



Annual Report 2011/12

Report of the Ministry of Transport
for the year ended 30 June 2012

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Message from the Chief Executive

MINISTRY OF TRANSPORT'S PURPOSE:

Ensuring our transport system helps New Zealand thrive.



Last year was another incredibly busy and productive time for the Ministry, as we addressed a number of important issues for the transport system and the New Zealand economy.

These included releasing the Government Policy Statement on Land Transport Funding 2012, evaluating a proposal for a new ferry terminal at Clifford Bay, reviewing the vehicle licensing regimes, making major

changes to the road user charges system, negotiating new air services arrangements with China and Japan, and advancing the Maritime NZ and Civil Aviation Authority funding reviews.

As a Ministry, we are now starting to see the benefits of some of the decisions that we took a couple of years ago to adopt a matrix-based modus operandi, reduce our overall costs, and to place a real focus on investing in the capability of all of our staff.

I believe that the way the Ministry is now working not only reflects the government's goal for better public services, but that in some ways we are ahead of the game in terms of the innovation we are introducing to respond to the government's challenge.

A good example of this is our programme of Regulatory Reform, which also responds to the government's drive for better and less regulation. We've been driving reform in a number of areas by establishing special purpose teams to deliver results quickly. For example, we established a project team drawing on expertise from across the Ministry to focus on agricultural vehicle reform. To deliver that reform we worked with the NZ Transport Agency on options to remove the regulatory barriers to enhanced economic productivity (currently agricultural vehicles must meet many of the regulatory requirements that are designed for on-road vehicles) and to reduce compliance costs. This work was advanced in a relatively short period of time, with decisions announced by the government in August 2012.

Our work on the reform of the vehicle licensing regimes, and leadership of the National Road Safety Committee and the New Zealand Search & Rescue Council, are other good examples of the critical role that the Ministry plays in coordinating and leading a range of agencies that are working towards common outcomes for transport and the New Zealand economy.

Our ability to undertake these and other policy projects, amongst the many other initiatives that we have been leading for government, is a positive reflection on our efforts over the last two or so years, our flexibility, and the lift in capability and performance that we have achieved across the Ministry.

There remain ahead, however, significant challenges for the Ministry and the transport sector, and we look forward to meeting these in 2012/13 with the same professionalism and high standards that we have delivered in 2011/12.

A handwritten signature in black ink that reads "Martin Matthews".

Martin Matthews
Chief Executive

Performance highlights 2011/12

During the year, the Ministry delivered over 90 percent of its Output Plan as agreed with the Minister of Transport (the Minister). This is a very good result. In addition to work agreed at the beginning of the year, the Ministry responded to events as they arose (for example, the *Rena* grounding) and took on a range of assignments not originally programmed.

The Ministry has also contributed to other whole-of-government work programmes over the year.

The key achievements for the 2011/12 year are set out below under the government's drivers for transport:

- Investment in infrastructure
- Better quality regulation
- Opening markets
- Safer transport system
- Better public services

INVESTMENT IN INFRASTRUCTURE

Clifford Bay

Building a new ferry terminal at Clifford Bay has the potential to significantly increase transport efficiency and productivity. Its benefits needed to be considered in terms of its potential impact on an efficient national transport system. Since September 2011, the Ministry has led a detailed evaluation of the potential for the proposed ferry terminal at Clifford Bay and developed a full business case on its possible development for the government to consider. Key stakeholders including rail and other potential users of the service have contributed to this process.

Wellington and Auckland metro rail infrastructure funding

In October 2011, Auckland Transport signed a purchase agreement for 57 three-car railway units from Spain. This action effectively completed the funding, ownership and procurement activities that made up the Ministry's contribution to the modernisation of the rail transport services for Auckland. Similar arrangements were made with Wellington earlier in 2011. Investment in making rail public transport accessible and efficient will reduce congestion in Wellington and Auckland and contribute to transport productivity.

Connecting New Zealand

The Ministry finalised and published *Connecting New Zealand* in August 2011. *Connecting New Zealand* provided stakeholders with a summary of the government's policy direction for transport over the coming decade. In setting out the government's long-term outcomes for transport, it assists stakeholders to better understand how the government wants the transport system to develop over time and helps to ensure investment decisions will contribute to transport effectiveness and economic productivity.

Freight Information Gathering System (FIGS)

The new Freight Information Gathering System was fully implemented over the past year. As a consequence of improved freight data collection systems and regular reporting, freight owners are able to access consistent, accurate and timely data from all 10 ports that participate. The data relates to container freight movements, including the balance of exports to imports, freight volumes and the mode of transportation used to carry cargo into and out of ports. By understanding the freight supply chain, the Ministry can provide better informed policy advice and contribute to growing the economy.

By publishing quarterly reports on its website, the Ministry is also impacting on efficient freight transport. It appears the freight sector is finding the data very useful as there are often enquiries for when the latest information will be available.

Auckland transport infrastructure investment

The Ministry has engaged with Auckland Council and Auckland Transport to support integrated decision making and long-term planning in line with government priorities and funding commitments for transport. These actions will contribute to a high quality transport system for Auckland.

The Ministry contributed to the analysis of drafts of the Auckland Spatial Plan. It also wrote the transport component of the central government submission on the Spatial Plan when it was put out for consultation.

