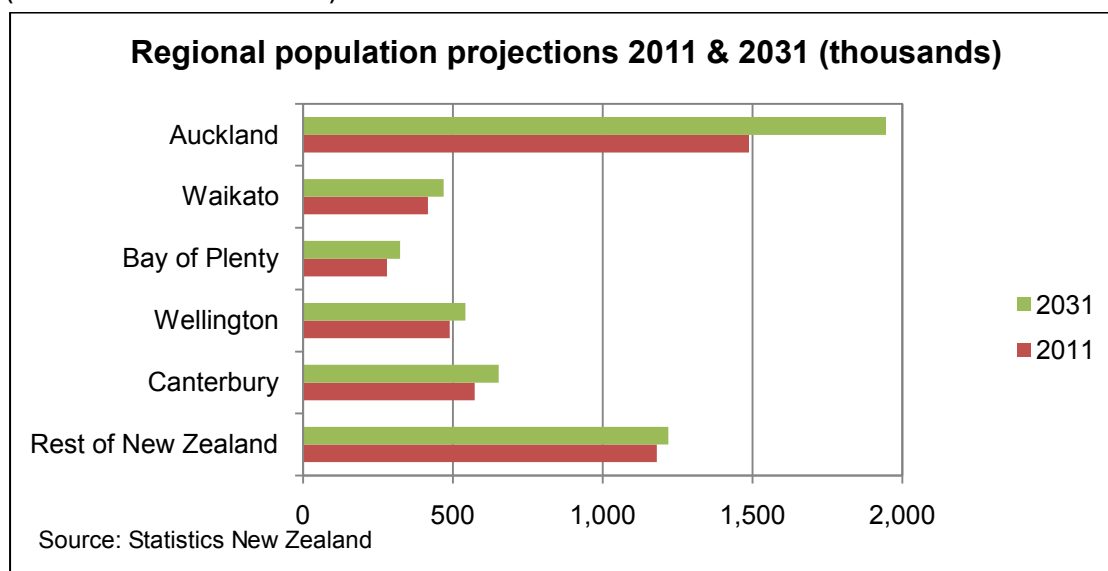
(Source: Ministry of Transport, New Zealand Household Travel Survey)



62. The forecast growth in population by region is shown in Figure 13. It is this growth which will drive changes in demand for personal travel and also contribute to the local demand for the carriage of freight.

**Figure 13: Projected population growth across regions**

(Source: Statistics New Zealand)



63. Roads provide a network that supports over 97 percent of domestic passenger movements<sup>16</sup> and 70 percent of freight tonne-kilometre movements. Roads are critical to the efficiency of urban centres, with private motor vehicles and buses providing transport for most people.
64. The rail network provides a supplementary role in land transport in two areas. Firstly, it provides commuter rail travel in Wellington and Auckland, alleviating some road transport congestion in these urban centres<sup>17</sup>. Secondly, it provides about 15 percent of tonne-kilometres of freight movements, a share which is expected to remain constant to 2031<sup>18</sup>. Rail's mode share is limited by its suitability to certain types of freight and for the carriage of longer-distance freight.
65. Modal shares of the freight task are expected to be broadly stable through to 2030<sup>19</sup>. All modes of domestic freight movement — road, rail, and coastal shipping — will experience growth, but road freight will remain predominant through to 2030.
66. Currently forecast economic growth would result in an increase in road passenger movements of 14 percent between 2009 and 2030. Road freight is projected to increase by 24 percent over the same period. A sustained additional 1 percent increase in annual economic growth over this period would increase the road passenger and freight growth rates, as shown in Figure 14 and Figure 15 (the 'high growth path').

<sup>16</sup> Ministry of Transport, *New Zealand Household Travel Survey*.

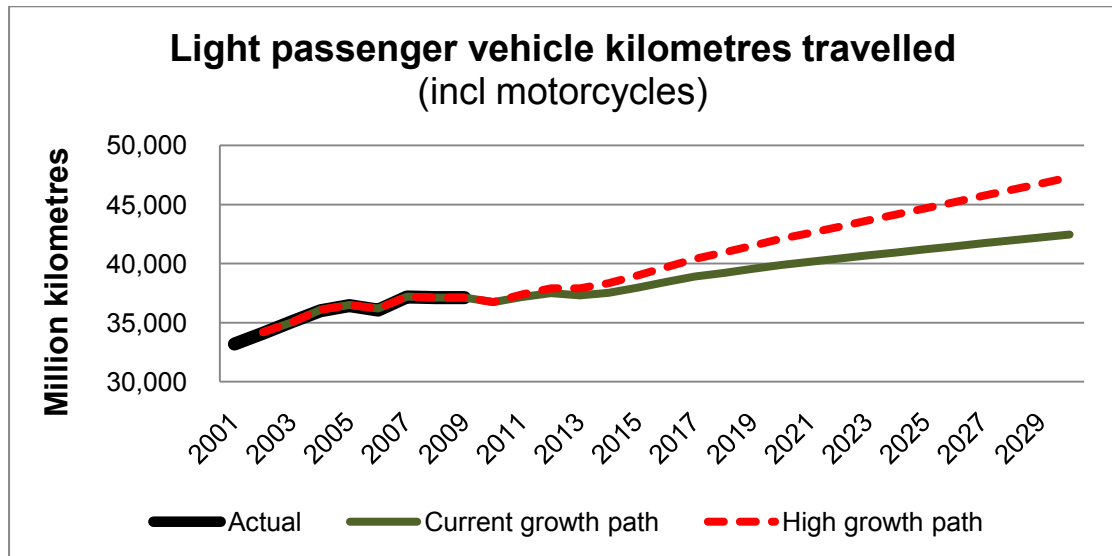
<sup>17</sup> Rail commuting in Auckland accounts for only 1–2 percent of peak morning commuter trips. Bus travel provides the vast majority of public transport in Auckland.

<sup>18</sup> Ministry of Transport, *National Freight Demands Study*, 2008.

<sup>19</sup> Source: National Freight Demand Study, 2008.

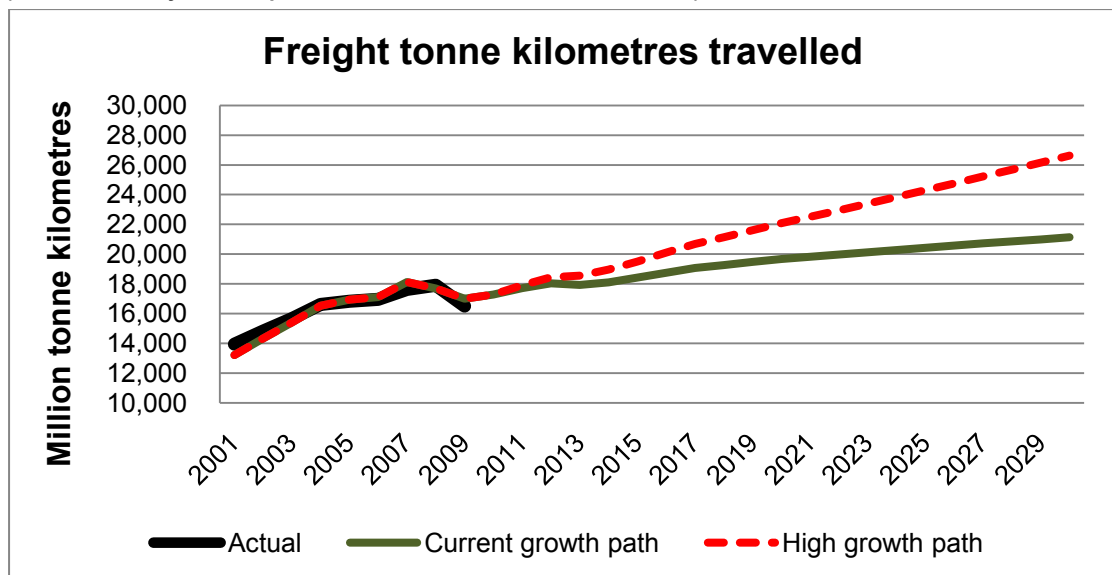
**Figure 14: Forecast passenger motor vehicle traffic growth to 2030**

(Source: Ministry of Transport and National Infrastructure Plan 2011)



**Figure 15: Forecast freight volumes growth to 2030**

(Source: Ministry of Transport and National Infrastructure Plan 2011)