Together with the Treasury and NZ Transport Agency, the Ministry also coordinated central government input into, and assessment of, the responses to the Government Review of the 2011 business case on the Auckland City Centre Rail Link.

Land Transport Management Bill

The Ministry, in consultation with Local Government NZ, the Automobile Association and the Land Transport Forum and regional councils developed a more effective, efficient decision making process for land transport expenditure decisions that will reduce compliance costs for the sector and advance economic growth. These changes are incorporated in the Land Transport Management Bill. The Bill, that was introduced to Parliament on 13 August 2012, also introduces legislation that simplifies the process of approving tolling and public private partnerships while maintaining robust approval processes. It also introduces changes to the public transport operating model (refer page 4).

National Airspace Policy released

A National Airspace Policy Statement was completed in collaboration with the Civil Aviation Authority and members of the aviation sector including major airlines and Airways Corporation of New Zealand. The updated policy is in response to worldwide changes in technology that impact on how aircraft navigate between airports and how air traffic will be managed. The statement provides a policy environment that will allow New Zealand to gain the maximum benefits from new technologies. It will future proof the airspace and air navigation system and ensure the safety and efficiency of air traffic services and the resilience of the airspace system.

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

The Government Policy Statement 2012 was approved by Cabinet and published in July 2011. It sets outcomes and priorities for the investment of the National Land Transport Fund from 1 July 2012. Government investment in the National Land Transport Fund over the next 10 years will focus on projects supporting economic growth, value for money and road safety. The publication of the GPS 2012 will allow the transport decisions taken by NZ Transport Agency and local authorities and other organisations to be aligned with the government's outcomes and priorities.

Rena recovery

The Ministry was able to give significant support to Maritime NZ during the early stages of the *Rena* container ship grounding. It provided specialist policy advice and legal, financial and communications support and regular updates to the then Minister of Transport. It also took the initiative to set up and lead a cross government *Rena* Coordination Group, including key government agencies and the Bay of Plenty Regional Council.

The Ministry also contributed to the commercial negotiations with the owners and insurers of the *Rena*.

BETTER QUALITY REGULATION

Agricultural vehicle reform

During the year, the Ministry undertook a review of the licensing requirements for agricultural vehicles. Currently agricultural vehicles must meet many of the regulatory requirements that are designed for on-road commercial vehicles, creating regulatory barriers to economic productivity. The review looked at developing simplified and reformed licensing regulations, while reducing compliance costs where possible and maintaining safety. Consultation by the Ministry included the release of a position paper in April and the holding of six workshops. The Ministry developed options for reform and the government took decisions in August 2012.

A new road user charges system

The Ministry developed a modernised and simpler road user charges system that reduces compliance costs and ensures regulations are effective and meet government priorities. The new system will increase transport effectiveness by encouraging operators to make efficient choices, in terms of the vehicles they purchase and the way they use them, and by limiting opportunities for charges evasion.

This is the first major refresh of the road user charges regulatory process since the 1970s. In recognition of the importance of the review for transport productivity, the Ministry undertook wide ranging consultation with the sector over the several years it took for the policy to be developed.

The new system is intended to be cost neutral and will contribute to a sustainable funding basis for transport infrastructure investment and use.

The Road User Charges Act 2012 that provides the legislative framework for the new system was passed in February and new road user charges regulations came into force on 1 August 2012.

Vehicle Licensing Reform

The Ministry developed options for reform of vehicle licensing that have the potential to save households and businesses time and money, and reduce the volume of infringements in the criminal justice system, while maintaining road safety. Change will impose some implementation costs on the government and could have financial impacts on businesses that do inspections. A discussion document is being developed that is expected to be released for public consultation in September 2012.

The project has been trialling a collaborative approach, jointly with the NZ Transport Agency. It involves the Ministry working closely with other government departments such as ACC, the Ministry of Business, Innovation and Employment and the Ministry of Justice, as well as early and ongoing engagement with key industry stakeholders.

Improving safety in transport related adventure tourism activities

The Ministry oversaw the introduction of two transport rules that address some of the recent concerns about the safety of adventure tourism activities. Aviation Rule Part 115: Adventure Aviation sets standards for all adventure aviation operators for their management systems, staff training and qualification, and equipment. Amendments to Maritime Rule Part 82 ensure river jet boat drivers have completed appropriate training and can demonstrate competency. These changes will provide greater certainty to people taking part in these activities that they will retain their excitement while remaining as safe as possible.

Transport rules redesign project

The transport sector is highly regulated and there are opportunities to improve processes for regulatory intervention. Part of the Ministry's response to the government's "Better Regulation Less Regulation" initiative has been to develop a new Regulatory Policy Statement that ensures the regulatory development process is simpler and more streamlined, and effective regulation is delivered with minimal delay and reduced compliance costs. To help implement the policy statement, the Ministry produced the 2012 edition of the Rules Development Handbook that is available to rules developers as a booklet and on an interactive website.

OPENING MARKETS

International air transport policy

By ensuring New Zealand's international aviation arrangements are fit-for-purpose, we will improve competition and support increased passenger and freight movements to and from New Zealand. Over the past year, the Ministry has made a significant contribution to this outcome by completing a review of New Zealand's international air transport policy that provides the framework within which air services agreements with our key trading partners and transport markets are negotiated and implemented. The review was undertaken in response to changes in international air transport arising from a number of recent shocks including regional financial crises, terrorism threats and fluctuating oil prices, as well as ongoing change in tourism markets.

A discussion document outlining proposals for a new international air transport policy was released in May 2012. The government agreed to the finalised policy statement in August 2012.

International air services

The Ministry also contributed to New Zealand's access to and choice of international air services by successfully negotiating new air services arrangements with Japan and China.

As a consequence, Japan removed a number of existing restrictions on the airline services of both countries. For New Zealand airlines, this means the removal of limits on operations to and through airports in Japan outside of the Tokyo region. The limits on operations to Tokyo's Narita airport will be removed in 2013. The agreement makes reciprocal rights available to Japanese airlines and understandings have been reached on possible future access to Tokyo's Haneda airport. The outcomes of this negotiation constituted a significant step forward in our air services relationship with Japan. The new arrangements will provide the airlines of both sides with greater flexibility to react to changing market conditions, and the opportunity to commence new services or additional frequencies.

The results of a successful negotiation of a new air services agreement with China saw a tripling of the capacity available to the airlines of both countries to 21 return services per week. The new arrangements support the rapidly growing market for travel between China and New Zealand, and are expected to provide sufficient capacity to meet the medium-term needs of New Zealand and Chinese airlines. Understanding was also reached on technical cooperation between the respective civil aviation authorities, an increase in the number of intermediate or beyond points (airports in third countries) available for own operation or code-sharing services, and more flexible tariff filing provisions.

Public Transport Operating Model

The Ministry worked to implement the agreement it had reached with stakeholders in 2010/11 on a new and innovative model for partnerships between regional authorities and private sector transport operators. The aim of the model is to grow patronage for public transport services while reducing reliance on public subsidy. The Ministry has worked with the NZ Transport Agency and Parliamentary Counsel Office to repeal the Public Transport Management Act and incorporate a major amendment into the Land Transport Management Act. The impact will be a more accessible public transport system that will contribute to the nation's social and economic welfare and economic productivity.

SAFER TRANSPORT SYSTEMS

Safer Journeys Action Plan

The Ministry implemented a range of actions arising from the first Safer Journeys Action Plan. In doing so, it has coordinated the actions of other agencies that have road safety responsibilities, that is ACC, NZ Police and the NZ Transport Agency. These actions will help to further lower the road toll (New Zealand's road toll in 2011 was the lowest since the 1950s) and reduce injuries, and in doing so reduce the costs to the economy generated by these personal tragedies. While the safety of all New Zealanders will be increased by these actions, young drivers will be particularly impacted by raising the minimum driving age and implementing the requirement for zero blood alcohol content for young drivers. Other completed actions that will increase road safety include the alcohol interlock programme and introducing tougher penalties for dangerous driving.

The Ministry has also been working to develop and evaluate options for a range of new proposals. These include lowering fines for speeding infringements while increasing demerit points, extending child restraint requirements and developing a national policy for the use of red light cameras after a pilot project in Auckland indicated this policy could have safety benefits.

The Ministry worked with its road safety partners to develop many other initiatives such as the Centre of Road Safety Intelligence and the development of a Safer Journeys Communications Strategy to embed the Safe System Approach.

BETTER PUBLIC SERVICES

The governance and monitoring of Crown agencies

The Ministry continued to deliver on the Minister's priorities with regard to Crown agencies by undertaking a range of actions that have contributed to value for money from improved decisions, better government services and reduced costs to the transport sector.

The Ministry advised the government on the appointment of several deputy chairs and board members for the transport Crown agencies.

The Ministry also continued to engage strategically with agency chief executives and boards, which led to better information flows and to agencies' better understanding of the government's priorities and the Minister's needs. These actions, coupled with the Ministry's continued involvement with agency work on value for money and the development of business models, has enhanced our understanding of the strategic direction and challenges for the agencies. In turn, this has informed our governance and accountability advice to Ministers.

The Ministry prepared Ministerial letters of expectations for the boards and advised on agencies' final draft Statements of Intent, which led to further improvements from the previous documents.

Work continued, with the Civil Aviation Authority and the Office of the Auditor-General, on initiatives for the Authority to complete recommendations arising from the latter's report on the Authority's progress with improving its certification and surveillance functions. Nine out of 13 recommendations have now been closed.

Civil Aviation Authority funding review

The Ministry worked with the Civil Aviation Authority as it developed its business case to ensure funding arrangements recover costs from those who benefit and for additional funding from civil aviation fees, charges, and levies. This funding will sustain a range of performance improvements that the Civil Aviation Authority achieved over 2011/12 and further enhance the entity's capability and services so that it is a durable and effective regulator and organisation.

Maritime NZ funding review

Working with stakeholders, the Ministry and Maritime NZ have together completed a draft discussion document for consultation. The goal of the review is to ensure Maritime NZ has in place robust and sustainable funding arrangements that balance the range of interests in the maritime community while supporting business operations within the maritime regulatory environment and Maritime NZ.

Rugby World Cup (RWC) 2011

During the RWC, the Ministry provided daily transport sector reports to the RWC 2011 office, attended daily whole-of-government operations group meetings and coordinated weekly transport agency RWC 2011 meetings. The Ministry also provided advice on the steps taken by Auckland Transport to bolster transport arrangements following capacity issues on the opening night of the tournament.