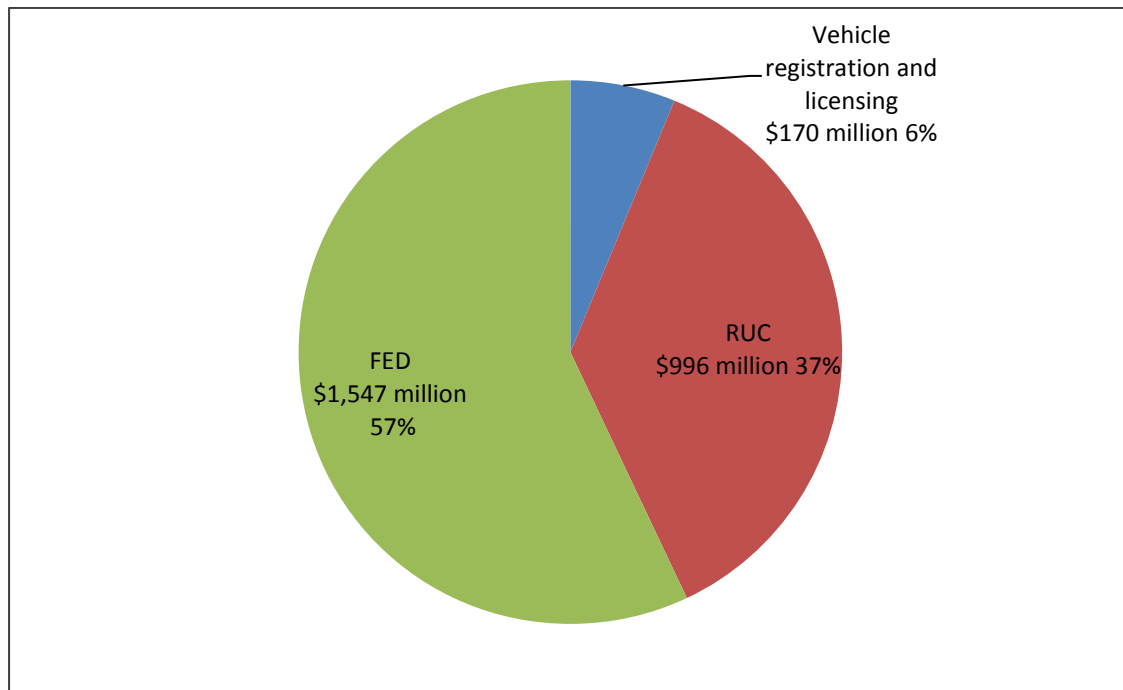


## Revenue

67. The Crown's main source of funding for land transport is the National Land Transport Fund (NLTF). Use of funds from the NLTF is limited by law to land transport investments and services. It funds the full cost of the State highway system, the police's road safety activities and about half the cost of local roads and subsidies to public transport. Local authorities meet the remainder of the cost of local roads and public transport, primarily through rates.
68. Most of the revenue for the NLTF is from taxes on road users. These comprise of fuel excise duty (FED), road user charges (RUC), and vehicle registration and licensing fees. FED applies only to petrol, Liquefied Petroleum Gas and Compressed Natural Gas. Diesel-powered vehicles, and all heavy vehicles, pay their share of road taxes through RUC. Figure 16 shows shares of revenue from these sources in 2010/11.

**Figure 16: Source of National Land Transport Fund revenue in 2010/11**

(Source: Ministry of Transport)



## New Zealand has efficient revenue sources for road transport investment

*New Zealand's petrol taxation is relatively low by international standards.*

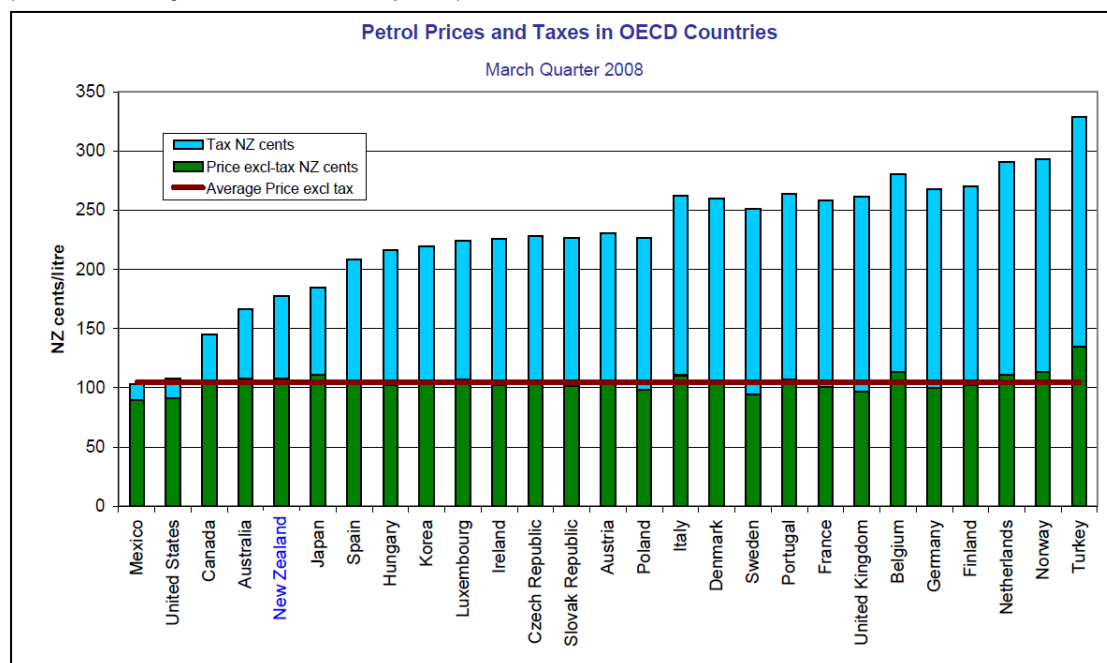
*FED is an efficient tax. RUC is less efficient but is a better proxy for road usage.*

*In the longer term it will be cost-effective to implement road user charges that vary by location and time of day.*

69. As shown in Figure 17, New Zealand's rate of petrol taxation is relatively low compared to the Organisation for Economic Co-operation and Development (OECD) average.

**Figure 17: New Zealand's rate of petrol taxation compared to OECD average**

(Source: Ministry of Economic Development)



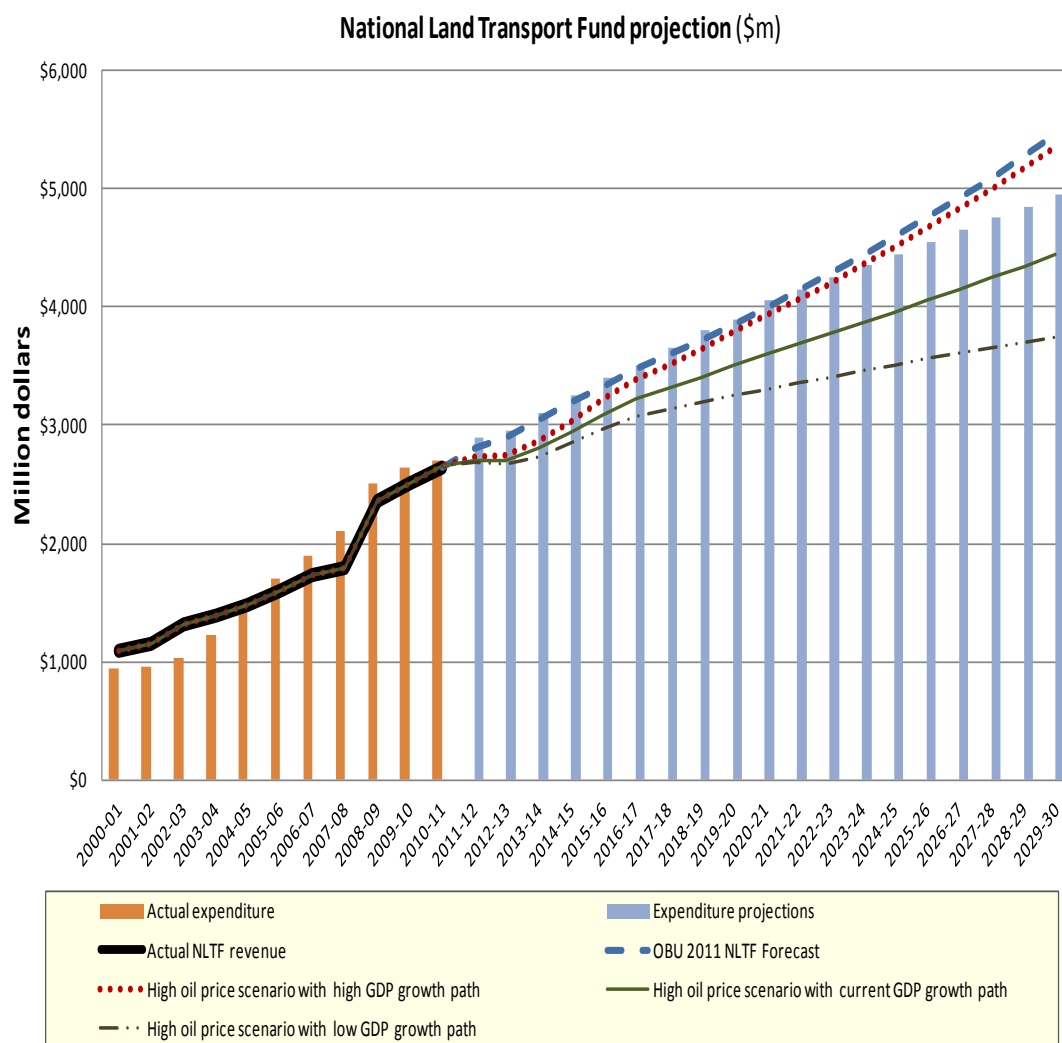
70. FED is an administratively efficient tax to collect. RUC is more complex and expensive to collect, but has the advantage of being a closer proxy for road usage. This is especially important for heavy vehicles, because it allows for differentiated pricing based on vehicle weight.
71. The RUC system is currently undergoing its most substantial overhaul since it was set up in 1977. A new Road User Charges Act is planned to come into force in mid-2012. This will modernise and simplify the RUC system, eliminate many opportunities for evasion, and reduce compliance costs.
72. Further development of the RUC system is expected to bring progressive improvements in its administrative efficiency and make it more convenient for light vehicle owners. In the longer term, progress in electronic technology will further reduce transaction costs and make it possible to implement charges that vary by location and time of day.

73. RUC has an advantage, in that it can be applied equally to vehicles powered by any form of energy. It provides an equitable and sustainable form of revenue collection for the long term. In contrast FED, although likely to remain a major source of funding for the foreseeable future, is increasingly subject to risks arising from changes in vehicle and fuel technology (for example, increases in engine efficiency leading to higher fuel economy) and volatility in oil prices.

***Revenue sources work well, but the risk of pressures will increase***

74. Figure 18 shows projected NLTF revenue and investment projections to 2030. Under 'median' and 'high growth' revenue scenarios, the revenue raised will be able to fund projected investments. Our modelling predicts that high oil prices and lower GDP growth could reduce revenue to the point that it is insufficient to meet current projected expenditure. However, higher oil prices would also reduce the demand for road travel and expenditure on roading, and increase the demand for public transport.