FURTHER INFORMATION ON THE MINISTRY'S WORK IN 2011/12

This is a sample of the wide and varied work of the Ministry in 2011/12. Further information on the work done is reflected in the section of the report on our non-financial performance, (from page 16).

About the Ministry

As a trading nation we rely on transport infrastructure and services to get our goods to our international markets, and to move goods around the country. The transport system is also an important enabler of economic growth and social connectivity within communities.

In addition, the transport sector is an important part of the New Zealand economy in its own right. The sector employs more than 83,000 people, and the transport and storage industry accounts for 5.2 percent of New Zealand's GDP.

Transport is different from many other sectors of the economy in that the government directly invests approximately \$3 billion in it each year. This is primarily in the land transport system.

The Ministry of Transport has a broad responsibility across the whole of the transport system and the regulatory framework that supports it. The Ministry is focused on developing a transport system that maximises the economic and social benefits to New Zealand and minimises harm. To do that the Ministry needs a good base knowledge of the transport sector. It also needs to understand the future drivers for transport and their implications for government policy and investment decisions. The transport Crown entities have regulatory and service delivery roles to meet their statutory responsibilities and the government's objectives for transport.

The Ministry's role is to advise on policy...

The Ministry is the government's principal adviser on transport policy. The vast majority of its work is providing advice to the Minister and Associate Minister of Transport to ensure that the transport system helps New Zealand to thrive. Our role is not dissimilar to that of a coach of a sporting team, sitting in the coach's box in the grandstand and being able to see the whole game being played in front of us. This allows us to influence the result of the game by:

- understanding the competitive environment in which transport takes place and how firms and local authorities will respond to different settings
- leading thinking on strategy for the success of the overall system
- facilitating conversations with all the players in transport on how we can join up their activities to improve the performance of the transport system
- advising on the choice of players in the transport sector – the structure of the transport Crown entities and their capabilities (including funding and governance).

And we undertake a number of other functions...

In addition to our core policy and Crown entity oversight roles, the Ministry also has responsibility for other functions.

These include:

- administering transport legislation, rules and regulations
- collecting vehicle licensing fees, road user charges and refunding fuel excise duty (contracted to the NZ Transport Agency)
- representing New Zealand at international fora
- licensing all international airlines operating to and from New Zealand
- operating the Milford Sound/Piopiotaahi Aerodrome
- overseeing the Crown's interest in joint venture airports
- administering a contract with the Meteorological Service of New Zealand Limited (MetService) to provide a public weather warning and forecast service.

But we need to work with others to achieve our outcomes...

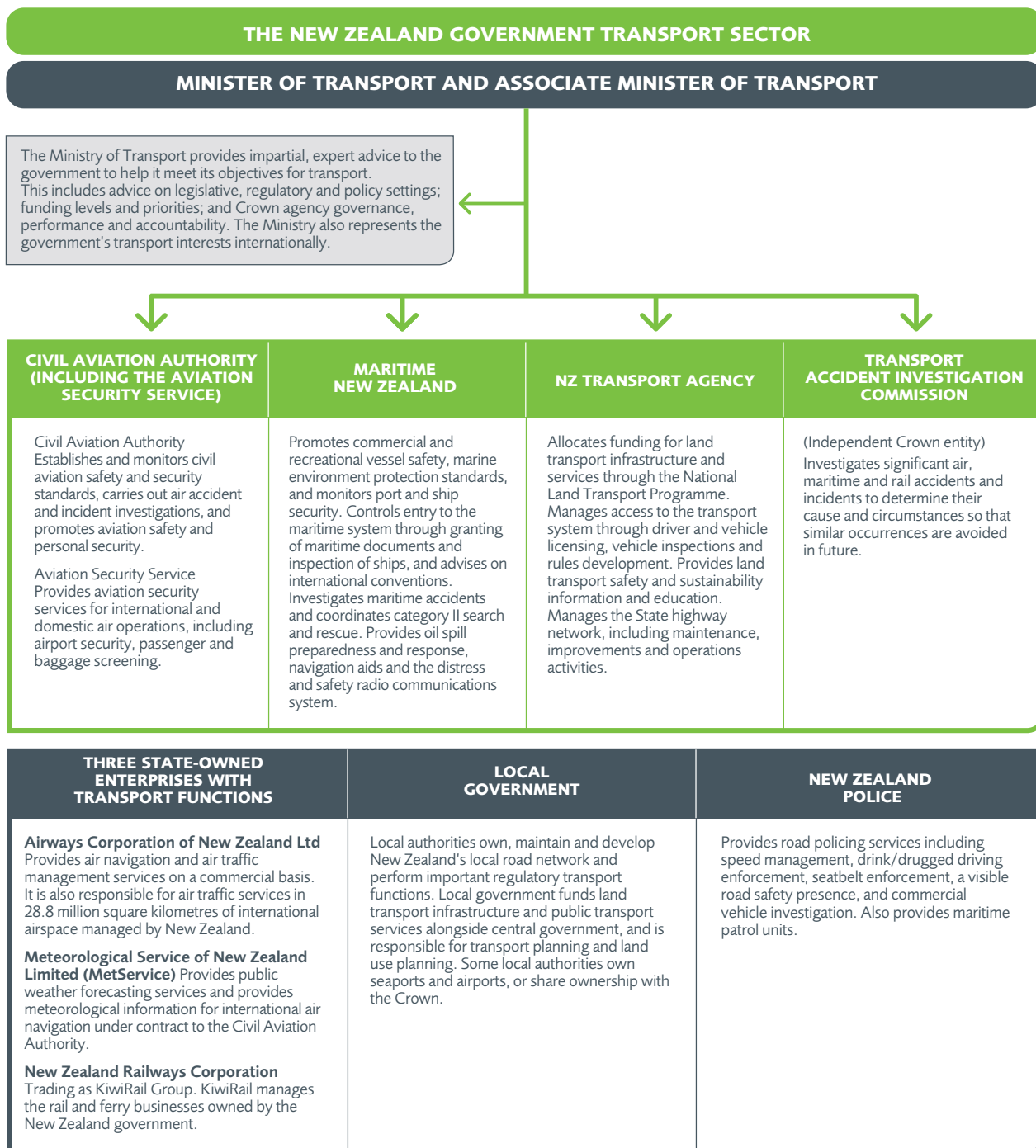
The Ministry has an important role in advising the government. However, we are only one of five organisations that make up the government transport sector, and one of many hundreds that make up the whole transport sector. As a policy agency, the Ministry is able to influence the policy and regulatory settings under which the transport system operates. But we need to work with other agencies, and need them to successfully undertake their own roles, for our outcomes to be achieved.