**Figure 18: National Land Transport Fund revenue and expenditure projections**  
(Source: Ministry of Transport)



**NOTES:**

1. High oil price scenario is based on the Ministry of Economic Development's oil price reference scenario (US\$ 115 per barrel in 2009\$ by 2030) with appropriate fleet replacement adjustment.
2. Low GDP growth scenario assumes annual GDP growth is 1 percent lower than current GDP growth path.
3. High GDP growth scenario assumes annual GDP growth is 1 percent higher than current GDP growth path.
4. The large increase in NLTF revenue observed since 2008 is due to 100 percent hypothecation of NLTF (effective from September 2008).
5. Expenditure projections from 2011–12 to 2021–22 are sourced from Government Policy Statement (2009 and 2011 versions). Thereafter, a \$100 million increment per year has been assumed.

75. A 'high oil price' scenario would erode FED revenue with the gap between revenue and currently forecasted expenditure increasing rapidly after 2020 — under this scenario, revenue would be \$4.9 billion less than forecast expenditure over the periods from 2021 to 2030. This scenario is in the nature of a risk rather than a certainty.

## Investment in rail

76. Investment in rail freight infrastructure is met from a mix of central government and KiwiRail funding. For metro rail there is a mix of funding from central and local government and from the NLTF. The recent funding packages for Wellington and Auckland metro rail have effectively defined the metro funding situation into the medium term.
77. The KiwiRail Turnaround Plan has a 10 year time frame over which the total investment in the business is estimated at \$4.6 billion. Most of this funding will come from KiwiRail income. For rail freight, the KiwiRail Turnaround Plan has received \$750 million from the Crown over the 3 years 2010/11 to 2012/13. Funding for 2013/14 and outyears has yet to be appropriated.

## Making the best investments

*Land transport investments have increased significantly since 2005.*

*Investment time horizons are long, and assets have economic lives of decades, or longer. If investment is funded by taxes, or hypothecated revenue, on a 'pay-as-you-go' basis, it is easy to under invest or over invest.*

*Roading infrastructure is unusual in that it is not funded from income generated over the expected life of the asset. Comparable large capital investments are more typically funded by borrowings.*

*There are arguments for and against the current approach to funding transport infrastructure. There can be economic advantages if large growth enhancing projects can be completed sooner. However, borrowing adds a fiscal risk that is absent from current funding arrangements. This risk would need to be managed.*

78. There is evidence that the transport system is important for growth. Further, as growth is realised, the transport system needs to be able to accommodate that growth. In the New Zealand economy, growth-driven transport demands will be in the form of freight movements and passenger motor vehicle trips as population grows in the upper half of the North Island, especially in Auckland.
79. New Zealand has historically had a relatively low level of investment in land transport infrastructure. Between 1976 and 2003, government expenditure on transport infrastructure as a proportion of GDP was below one percent.
80. There has been a significant increase in investment in transport in New Zealand since 2005<sup>20</sup>. New Zealand now spends around 1.7 percent of GDP on

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<sup>20</sup> Statistics Brief, International Transport Forum July 2011.

transport. This compares with an average in Western Europe of 0.8 percent<sup>21</sup>. Recent OECD reviews<sup>22</sup> of New Zealand have emphasised that inadequate infrastructure (and international perceptions of inadequate infrastructure) are an impediment to growth.

81. The role of Government as a funder varies across transport modes:
  - (a) Central and local government make virtually all investment decisions in roads.
  - (b) Decisions about rail investment are made by central and local government and KiwiRail.
  - (c) Investment decisions in aviation and maritime are largely private or local government (with some central government funding in six provincial airports<sup>23</sup>).
82. There are challenges for the Government in deciding how much, and where to invest in transport.

***Current arrangements provide a restricted revenue source compared to some other large capital investments***

83. Capital funding is limited, investment time horizons are long, and assets have economic lives of decades, or longer. This is especially the case if investment is funded by taxes, or hypothecated revenue. On a 'pay-go' basis (i.e. capital expenditure is programmed to be paid for by cash revenue raised) it is easy to under invest or over invest in some transport infrastructure.
84. Transport infrastructure is funded from the revenues generated each year from taxes and charges. Most other capital investments, particularly those with large inter-generational value, would be funded by borrowings serviced from income over the life of the asset. There are arguments for and against the current approach to funding transport infrastructure. There can be economic advantages if large growth enhancing projects can be completed sooner. However, borrowing adds a fiscal risk that is absent from current funding arrangements. This risk would need to be managed.
85. The emergence of new growth enhancing investments may not necessarily result in New Zealand investing more in land transport infrastructure than it does currently. However, there could conceivably be investments that cannot be managed from annual revenue streams. This scenario would require alternative funding mechanisms, such as tolling, and financing mechanisms such as public private partnerships, or allowing the NZTA to borrow.
86. The NZTA is a Crown Entity. While some Crown Entities fund capital investments from debt, the use of debt on a large scale to fund capital programmes is more typical in State Owned Enterprises. The State Owned

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<sup>21</sup> New Zealand expenditure includes funding for rail rolling stock, and Super Gold Card, whereas the numbers for Western Europe are limited to infrastructure.

<sup>22</sup> See OECD 2009, *Structural Policies to Overcome Geographic Barriers and Create Prosperity in New Zealand*, economics department working paper number 696.

<sup>23</sup> See the accompanying brief for more information on government funding of airports.

Enterprises borrow in their own names and on their own credit, in most cases without a guarantee or other form of credit support from the Government.

### ***Regional growth pressures***

87. The concentration of recent and forecast economic growth in northern centres, particularly Auckland, presents a challenge for a nationally funded transport system. The provision of new transport capacity necessarily responds to growth pressures and, consequently, centres such as Auckland receive a significant share of transport funding.
88. There can be tensions between the interests of local authorities, central government, and private investors in transport investments. Local authorities may promote local or regional aspirations which may not always be well aligned with the national investment priorities needed to maximise economic growth.

### ***Canterbury recovery***

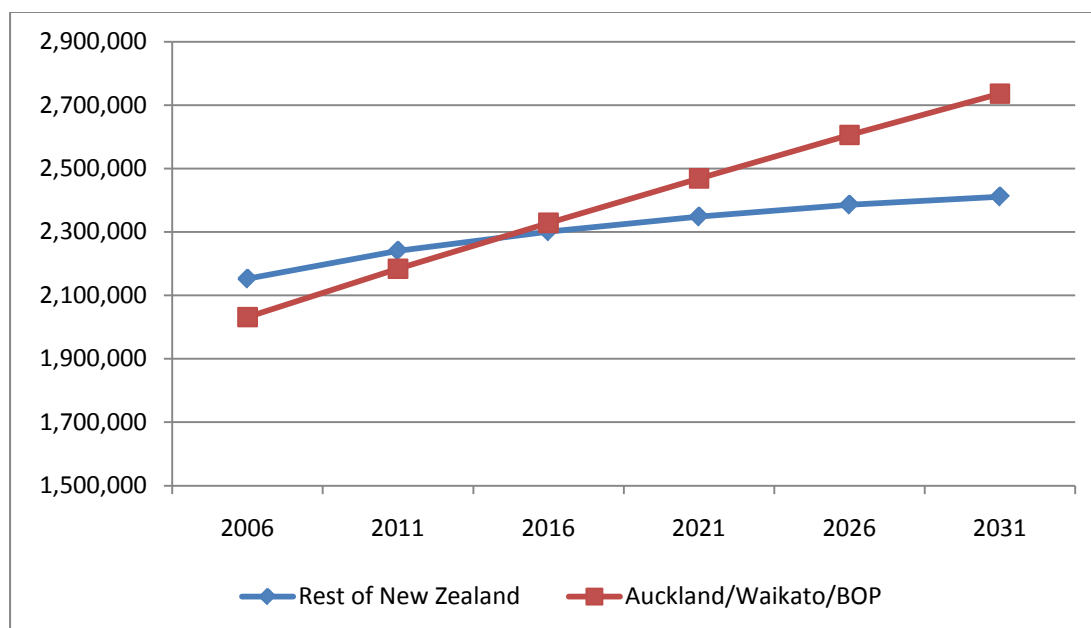
89. The Christchurch earthquakes have had a significant impact on transport infrastructure. Initially the NZTA hoped that the cost of repair and rectification could be managed within the emergency provisions of the National Land Transport Programme. Following the February 2011 earthquake, it became increasingly clear that the total transport related costs of the Canterbury events would be beyond the capability of the Programme to absorb. Both the NZTA and Canterbury authorities have been keen to achieve certainty around funding.
90. The Ministers of Transport and Canterbury Earthquake Recovery agreed to a funding formula in November 2011, and a Cabinet paper has been prepared for early consideration in the new year setting out the funding required for 2011/12 and outyears.

### ***Dealing with growth in Auckland and the Upper North Island***

91. The upper North Island will grow much faster than the rest of New Zealand to 2030 (see Figure 19 overleaf). Auckland alone is forecast to account for 60 percent of population growth to 2030. Freight-growth pressures will be concentrated in the Auckland, Waikato and Bay of Plenty regions.
92. Achieving an efficient transport system for Auckland is central to improving the contribution the city can make to the national economy. It will also need to address congestion and other economic, environmental and social goals. Key to this, is ensuring adequate network capacity to accommodate the increase in demand for travel associated with population growth.

**Figure 19: Auckland/Waikato/Bay of Plenty population growth projections — medium growth scenarios**

(Source: Statistics New Zealand)



93. Since 2002, the Government has undertaken a major programme of investment in Auckland’s transport infrastructure. By 2016, this will see the completion of the Auckland motorway network and the upgrading and electrification of the commuter rail network. This investment programme is expected to deliver significant results, with regional modelling forecasting a reduction in congestion of around 14 percent by 2021, despite population growth of 22 percent<sup>24</sup>.

### ***The draft Auckland Plan — projections and policy implications for transport***

*The draft Auckland Plan proposes about \$22 billion of new capital spending on major Auckland transport projects over the next 30 years. The cost of the proposed investments exceeds forecast funding from existing sources. There is a \$10 to \$15 billion capital funding gap.*

94. Looking forward, the Auckland Council’s spatial planning process has resulted in a draft plan to manage Auckland’s population growth through a ‘compact city’ approach. The draft Auckland Plan (the draft Plan) seeks to reverse Auckland’s historic growth trends by accommodating most new development within Auckland’s current urban area.
95. The draft Plan emphasises a shift to public transport to accommodate future trip growth and reduce congestion. It proposes over \$5 billion of new rail capital spending to support this goal. The proposed spending on rail is part of an ambitious capital plan which proposes some \$22 billion of new capital spending on major Auckland transport projects, predominantly roading related projects,

<sup>24</sup> These figures come from the scenario modelling exercise undertaken by the Auckland council in preparation for the Auckland Plan, and based on a comparison to 2006, which was the last census update.

over the next 30 years. The draft Plan canvases new funding mechanisms, with an emphasis on a road pricing scheme, to fund this programme.

96. Modelling undertaken for the draft Plan suggests that the combination of compact urban form, and a greater emphasis on public transport and demand management, would mitigate, but not resolve, the challenges posed by population growth. Even with a more compact urban form and higher fuel prices, private vehicle travel is forecast to increase from around four million trips per day in 2006 to around 5.5 million trips per day in 2041. Car travel also remains the dominant mode, with 80 percent of daily trips and 70 percent of peak trips forecast to be made by private vehicles in 2041.
97. The performance of Auckland's road network, which is closely related to the performance of the State highway network, is expected to deteriorate after 2021. The improvements achieved by the current investment programme would be eroded by around 2031. Congestion will increasingly affect the midday period, and therefore business and freight travel, particularly after 2031.
98. Public transport and walking and cycling trips are forecast to increase substantially, but together are forecast to account for less than 30 percent of morning peak travel in 2041. Rail mode share for the morning commuter peak climbs from around 2 percent of trips at present to around 4 percent of trips in 2041.
99. The draft Plan presents a number of issues for the Government:

99.1. ***Cost of the draft Plan's transport programme***

The cost of the draft Plan's transport programme substantially exceeds forecast funding from existing sources. The draft Plan notes a \$10 billion to \$15 billion capital funding gap.

99.2. ***The draft Plan has ambitious assumptions about land use change***

Achieving improved integration between land use and transport infrastructure will be important to the future success of the transport system. The key issue is what level of land use change is realistic. However, basing transport decisions on ambitious land-use assumptions presents the risk of new infrastructure being under used, while problems occur elsewhere on the network.

99.3. ***The draft Plan does not address forecast congestion on the State highway network***

Much of the forecast congestion occurs on the State highway network. The draft Plan has a heavy focus on public transport, which will reduce pressure on the State highways. However, the draft Plan does not propose significant new highway capacity (with the exception of the proposed additional Waitemata Harbour Crossing and a possible new connection between the southern and southwestern motorways).

99.4. ***The draft Plan includes projects that represent limited value for money***

The draft Plan's programme includes a number of projects that may provide limited value for money, with costs out of proportion to effectiveness in providing for future travel demand.

There is scope to make better use of existing regional assets than is currently reflected in the draft Plan. For example, more effort could be applied to improve traffic management, including measures to differentiate arterial roads and local access streets. Specific measures that could be considered include:

- (a) improvements to traffic light timing and control
- (b) variable lane markings and signals
- (c) high occupancy vehicle lanes to increase the passenger capacity of bus lanes

***There is no need to rush decisions on major Auckland transport investment***

- 100. The Government influences decisions on Auckland's transport network through its guidance to the NZTA in the Government Policy Statement on Land Transport Funding (GPS) and direct capital funding of rail projects.
- 101. The effectiveness of recent investments means there is a short breathing space before decisions need to be made on the next generation of major projects. The Government therefore has the opportunity to carefully consider which investments would deliver the best transport results and support Auckland's predicted growth patterns.

***Responding to proposals for new transport funding mechanisms in Auckland***

*Auckland Council is expected to propose some form of road pricing scheme, with an emphasis on revenue raising.*

*Road pricing incurs high collection costs as a percentage of revenue. It might be an effective mechanism for managing demand and alleviating congestion, but it is not currently an efficient way to raise new revenue.*

- 102. Auckland Council will outline its proposals for new funding mechanisms, especially those needed to fund the city rail link, early in 2012. The Council is expected to propose some form of road pricing scheme to raise revenue. Such a scheme would require new legislation to permit charging for the use of existing roads that are not integral to the tolling of a new road.
- 103. Road pricing currently tends to incur higher collection costs as a percentage of revenue than current mechanisms, particularly rates. While it might be an effective mechanism for managing demand and alleviating congestion, it is not currently an efficient tool to raise revenue.

104. Should the Government wish to consider a proposal for a road pricing scheme from Auckland Council, a number of operational and policy issues would need to be considered.
- (a) How the scheme would be implemented and operated.
  - (b) Whether the economic costs exceed the economic benefits.
  - (c) How revenue would be invested, and whether this represents value for money.
  - (d) The level of community support for such a scheme.
  - (e) The impact on the operation of the Auckland transport network as a whole, particularly traffic diversion effects.
  - (f) Issues associated with equity, affordability, privacy, governance, ownership, accountability and revenue sharing.

## Road safety

*The current social cost of road crashes is approximately \$3.8 billion annually. Over the last 35 years, road deaths have fallen significantly, but in recent years we have still not performed well compared to the best performing countries.*

*Vehicle age is a close proxy for safety technology. New Zealand has an old vehicle fleet compared to other developed countries. This will slow take-up of new safety technologies, relative to the experience of other countries. The Government can influence the rate of take-up of safety technologies, but there may be costs in terms of vehicle affordability.*

*The next action plan on the Safer Journeys strategy needs to be agreed in 2012. In considering whether to take further actions to improve road safety, the Government will be able to choose from a number of cost effective options. There is scope for further cost-effective measures in the areas of vehicles, roads, speed, and alcohol.*

105. Road crashes place a substantial burden on the economy and the health system. The current annual social cost of crashes is approximately \$3.8 billion. Over the past 35 years, the road toll has dropped significantly, including a reduction in fatalities of 37 percent since the beginning of 2000 (see Figure 20).
106. Serious injuries and social costs have declined, by 17 percent and 23 percent respectively since 2000 (see Figure 21 and Figure 22). However, the death rate in New Zealand is higher than the best performing countries<sup>25</sup>. In 2009, the most recent date for comparable data from other countries, New Zealand had a death rate of 1.2 deaths per 10,000 vehicles compared to under 0.7 deaths per 10,000 vehicles in the best performing countries (see Figure 23). Since 2009, New Zealand's death rate has dropped to just over 0.9 deaths per 10,000 vehicles.

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<sup>25</sup> The international comparative data here is based on 2009 death and accident rates. Based on 2011 road fatalities to date, updated international comparisons for New Zealand are likely to be improved.

**Figure 20: Road deaths trend in New Zealand from 2000 to 2011**

(Source: Ministry of Transport)



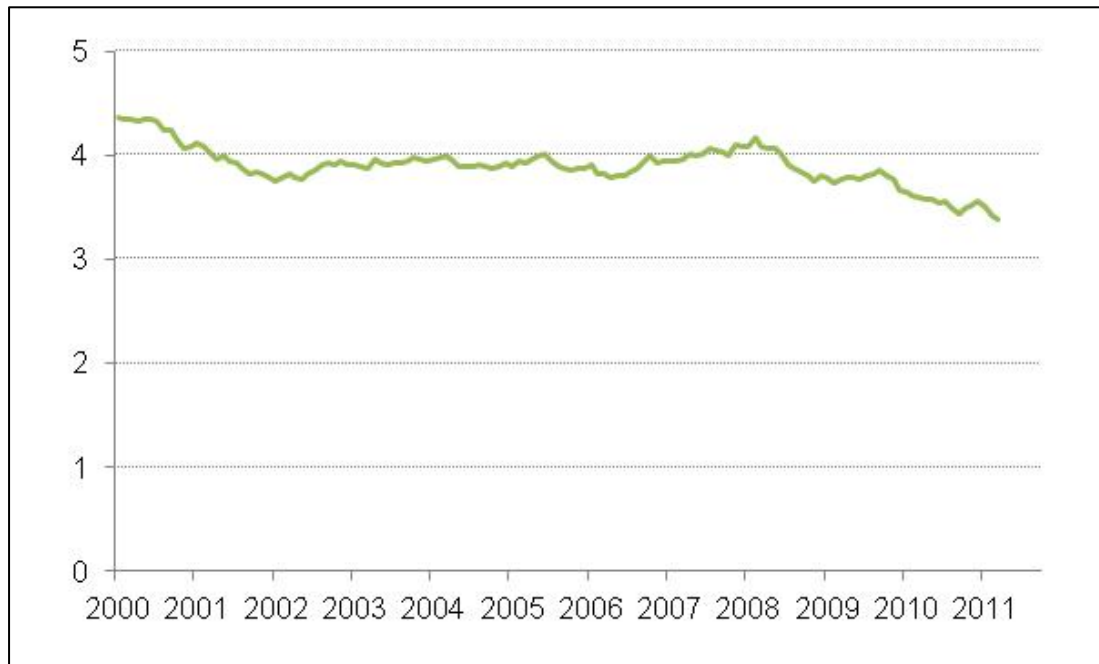
**Figure 21: Trends in serious injuries (numbers)**

(Source: Ministry of Health Data)