Key management personnel as at 30 June 2012

- Martin Matthews, Chief Executive
- Andrew Jackson, Deputy Chief Executive
- Mike James, General Manager Road and Rail
- Bruce Johnson, General Manager Aviation and Maritime
- Gareth Chaplin, General Manager Financial and Economic Performance
- Pam Madgwick, Chair Business Services Leadership Group

What we are part of

The New Zealand government transport sector includes the Minister and Associate Minister of Transport, the Ministry of Transport, four Crown entities and three State-owned enterprises. These entities and their functions are explained below.



THE MINISTRY'S CONTRIBUTIONS TO THE GOVERNMENT'S OUTCOMES FOR TRANSPORT

A key piece of work for the Ministry in early 2012 was the development of a new strategic framework to identify the outcomes that we are looking for the transport sector to achieve. The new framework (set out in our 2012-15 Statement of Intent) also identifies how the Ministry contributes to the wider sector outcomes, and how the Ministry delivers on current government priorities. This annual report is based on the 2011/12 framework (see diagram opposite). The new framework uses elements of the old, including some of the indicators, so it will be possible to track progress over time.

Reporting progress against the Ministry's impacts, output classes and the government's long-term outcomes

The Statement of objectives and service performance section (pages 16 to 35) provides detail on how the Ministry's projects and activities contributed to its impacts. The Ministry impacts section on pages 36 to 37 sets out the relationship between the Ministry's impacts and the long-term outcomes. The section on Measuring progress against the government's long-term outcomes (pages 38 to 40) provides detailed information on the progress made by the transport sector on the long-term outcomes.

LONG-TERM OUTCOMES FOR TRANSPORT

The long-term outcomes describe the 'future state' on which the Ministry focuses, and strongly align with the government's objectives for the transport system. The long-term outcomes are expected to be achieved over the next 20 or more years, as a consequence of the contributions made by the Ministry and a wide range of other stakeholders and transport system users. We can measure the progress the transport system is making towards those outcomes annually through our long-term indicators. Pages 38 to 40 provide detail on progress made against the long-term outcomes.

MINISTRY'S IMMEDIATE PRIORITIES

The Ministry's immediate priorities for 2011/12 set out the Ministry's key areas of focus for the year. The Ministry delivered on the immediate priorities through the work that it undertook under its various Output Classes.

MINISTRY OUTPUT CLASSES

The Ministry's projects and activities are the specific 'outputs' (work programmes) that make up our various Output Classes. The Ministry had a series of impacts for 2011/12 that it sought to deliver through its outputs. The Ministry's impacts describe how the Ministry's work will affect the transport system. They describe the intended results from the Ministry's work. The Ministry can achieve its intended impacts through its own efforts and is not dependent on other organisations undertaking particular actions. However, other organisations may also undertake work that contribute to the impacts.

GOVERNMENT'S OVERALL GOAL FOR TRANSPORT

An effective, efficient, safe, secure, accessible and resilient transport system that supports the growth of our country's economy in order to deliver greater prosperity, security and opportunities for all New Zealanders.



GOVERNMENT'S LONG-TERM OUTCOMES FOR TRANSPORT

A	B	C	D
An efficient transport system that supports high levels of economic productivity, provides strong international connections for freight, business and tourism, and meets international obligations.	A sustainable funding basis for transport infrastructure investments and use	A high quality transport system for Auckland, the nation's largest economic hub	An accessible and safe transport system that contributes positively to the nation's economic, social and environmental welfare.



MINISTRY'S IMMEDIATE PRIORITIES OVER THE NEXT 1-3 YEARS

Crown entity funding, capability and performance	Auckland Spatial Plan and transport-related issues	Regulatory reform programme	Christchurch recovery support	Government Policy Statement and the National Infrastructure Plan	Safer Journeys action plan and legislative change	Metro rail funding and institutional arrangements
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KEY MINISTRY OUTPUT CLASSES

Policy advice		Governance and performance advice for Crown agencies	
Policy advice and analysis on: <ul style="list-style-type: none"> regulatory frameworks revenue-raising and investment in transport public transport freight and logistics safety security 	Key performance measures Key initiatives contained in the annual work programme are completed or progressed as agreed with the Minister(s). Legislation development and issuing of drafting instructions as agreed with Minister(s). Policy advice will be delivered in accordance with Ministry's policy quality standards (based on Treasury's policy standard). Policy papers submitted to the annual survey of quality by NZIER receive an average score of at least 6.5 out of 10.	Advice and analysis on: <ul style="list-style-type: none"> governance agency capability and performance appointments section 101 re NZ Transport Agency 	Key performance measures Advice on Crown entity strategic issues and expectations is provided to the Minister(s). Regularity of Ministry strategic discussions with each Crown entity chair/board.

Other output classes were:

- Land transport revenue forecasting and strategy
- Road user charges collection, investigation and enforcement
- Fuel excise duty refund administration
- Milford Sound/Piopiotahe Aerodrome operation and administration
- Search and rescue activity coordination PLA

Organisational health and capability

ORGANISATIONAL HEALTH AND CAPABILITY

Leadership, governance and the shape of the Ministry

The Ministry's operation as a professional services Ministry has now embedded so that a flexible matrix way of working is becoming second nature. We are focussed on building our knowledge and expertise to deliver high quality advice and to adapt quickly to meet the demands of the day as well as planning for a sustainable future. By shifting resources to where they are most needed, we have delivered key pieces of work quickly and to the highest standard. And our people are getting opportunities to work on a variety of projects beyond those of their primary team.

This way of working along with the challenge of doing more with less led us in late 2011 to review the shape of our teams, including our leadership structure, for driving the organisation.

The establishment of a Deputy Chief Executive (DCE) position was a first step in strengthening organisational leadership. It was followed by a strengthening of the Financial and Economic Performance group with greater statistical and analytical capability, and the inclusion of the governance roles in this team. A new Strategic Direction and Performance team reporting to the DCE incorporates the Programme Management Office and the strategy and planning functions enabling better integration of these functions.

The establishment of a Business Services Leadership Group led by the Chief Information Officer has provided the framework for a fresh look at how we deliver joined-up, customer focused, cost effective business services.

A review of the shape of the policy teams saw a reduction in the number of principal advisers and an increase in advisers at levels 1 and 2. At the same time we refocused the principal adviser roles to provide a greater level of coaching and leadership of high quality advice. These changes were focussed on getting our cost structure right to ensure we deliver good value for money.

Two new leadership groups – the Policy Leadership Group and Business Services Leadership Group – support the Ministry Leadership Team freeing the latter to focus on the leadership and governance of the Ministry as a whole. These arrangements reflect the need for high levels of collaboration or 'partnership' between the Ministry's leaders to operate in our flexible, matrix structure.

Organisational capability

The environment in which we operate continues to challenge us to find ways to lift productivity, reduce costs and deliver more from the resources we have. Changing the shape of the Ministry, being clear about our role, enhancing our people capability, working smarter and collaboratively all contribute to enabling better public services.

In 2011/12 the Ministry continued its Shaping Our Future organisational capability programme and developed four flagship initiatives as a part of this. These were:

- creating a shared understanding of our role
- developing leadership capability
- improving policy capability, and
- managing our reputation

Creating a shared understanding of our role

Early in 2012 the Ministry adopted the Peak Performance programme and held workshops with staff and stakeholders to help us understand the Ministry's purpose and focus. The outcome was clarity about the Ministry's purpose and role, and a renewed focus to help the Ministry achieve its goals. Shared goals and a clear shared understanding of our role will enable us to work together more effectively at the organisational and sector level.

Developing leadership capability

Lifting our Leadership is a programme that provides an opportunity for managers to reflect on current work practices. Managers are provided with techniques to use resources more effectively and to use their judgment and experience to work through difficult situations. Lifting Our Leadership helps managers to identify what good policy advice and support looks like, and as a result to set clear expectations for staff.

Improving policy capability

While the Ministry's professional services approach exposes policy staff to a range of policy projects, the Ministry wants to ensure consistent, targeted development is also provided. As a result the Ministry has developed a Policy Adviser Development Programme in partnership with Victoria University. This will result in a recognised qualification for policy advisers providing a solid foundation as quickly as possible in a structured way. Five other government agencies have so far engaged with us on this and the first programme starts in October 2012.

Managing our reputation

The Ministry's reputation will only be as good as the views of its stakeholders and this is mostly shaped by the nature of the engagement we have with them and the quality of the work that we do. A clear understanding of roles is also key to good working partnerships. While the Ministry works with stakeholders to build an understanding of the Ministry role, responsibilities and relationships with government, we also seek to work better with other transport agencies and the wider transport sector, building an understanding of their interests.