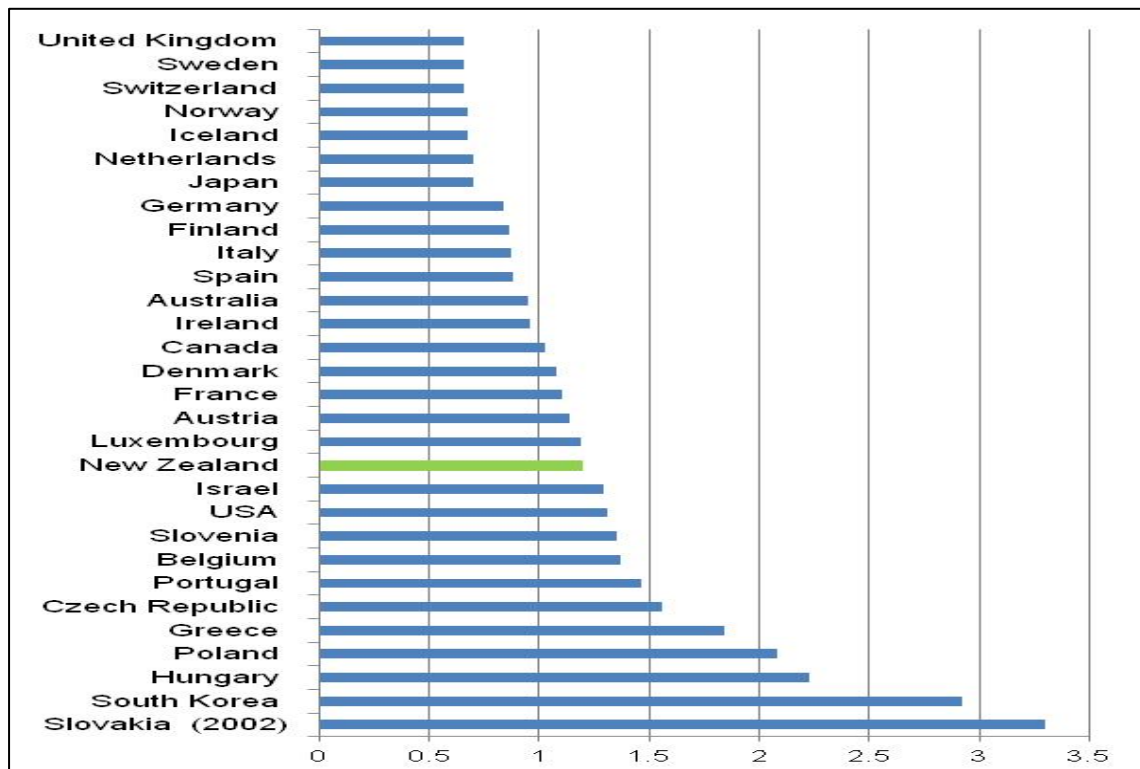
**Figure 22: Trend in the social cost of injuries (\$billion – 2010 prices)**

(Source: Ministry of Transport)



**Figure 23: International comparisons of road deaths per 10,000 vehicles (2009)**

(Source: OECD International Transport Forum: International Traffic Safety Data and Analysis Group)



107. The GPS provides allocations for safety-related expenditure on State highways and local roads from 2012/13 to 2014/15. The GPS indicates an annual expenditure provision of \$150–\$240 million on State highways and \$80–\$120 million on local roads.
108. In 2010, the previous Government introduced Safer Journeys, a new approach to road safety. The approach sought to improve safety by working across all elements of the road system — roads, speeds, vehicles and road use.
109. The actions to be taken in 2011 and 2012 are set out in the *Safer Journeys Action Plan 2011–2012*. Any further actions to follow this plan will need to be agreed in 2012. In considering whether to take further actions to improve road safety the Government will be able to choose from a number of cost-effective options. The following sections present some of the more likely options, based on what we see as the strength of the evidence for their cost effectiveness.

## Roads

110. There may be opportunities for further high-net-benefit road safety spending. For example, installing further median barriers on some high-risk high-volume rural roads would deliver significant safety benefits.

## Vehicles

111. Improvements in the vehicle fleet have reduced rural road fatalities by 15.7 percent and urban fatalities by about 20 percent between 1997 and 2005<sup>26</sup>. New Zealand is a ‘technology follower’ in advanced crash avoidance features in cars. Influencing consumer demand for safer vehicles would change the types of vehicles imported into New Zealand.
112. Safety features will be introduced progressively, and enter New Zealand as the fleet is replaced. However, this will take time because of the age of the vehicle fleet and replacement trends.
113. At an average age of 12.7 years in 2010, New Zealand has one of the oldest light fleets in the developed world. The average age of the vehicle fleet has been increasing since the mid-2000s. Over the next 10 years the vehicle fleet will continue to get older. This is because there is a peak of vehicles in New Zealand manufactured between 1995–1997. As this peak of vehicles becomes older, the average age of the fleet will also increase, to reach between 12.8 and 13.1 years old by 2020<sup>27</sup>.
114. Vehicle age is a close proxy for safety technology. So, an older fleet will slow take-up of new safety and environmental technologies, compared to other developed countries.

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<sup>26</sup> Ministry of Transport, *Safer Journeys*.

<sup>27</sup> Source: Ministry of Transport modelling.

115. The Government has choices about the extent to which it mandates new safety features in cars, and the timing of such mandates. It will be important to consider the benefits of further regulation to mandate advanced crash avoidance features against the costs of such measures, including on the costs and availability of cars. The Government may also choose to strengthen information provision for consumers about the advantages of active safety features.

## Speed

116. In 2010, speed contributed to 32 percent of New Zealand's fatal crashes and 19 percent of serious injury crashes. The social cost of these crashes was about \$825 million.

117. As part of a future safety programme, the Government could consider further measures to encourage drivers to drive at a safe speed. These could include examination of the reasons for speeding behaviour and the best ways to deter repeat speeding offences. For example, licence demerit points are not currently applied to speed camera-detected offences, but are applied to offences detected by a police officer.

## Alcohol

118. In 2010, alcohol and drugs contributed to 36 percent of fatal crashes and 21 percent of serious injury crashes. These crashes resulted in 142 deaths and 552 serious injuries. In 2010, the social cost of crashes where alcohol or drugs were a factor was \$898 million<sup>28</sup>. Through the 1990s, substantial progress was made in reducing the number of alcohol and drug-related deaths and serious injuries. Progress has stalled since 2000. The previous Government introduced a range of measures to reduce the incidence of alcohol related crashes in 2010 and 2011. It will be another year or two before we can fully assess the impact of the recent changes. The measures included:

- (a) a zero drink drive limit for recidivist drink drivers
- (b) a zero drink drive limit for drivers under 20 years of age
- (c) stronger penalties for serious offences causing death and drink driving causing death
- (d) alcohol interlocks for repeat drink drivers

119. International evidence finds that reducing the drink-drive limit below 0.08 significantly reduced the number of alcohol-related driving accidents in other countries. The previous Government commissioned research to see whether a reduction of this type would have a similar effect in New Zealand. We expect the results of this research to be available by August 2013.

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<sup>28</sup> Source: Ministry of Transport, *Crash Analysis System*.

## Transport and welfare

*Private vehicles are central to personal mobility for most New Zealanders.*

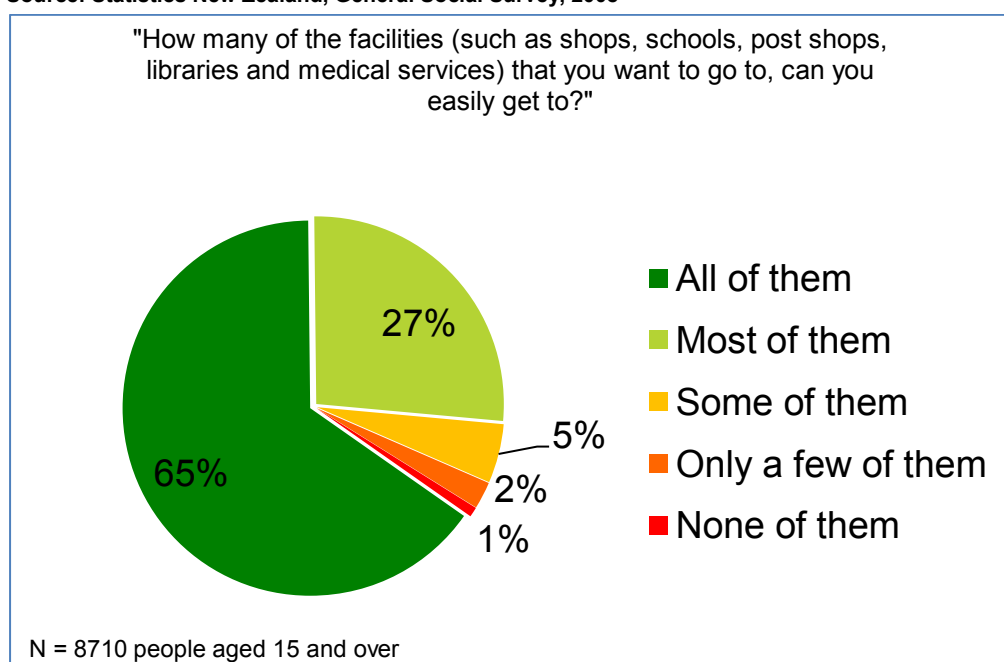
*Only a small proportion of people report persistent difficulty in accessing services and places they need to get to.*

### Transport and household spending

120. Expenditure on transport services in 2009/10 accounted for 13 percent of net household expenditure<sup>29</sup>. Cross-country studies suggest that for most countries there is a strong relationship between household expenditure on transport and GDP per capita<sup>30</sup>. New Zealand household spending on transport fits this observation. New Zealand households seem to spend a similar proportion of income on transport as other countries with similar GDP per capita.
121. There are only small differences between transport spending in urban and rural households. However, spending on transport services declines significantly in older age groups in the OECD, especially for people over the age of 60.
122. Most New Zealanders report that they can travel to all, or most, of the facilities they need to get to in order to participate in society (see Figure 24).

**Figure 24: Self-reported access to facilities**

Source: Statistics New Zealand, General Social Survey, 2008



<sup>29</sup> Statistics New Zealand, *Household Economic Survey: Year ended June 2010*.

<sup>30</sup> Kauppila, J., *Ten Stylised Facts about Household Spending on Transport*, International Transport Forum Statistical Paper No.1/2011.