Policy quality metrics

The key measure of policy quality for the Ministry is the New Zealand Institute of Economic Research (NZIER) policy quality review. They undertake similar reviews for a number of agencies and are able to provide comparative data. The Ministry most recently achieved an improved mean score of 7.3 for the quality of its advice papers, a result that compares well to other agency results, and is a significantly improved result for the Ministry.

Delivering high value business services

Business services review

As we looked at the shape of the Ministry, we also looked at how we deliver services internally to our own staff and have made some changes.

We established the Business Services Leadership Group in October 2011. The new business services model is about looking at our services and support to Ministry staff in a horizontal way across functional lines and seeing the linkages and making the most of these. This is making it easier to provide more effective induction, business system training, support for ministerial servicing and general support. We have also designed our business model to ensure the time of our specialists is spent in providing specialist services and advice, and is not pulled into lower level work which generalist staff can do.

We are now providing business services in a more integrated way, and with fewer staff.

Shared business services across the transport sector

The Ministry along with the NZ Transport Agency, Maritime NZ, the Civil Aviation Authority and the Transport Accident Investigation Commission established a joint initiative in February 2012 to develop a shared services programme. A Steering Group reporting to the joint Chief Executives has been set up and is developing a new way of working to deliver shared business services – whether systems, capability or processes – where it is sensible to do so.

A prioritised programme of work seeks to deliver the following goals:

- increased agility and responsiveness
- improved efficiency and delivery of maximum value for money
- improved organisational and sector knowledge
- enabling our people to work more effectively with customers and stakeholders

We already have some early achievements and are poised to develop business cases for some more substantive initiatives.

Business Services metrics

The Ministry is a voluntary participant in the Better Administrative and Support Services (BASS) review. As a small agency our benchmarked costs tend to be at the upper end for a number of services. However, offsetting that, we are showing good levels of performance across the quality measures.

The 2011/12 BASS exercise is yet to be undertaken and we are expecting our results to improve as we have undertaken a number of efficiency measures over the year.

Engagement of staff

Gallup 2012 engagement survey

The Ministry's key staff engagement measure is an annual Gallup survey. The goal of engagement is to create a stronger workplace.

We now have four years of data and are trending upwards at a steady pace.

Results for 2012 show that overall, staff engagement has increased although not significantly. Satisfaction with the Ministry as a place to work has had a meaningful improvement over last year.

The Ministry's score is at the 59th percentile of the New Zealand state sector Gallup grand mean, and at the 64th percentile of the world-wide public administration grand mean.

Our people profile

As we continue to deliver more for less our headcount has reduced to 146. In doing this, we have maintained a consistent level of policy staff but reduced the number of managers and administrative staff.

The Ministry's Gallup results 2009–2012

Year of survey	2012	2011	2010	2009
Grand mean score	3.86	3.83	3.76	3.74
Satisfaction score	3.47	3.33	3.50	3.66
% level of engagement	36%	33%	27%	23%

Key people metrics

As at 30 June	2011/12	2010/11	2009/10	2008/09
Number of employees				
Policy development	89	82	90	89
Management	21	22	24	30
Administration	36	56	59	60
Total headcount	146	160	173	179
Turnover	15%	18%	14%	16%
Gender				
Women	53%	58%	53%	50%
Men	47%	42%	47%	50%
Ethnicity Distribution				
NZ European	73%	67%	69%	69%
NZ Māori	1%	2%	2%	2%
Pacific Islander	3%	3%	3%	2%
Asian	6%	7%	5%	7%
Other European	14%	18%	18%	19%
Other ethnic groups	3	3%	3%	1%
Undeclared	0%	0%	0%	0%
Sick leave taken – average days for each employee	5	7	6	7
Age distribution (permanent staff)				
20 – 29	23%	19%	19%	23%
30 – 39	22%	21%	20%	23%
40 – 49	27%	33%	31%	27%
50 – 59	16%	15%	18%	16%
60+	12%	12%	12%	11%

Contracted services

Where the Ministry does not have the capacity or capability to undertake components of particular initiatives, it contracts in expertise. The Ministry applies standard public service procurement policies in doing this. The Ministry also uses

preferred supplier contracts and participates in the All of Government procurement frameworks as these are developed and current contractual arrangements expire or can be transferred.

EQUAL EMPLOYMENT OPPORTUNITIES

The Ministry is committed to inclusive work practices and culture. As a member of the New Zealand public service, the Ministry bases appointments on merit, while recognising the employment aspirations of Māori, ethnic and minority groups, women, and people with disabilities.

COST-EFFECTIVENESS

Cost-effectiveness is a measure of how well an organisation uses its inputs to achieve its desired outcomes. For policy agencies, such as the Ministry, demonstrating cost-effectiveness remains a challenge as it is difficult to establish the causal relationship between our outputs and progress towards our outcomes; outcomes are frequently impacted by the actions of numerous organisations and individuals. For example, to improve road safety outcomes the Ministry led legislative changes to increase the driving age from 15 to 16. But actual reductions in the road toll will arise through a number of actions by other parties, including education and enforcement of the new driving age.

The Ministry is constrained in its ability to affect transport outcomes in a number of ways. First, the Ministry is only one player in a very large transport system. The Ministry is responsible for approximately \$30 million of transport expenditure a year, out of total government transport expenditure of approximately \$3 billion a year. Secondly, while the Ministry has an important policy advice role, it does not have service delivery levers with which it can influence transport outcomes. Finally, the Ministry does not have complete control over the work it undertakes. The choices of the government of the day rightly have a significant influence on our annual work programme.