123. For many New Zealanders, particularly in rural areas, personal mobility is achieved using private motor vehicles. Access to public transport in rural areas is poor, and such services are not viable without significant public subsidy.
124. For New Zealand as a whole, 37 percent of people are dissatisfied with their access to public transport (see Figure 25). However, only 8 percent of people cannot regularly access most of the services and places they need to get to. This result is unsurprising. New Zealand's ownership of passenger motor vehicles per 1,000 population is the second highest in the world, second only to the United States of America.

**Figure 25: Availability of public transport**

Source: Statistics New Zealand, General Social Survey, 2008

Proportion of survey respondents who report they are dissatisfied, very dissatisfied, or public transport is unavailable where they live. (Excludes people who do not use public transport for other reasons.)						
Auckland	Wellington	Northland Bay of Plenty/ Gisborne	Rest of North Island	Canterbury	Rest of South Island	All NZ
25%	11%	57%	54%	28%	66%	37%

125. The importance of private motor vehicles to personal mobility in New Zealand has implications for policies that affect the cost of motor vehicles. New Zealanders have benefited from policies that have made motor vehicle ownership more affordable, importantly, the removal of import tariffs on motor vehicles in the late 1990s.

**Social transport**

*Demographic change in New Zealand will shift the demands for social transport over the next 20 years. These shifts could place pressures on the fiscal costs of social transport.*

126. A minority of people are transport disadvantaged. These include some elderly people, some disabled people, and some young people, who have poor access to either private motor vehicles or public transport.
127. The Government provides a range of services and assistance for the transport disadvantaged. However, delivery is fragmented among different agencies and entitlements have been added over time for different types of mobility impairment and disability, with no overall consistency. Annual expenditure on social transport assistance is approximately \$144 million across eight programmes. Rationalisation of delivery mechanisms might provide efficiency gains and deliver a more consistent service.

128. Demographic change in New Zealand will shift the demands for social transport over the next 20 years. Responding to these demands will be easier if the Government can be assured that current assistance is provided both equitably and efficiently. There is a risk that as demands for social transport assistance both shift in nature, and increase in aggregate, the fiscal cost of provision will increase. Or if fiscal costs are to be contained, future governments may need to consider tighter rationing.

### *Examples of social transport service costs*

129. The Special Education School Transport Assistance provides transport for eligible students with disabilities at an annual cost of about \$32 million. The programme assists around 5,000 students, at an average annual cost per person of \$6,400.<sup>31</sup>
130. The Total Mobility Scheme provides subsidised door-to-door taxi services for people who cannot use public transport due to the nature of their disability. There are 50,000 registered users. The total annual cost of the scheme is \$16.2 million, at an average cost per person of \$320<sup>32</sup>.
131. This discussion of social transport provision is not a full analysis of prospective policy challenges. We have identified what, in our view, are the most important issues that you will need to have regard to in setting policy and your priorities in this area.

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<sup>31</sup> Source: Ministry of Education.

<sup>32</sup> Source: Ministry of Social Development.

## Concluding comment

132. The issues identified in the preceding sections are an overview of the major matters that you as the Minister of Transport will need to have regard to. The actual policy settings and priority issues are a matter for you and the Government to determine. The Ministry will endeavour to provide expert and robust advice to allow you to make well informed decisions. We look forward to engaging with you over the coming period to determine your priorities for transport.

## Section 3: Issues Requiring Consideration by the Minister of Transport

### Decisions we anticipate seeking from you before Christmas 2011

Subject	Description	Key timing	Consequence of deferral
<b>ROAD</b>			
[Redacted content]			
<b>OTHER</b>			
Four-year Budget Plan	<p>Each year the Ministry is required to submit a Four-year Budget Plan, which explains the priorities and cost pressures facing Vote Transport over the next four years and how these will be managed.</p> <p>The key decisions sought in this year's plan will include \$250 million capital funding for the next tranche of the KiwiRail Turnaround Plan. It will also include the ongoing effect on Maritime New Zealand from the Rena incident and related costs.</p>	<p>Draft will be ready to discuss with you in December. Final plan due with Treasury on 31 January.</p>	<p>The Ministry would not be signalling funding pressures on the Vote in time to be considered as part of the Government's prioritisation and 2012 Budget process.</p>

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## Decisions we anticipate seeking from you before 30 June 2012

There are a number of decisions included in this list that have financial or funding implications. All of these decisions are the continuation of issues that have been under discussion with the Treasury and the previous Minister, and are not new.

Subject	Description	Key timing	Consequence of deferral	
<b>REVENUE/FUNDING</b>				
Road user charges: the cost allocation model	<p>We will seek your agreement to make some minor technical changes to how the cost allocation model calculates charges, following a recent review.</p> <p>The cost allocation model informs the level of charges that are set for different types and weights of vehicles. The charges are recovered through fuel excise duty and road user charges.</p>	January 2012	<p>Earlier this year, the previous Government publicly committed to using the revised model when fuel excise duty and road user charges were next adjusted.</p> <p>If the decision is delayed, there is a risk that changes to the model may not be implemented in time for it to inform the calculation of road user charges that are to be introduced from 1 July 2012.</p>	
Withheld under section 9(2)(f)(iv)	Road user charges	We will seek your agreement to policy proposals on vehicle types and weight bands, exemptions [REDACTED] (to come into effect from 1 July 2012). If agreed, we will submit a draft Cabinet paper(s) seeking policy approvals for road user charges regulations and road user charges rates regulations. <p>The Road User Charges Bill 2010, which is currently in the House, provides for a new road user charges system to come into force in mid-2012. Regulations are required to implement the new system.</p> <p>In developing the 2012 Government Policy Statement on Land Transport Funding, and deferring fuel excise duty and road user charges increases planned for 1 July 2011, the previous Minister advised Cabinet that increases were likely to be necessary in 2012.</p>	January/February 2012	<p>Delay in implementing the new road user charges system will be of concern to the road transport industry, which has already expressed concern that uncertainty around the impact of the new system is delaying investment in new vehicles.</p> <p>The consequence of delaying a decision in relation to fuel excise duty and road user charges rates is a loss of revenue of approximately \$8 million each month. This will reduce the revenue available to the National Land Transport Fund and impact on the NZ Transport Agency's ability to give effect to the expenditure targets set out in the Government Policy Statement.</p>

Subject	Description	Key timing	Consequence of deferral
Road user charges	Subject to the outcome of the decision above, we will also seek your agreement to a Cabinet paper requesting approval for the new regulations.	April 2012	As above.
Review of NZ Transport Agency administration fees	<p>[Redacted]</p> <p>Earlier this year Cabinet agreed that decisions arising from the review of motor vehicle registration and licensing and RUC administration fees be implemented on 1 July 2012, at the same time as the simplified RUC system. The administration fees have not been reviewed since the early 1990s and are currently resulting in an \$8 million surplus for the administration of the motor vehicle register and a \$2 million under recovery for road user charges.</p>	[Redacted]	<p>[Redacted]</p> <p>The simplified RUC system has been promoted on the basis it will reduce compliance and administration costs. [Redacted]</p>
Civil Aviation Authority funding review	<p>We expect the Civil Aviation Authority Board to seek a meeting with you in December 2011 to get agreement 'in principle' for new funding arrangements, and to provide you with its final funding proposal in early February 2012. At that time, we will also seek your agreement to take a proposal to Cabinet to ensure new funding arrangements are in place by 1 July 2012.</p> <p>The Civil Aviation Authority is undertaking a significant review of its funding arrangements. This will address operating deficits and enable a 'step change' in performance to ensure it operates as an effective regulator and organisation. The Civil Aviation Authority is seeking increased funding of around \$8 million per annum.</p>	February 2012	<p>It is important that changes to fees, charges, and levies are implemented by 1 July 2012. This will require Cabinet to consider proposals by mid-March 2012.</p> <p>A delay to new funding arrangements beyond 1 July 2012 will result in the Civil Aviation Authority having insufficient revenue to fund a \$2.5 million annual operating deficit, to consolidate the early benefits of the change programme, and to deliver changed services that make the desired 'step change' in performance.</p>

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Note: the Civil Authority is seeking \$8 million funding per annum for 3 years.

Subject	Description	Key timing	Consequence of deferral
SuperGold Card	<p data-bbox="407 284 1202 451">[REDACTED]</p> <p data-bbox="407 475 1173 568">In 2010, the scheme was reviewed as costs were increasing beyond agreed funding. Additional funding was provided but this funding finishes on 30 June 2012.</p> <p data-bbox="407 596 1167 719">If the scheme is to continue, a long-term sustainable solution needs to be negotiated with regional councils and operators of public transport services. The previous Minister had agreed that this review be conducted in 2012.</p> <p data-bbox="407 748 1191 936">[REDACTED]</p>	March 2012	<p data-bbox="1386 284 2042 480">[REDACTED]</p> <p data-bbox="1386 504 2002 667">[REDACTED]</p>

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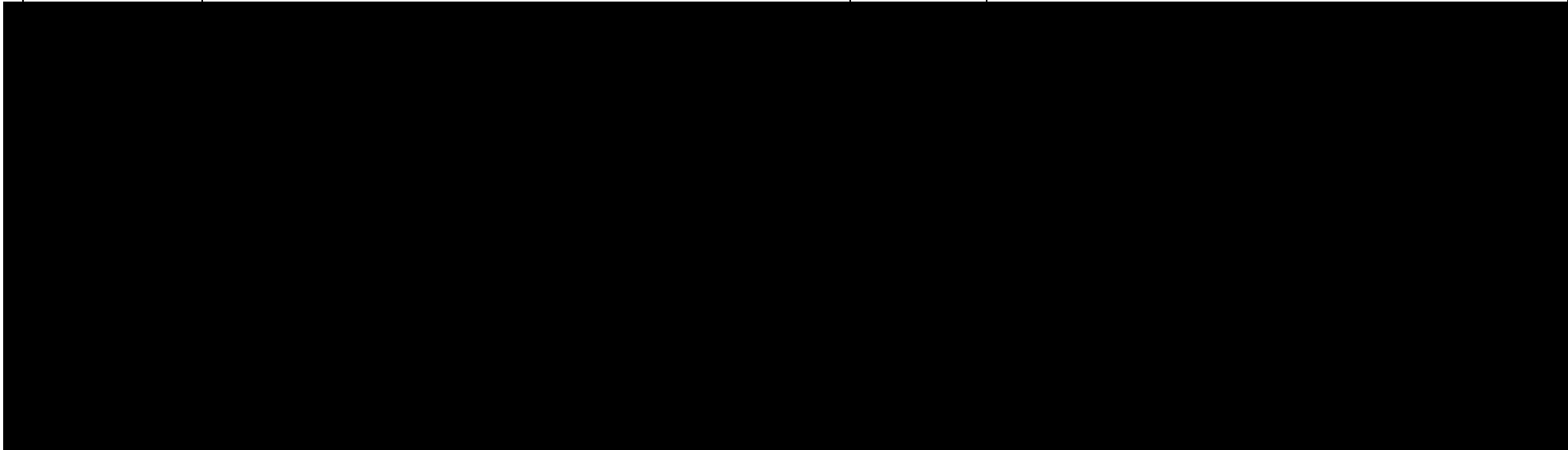
Subject	Description	Key timing	Consequence of deferral
Driver licensing legislation	<p>We intend to seek your agreement to a Cabinet paper that proposes changes to driver licensing legislation. Subject to your approval, Cabinet agreement will then be sought on the changes.</p> <p>In 2010, the previous Cabinet directed the Ministry and the NZ Transport Agency to carry out a review of the business model for driver licensing and testing services.</p> <p>In October 2011, Cabinet considered the recommendations of the review and requested that the Ministry and the NZ Transport Agency develop legislative proposals to remove barriers that prevent the Agency from further improving the operation of the driver licensing and testing services. These proposals are expected to deliver up to \$1 million per annum in cost savings.</p> <p>Cabinet requested a report back by 30 June 2012.</p>	June 2012	Deferral would constrain the NZ Transport Agency's improvements to the current business model and the realisation of cost savings to customers. The foregone cost savings would be up to \$1 million per annum to the NZ Transport Agency and would prevent direct cost savings being realised by customers.
<b>ROAD</b>			
Funding for rebuilding Christchurch City Council roads	<p>We intend to seek your agreement to submit a Cabinet paper seeking funding from the Canterbury Earthquake Recovery Fund for some of the costs of rebuilding roads owned by the Christchurch City Council.</p> <p>A Cabinet paper outlining the contributions of central and local government for rebuilding roads in Christchurch has been prepared and consulted with other agencies. It includes new transport-related earthquake cost estimates.</p>	January 2012	<p>The key benefit of an early decision on how much funding will be provided from the Canterbury Earthquake Recovery Fund is to provide certainty to the NZ Transport Agency and the Christchurch City Council about the level of funding to budget for. If they do not have funding certainty:</p> <ul style="list-style-type: none"> <li>• the NZ Transport Agency will face uncertainty about what commitments they can enter into, which could slow down the road construction programme</li> <li>• the Council will be unable to make the necessary financial arrangements to cover their share of transport repairs</li> <li>• those responsible for making repairs will face continued uncertainty in managing expenditures and beginning repairs</li> </ul>

Subject	Description	Key timing	Consequence of deferral
Agricultural vehicle review	<p>We intend to seek your agreement to a position paper for industry engagement on the agricultural vehicle review.</p> <p>The purpose of this review is to determine if there is an opportunity to reduce compliance costs for the agricultural industry by extending work hours for vehicle operators and to review the conditions under which agricultural vehicles are permitted to operate on the road. The review has the potential to enhance economic growth and productivity without compromising safety.</p>	March 2012	<p>The previous Associate Minister initiated this review in response to concerns from the agricultural industry. The current timeline is based on delivering changes to Land Transport Rules by the next harvest season (i.e. spring/summer 2012/13). However, some outcomes of this review may take longer to implement, as they could require changes to primary legislation, or to the NZ Transport Agency's systems.</p> <p>The Ministry is engaging closely with stakeholders to manage expectations about timelines. There is a risk that some stakeholders, such as Rural Contractors New Zealand and Federated Farmers of New Zealand, may raise concerns with you if sufficient progress is not demonstrated.</p>
	Should our analysis and the consultation process find a case for changing the current rules, we would seek your agreement to a paper for Cabinet on possible changes to compliance costs for the agricultural industry.	June 2012	As above.

Subject	Description	Key timing	Consequence of deferral
Passenger Service Vehicle Amendment Rule	<p>We intend to seek your agreement to take a paper to Cabinet noting your intention to amend the Passenger Service Vehicle Rule.</p> <p>This Rule sets out the minimum design and construction requirements for passenger service vehicles. The Rule has been in place for more than a decade and the proposed amendment will update it to take account of technological and other changes, and remove redundant or overly restrictive requirements.</p> <p>The previous Minister agreed to this amended Rule coming into force on 1 June 2012. If you wish to adhere to this timeline, your intention to make the Rule must be noted by Cabinet no later than March 2012.</p>	March 2012	<p>The proposed amendment addresses 26 relatively minor issues that have arisen with the Rule. None of the proposed changes are urgent and any delay in the decision to make the Rule would not have significant consequences. If delayed, the Rule project can be placed on the 2012/13 Rules programme.</p>
Public Transport Operating Model – amendment to legislation	<p>We may need to seek your agreement to a paper that would seek Cabinet's agreement to include minor issues in a draft Bill to implement a new operating model for bus and ferry public transport services.</p> <p>In October 2011 Cabinet agreed to the implementation of the new Public Transport Operating Model. This included changes to existing legislation.</p> <p>An amendment Bill to the existing Public Transport Management Act is currently being prepared. It is possible that as we develop the draft Bill, we may identify minor issues that require Cabinet agreement in order to be included.</p>	March 2012 (if needed)	<p>Implementation of the model can commence in advance of legislative change through administrative mechanisms held by the NZ Transport Agency and through the co-operation and goodwill of regional councils and operators. At this time we anticipate that Auckland, Wellington and Christchurch regions will implement the model in advance of legislative change.</p> <p>However, a legislative change will ensure the formal, long-term adoption of the principles of the new model and a consistent national approach.</p>

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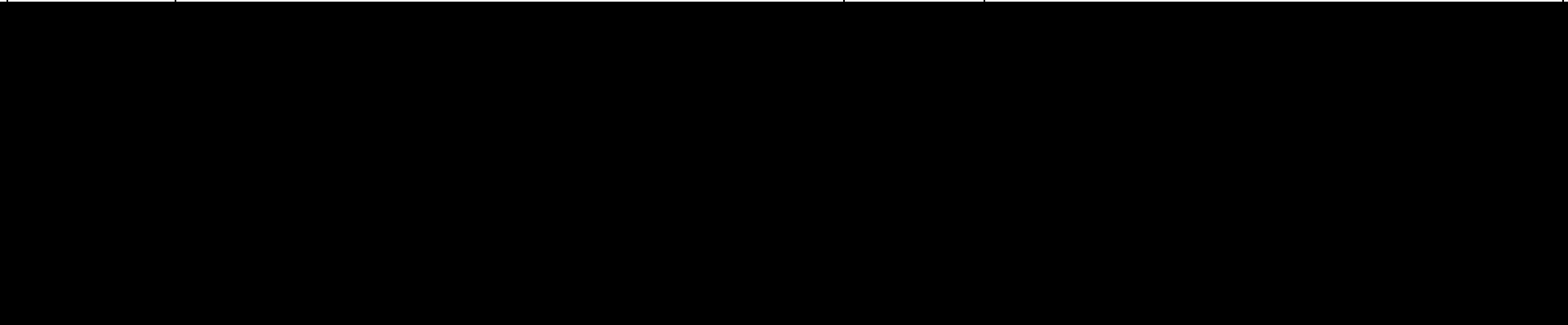
Subject	Description	Key timing	Consequence of deferral
Public Transport Operating Model – amendment to legislation	We intend to seek your agreement to a Cabinet Committee paper seeking introduction of the amendment Bill.	April 2012	Regulatory uncertainty for bus and ferry operators has existed for a number of years now. The development of the new operating model has been a collaborative exercise with the sector. It has taken a lot of work to get all parties to broadly agree to the components of the new model, and we wish to continue to build on this goodwill and momentum for change and deliver amended legislation that will embed the new model.
<b>RAIL</b>			



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Subject	Description	Key timing	Consequence of deferral
<b>AVIATION</b>			
International Air Transport Policy review	We intend to seek your agreement to a paper seeking Cabinet approval to release a discussion document for public consultation on a new international air transport policy.	February/ March 2012	<p>There is a high level of interest and expectations about the review from some industry stakeholders. The review will provide clarity to industry about New Zealand's priorities.</p> <p>Deferral would result in ongoing uncertainty around New Zealand's approach to air services negotiations, and may delay the benefits that could be achieved from liberalisation. As referenced in the earlier part of this briefing, improving international connections is important to New Zealand's economic prosperity.</p>
	We intend to seek your agreement to a paper seeking approval from Cabinet to release the final policy statement.	June 2012	As above.

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Subject	Description	Key timing	Consequence of deferral
Joint venture airports	<p>We intend to seek a decision from you on the Crown's future interest in New Plymouth airport [REDACTED]</p> <p>The Crown owns 50 percent of New Plymouth airport. The decision will have implications for the five other joint venture airports — Whangarei, Whakatane, Wanganui, Taupo and Westport.</p>	June 2012	<p>There is no deadline for this decision. However, retaining ownership is a fiscal risk. The Crown is legally obligated to provide funding for half the cost of infrastructure investment if it exceeds the airports existing reserves.</p> <p>[REDACTED]</p>
<b>MARITIME</b>			
Oil Pollution Levy	<p>We intend to seek your agreement on the options to be included in Maritime New Zealand's consultation document to increase the Oil Pollution Levy. The levy funds Maritime New Zealand's oil pollution response capability.</p> <p>Prior to the <i>Rena</i> incident, Maritime New Zealand was preparing a change to the method of calculating the levy to move to a threat-based system rather than a tonnage-based system. It was also looking to increase the amount collected by the levy by approximately \$1 million in order to put funding for oil pollution response activities on a sustainable base.</p> <p>Maritime New Zealand is now considering the impact of the <i>Rena</i> operation on funding for oil pollution responses and potential changes to the levy.</p>	February 2012	[REDACTED]

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Subject	Description	Key timing	Consequence of deferral
Increases to minimum insurance requirements for offshore oil platforms	<p>The Ministry will seek your decision regarding an increase to the \$30 million minimum insurance requirement for offshore oil platforms.</p> <p>In July 2011 the previous Cabinet considered proposals for interim measures to address the potential environmental impacts of activities in New Zealand's exclusive economic zone before the new exclusive economic zone legislation comes into force.</p> <p>One of the matters considered by Cabinet was the current level of insurance required by offshore oil platforms. Cabinet requested that further work be undertaken by the Ministry to investigate an increase in the required level of insurance.</p>	February 2012	<p>A change to Marine Protection Rules is needed to implement an increase to insurance requirements, and would also require consultation with industry.</p> <p>If a decision to progress with a rule change is made in February 2012 then it is anticipated that this would come into force by 1 October 2012.</p>
Maritime Funding Review	<p>The Ministry will seek your direction on when and how to progress the Maritime Funding Review in light of the investigation into the <i>Rena</i> incident and the implications that this could have for Maritime New Zealand.</p> <p>Following the <i>Rena</i> incident, the funding review was put on hold (this was communicated to stakeholders). Transport officials will seek a decision from you on when to resume the funding review, the main focus of which will be the Marine Safety Charge, which is levied on commercial ships to pay for Maritime New Zealand's safety services to shipping.</p> <p>The <i>Rena</i> investigation could change the expectations of, and/or activities conducted by, Maritime New Zealand. That could have a flow-on effect to who should pay for their activities.</p>	February 2012	The consequence of deferring this decision would be ongoing uncertainty for stakeholders, especially fee and levy payers.

Subject	Description	Key timing	Consequence of deferral
Clifford Bay	<p>We will be providing you with a report in April 2012 containing the recommendations of the further investigation into the Clifford Bay ferry terminal. This will include recommendations about whether to proceed and what the level of Government involvement (if any) could be.</p> <p>A high-level investigation of the proposed inter-island ferry terminal at Clifford Bay in mid-2011 found that there was a positive commercial and economic case for the project. However, significant capital and operating cost risks were also identified. Following the initial investigation, Cabinet instructed the Ministry to carry out further analysis of the commercial and economic case for building the terminal, 70 kilometres south of Picton. The Ministry is leading this investigation in partnership with the NZ Transport Agency and the Treasury.</p>	April 2012	<p>The Clifford Bay ferry terminal could realise significant national economic benefit in terms of travel time and cost savings on the road and rail transport networks. Realising these economic benefits may be delayed if the decision about Clifford Bay is deferred.</p> <p>There is also considerable interest in this project in the Marlborough region, at KiwiRail and from other parties involved in moving freight across the Cook Strait. Any delay in the decision about the future of the Clifford Bay ferry terminal may cause uncertainty for the freight operators, business owners and residents.</p>
<b>SAFETY</b>			
<p>Recovery of implementation costs of the Safer Journeys young driver package (revising driver licensing and testing fees)</p>	<p>The Ministry will seek your agreement to proposals considered and agreed to by the previous Minister of Transport in October 2011, to make fee adjustments to fund some of the implementation costs of the young drivers package introduced by the previous Government. The previous Government agreed to fund some of the implementation costs of this package through changes to the licensing and testing fees.</p> <p></p> <p>If you agree, a Cabinet paper will be prepared for your signature. It is unlikely that new fees could come in before July 2012.</p>	February 2012	A delay will mean that the NZ Transport Agency will incur further costs in carrying this debt until the new fees come into force.

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Subject	Description	Key timing	Consequence of deferral
Safer Journeys – child restraints	<p>[REDACTED] The Ministry is investigating introducing regulations to require booster seats for children up to a certain height or age. Other countries already have this requirement and our injury rate for this age group is high in comparison to other countries.</p>	February 2012	Stakeholders, including Safekids and Starship Hospital, are campaigning for this change. The Ministry analysis shows the mandatory use of booster seats could save up to one to two lives a year. Deferring this decision will result in the rule being unable to be included in the Land Transport Rule making process for 2012.
Safer Journeys – R plate and time licenses	The Ministry intends to seek your decision on whether to introduce mandatory R-plates for restricted licence holders, and whether a limit should be placed on the length of time people can spend on the learner and restricted licences before progressing to the next stage.	February 2012	A decision in February on the proposed solutions will enable the amendments required to be included in the Land Transport Rule making process for 2012.
Safer Journeys – drugged driving	<p>The Ministry intends to provide you with a report to submit to Cabinet on the effectiveness of legislation to reduce drugged driving that was enacted in 2009.</p> <p>The Ministry was asked to report back to Cabinet on the effectiveness of the legislation and to advise on further legislation that could be introduced to reduce drugged driving.</p> <p>The Ministry intends to provide you with the report and provide information on drug driving measures from other jurisdictions (for example, the random roadside testing for drugs in Australia). If you approve the report it can be considered by Cabinet.</p>	March 2012	Deferral of this decision will result in a delay in decisions on future opportunities for reducing drugged driving.

Subject	Description	Key timing	Consequence of deferral
Safer Journeys – red light Cameras	<p>The Ministry intends to seek your endorsement to a proposed national policy on the use of red light cameras.</p> <p>A trial in Auckland has demonstrated that red light cameras reduce crashes at intersections.</p> <p>The Ministry is working with stakeholders to develop a national policy on red light cameras. This will cover the costs and benefits of red light cameras and how they rate compared to other road safety interventions.</p>	March 2012	<p>Intersection crashes at traffic lights cause two deaths and 45 serious injuries each year. Delaying the introduction of a national policy on the use of red light cameras will not allow the safety benefits of installing the cameras to be realised (for example, the trial in Auckland showed a 43 percent reduction in red light running).</p> <p>In addition, Local Government New Zealand will likely engage with you on your views on this subject, as they are expecting a decision in March 2012.</p>
<b>OTHER</b>			
Policy Advice Appropriation Restructure	<p>We need to seek your approval to redefined appropriations for policy advice for the Ministry, Maritime New Zealand and the Civil Aviation Authority.</p> <p>From 2012/13, there will be a new definition of policy advice for appropriation purposes. Only appropriations that meet this definition may be classified as such, and all Votes must examine their existing policy advice appropriations and redefine them if required.</p>	January 2012	Agencies have been required by the Treasury to restructure their appropriations to clearly identify the cost of policy advice. Non-compliance is likely to lead to concerns being raised by the Treasury with the Minister of Finance.
Board appointment: Maritime New Zealand	We plan to provide you with a paper making a recommendation on the upcoming Maritime New Zealand board vacancy, and setting out the steps required to complete the board appointment process.	January 2012	A decision is required by the end of January 2012 so that the appointment process can be completed by the end of March 2012 when the vacancy arises.

Subject	Description	Key timing	Consequence of deferral
Crown Entity Boards – letters of expectation	<p>We will seek your participation in discussions with Crown Entity Boards and your agreement to letters of expectation for each Board to set out your expectations and priorities for the year.</p> <p>These meetings and letters are a part of the annual planning process for the entities and a key opportunity for you to shape how they deliver government policy.</p>	February/ March 2012	The consequence of not meeting with Boards and providing them with letters of expectation by March 2012 is that Boards' decisions on strategic direction and priorities for 2012–2015 may not be sufficiently informed by, and aligned with, the Government's expectations and priorities.

Subject	Description	Key timing	Consequence of deferral
Regulatory Reform Programme – strategic work stream briefing about two proposed reform packages	<p>We intend to seek your preliminary feedback on two packages of possible reform opportunities that have been identified through the Ministry's Regulatory Reform Programme.</p> <p>The Regulatory Reform Programme responds to the previous Government's goals for better and less regulation. The Programme's purpose is to improve the way the transport sector performs its regulatory function. A key focus for the Programme is the identification of opportunities for reform that deliver substantial improvements to the transport regulatory system.</p>	February/ March 2012	<p>The two packages that have been identified have the potential to generate benefits for the economic growth and regulatory reform agendas.</p> <p>Deferral would slow the progress of both proposed reform packages.</p>
Oil Pollution Advisory Committee appointment	We may need to seek your agreement to fill at least one potential vacancy on the Oil Pollution Advisory Committee. You are responsible for making appointments to this committee.	March 2012	Deferring a decision to fill a vacancy on the committee would create a gap in sector representation on the committee.
Transport Rules Programme and Annual Regulatory Plan for 2012/13	<p>We will seek your agreement to submit an Annual Regulatory Plan to the Minister of Finance and the Minister for Regulatory Reform. The Plan sets out the legislative changes that you propose to make in the following year.</p> <p>The Regulatory Plan includes the Transport Rules Programme, which is set by you and agreed by Cabinet. The Plan provides direction to the Ministry and the Crown entities about which rules you want progressed during the following year and the pace at which you expect them to be delivered.</p>	March 2012	Deferring your decision on the Regulatory Plan and Transport Rules Programme would mean the programme is not agreed before the start of the financial year. This may limit the ability of the Ministry and Crown entities to adequately resource the Rules Programme in their annual work programmes. We may also miss opportunities to improve the safety, efficiency and effectiveness of the transport system.
Civil Aviation Authority Board appointment	Following expiry of the current term on 24 June 2012, you can ask John Bartlett to continue under the Crown Entities Act 2004 until he is replaced or reappointed.	May 2012	A deferral beyond the end of his current term will create uncertainty for the Civil Aviation Board and for John Bartlett.