New approach to assessing Ministry effectiveness developed in 2012

For the Ministry, the question that we need to be able to answer is, 'Are we doing the best job that we can with the resources available to us?' In preparing our 2012-15 Statement of Intent, the Ministry developed a new approach to answering this question by focussing on its:

- input management
- quality management
- work programme management
- outcomes management

Input management

Staff time, along with their skills, experience and knowledge, is the Ministry's main resource. We need our staff to value their time and get the most from every hour. To support this approach, we apply project management disciplines to our policy projects. We establish project timeframes and identify milestones that we can manage projects against to ensure projects do not consume more resource than is needed. We are also trialling internal hourly rates to drive robust decisions about whose, and how much time, is allocated to certain projects. We are looking to develop new performance management measures for different aspects of our work to enable us to benchmark our performance and then lift our productivity.

Quality management

We manage the quality of our work through our quality of policy advice standards. Each year we have a sample of our policy advice papers independently audited by the NZIER. This audit not only provides us with an independent view on the quality of our advice and areas that we could focus on for improvement, it also enables us to see how the quality of our advice compares with other government agencies. In addition to the independent audit, we assess the quality of our advice using the following measures:

- 100 percent of regulatory impact statements are assessed as 'meets' or 'partially meets' the required standards
- 75 percent of policy advice briefings are accepted first time by the Minister (a new measure for 2012/13).

Work programme management

Our annual output plan is a statement of the results that the Minister wants from the Ministry. We manage the Ministry as a single resource to deliver on the whole output plan programme, and we record the actual percentage delivered in our annual reports.

Delivering on the individual projects in the output plan enables the Ministry to achieve its intended impacts and, through them, make our contribution to the intermediate and long-term outcomes. Our intervention logic sets out the links between our outputs, impacts, intermediate and long-term outcomes.

Outcomes management

The Ministry monitors the progress that the whole of the transport sector is making towards the identified outcomes. While our impacts contribute to this, it is not always clear whether the Ministry's contribution can be singled out from other factors and, even if it could, it is likely to be too costly to undertake. So we use our outcome indicators to focus on the overall progress being made, and use a range of mechanisms to identify opportunities for us to make further contributions where needed.

Key Ministry performance management measures

The key performance management measures that the Ministry established for 2012/13 are set out in the table below, along with our 2011/12 performance against those measures where data for 2011/12 is available (some of the measures are new and so data for 2011/12 is not always available).

Key Ministry performance management measures 2012/13	
Input management	2011/12 result
75 percent of policy projects managed within timeframes and allocated resources	Data not available for 2011/12, however, 90 percent of the overall work programme was delivered during the year
75 percent of policy project milestones delivered each quarter	Data not available for 2011/12, however, 90 percent of the overall work programme was delivered during the year
30 percent of staff time allocated to the Minister's priority projects	24 percent
Quality management	
New Zealand Institute of Economic Research's audit of policy advice papers assesses average score for papers as 7.5 or better	Mean score of 7.3 in 2012 (up from 6.9 in 2011).
100 percent of regulatory impact statements are assessed as 'meets' or 'partially meets' the required standards	100 percent (three met and three partially met)
75 percent of policy advice briefings are accepted first time by the Minister (a new measure for 2012/13)	Data not available for 2011/12
Work programme management	
95 percent or more of output plan delivered as agreed with the Minister	90 percent of output plan delivered as agreed with Minister
95 percent or more of Ministry impacts achieved through delivering underpinning projects	Data not available for 2011/12
Outcomes management	
Results of transport sector progress on intermediate and long-term outcomes published at least annually	Published annually in Ministry of Transport annual report.
Ministry reviews outcome indicators that show less progress is being made and considers whether further Ministry action is needed.	Scheduled for review in December 2012.

Statement of responsibility

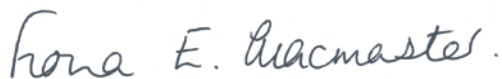
In terms of the Public Finance Act 1989, I am responsible, as Chief Executive of the Ministry of Transport, for the preparation of the Ministry of Transport's financial statements and statement of service performance, and the judgements made in them.

I have the responsibility of establishing and maintaining, and I have established and maintained, a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting.

In my opinion, these financial statements and statement of service performance fairly reflect the financial position of the Ministry as at 30 June 2012 and its operations for the year ended on that date.



Martin Matthews
Chief Executive



Fiona Macmaster
Manager Finance

28 September 2012

Statement of objectives and service performance

for the year ended 30 June 2012

OUTPUT CLASS: POLICY ADVICE

Through this output class, the Ministry provides policy advice on the transport modes and other ministerial support services. This output class is supported by five outputs: road, rail, aviation, maritime and multi-modal.

Actual 2010/11	Performance measures	Actual 2011/12	Standards/Targets 2011/12
98 percent	Key initiatives contained in the annual work programme are completed or progressed as agreed, or as subsequently amended by the agreement between the Minister and the Chief Executive.	Not achieved, 90 percent completed as agreed	Achieved as per the annual work programme
Achieved in accordance with re-negotiated time frames	Rules and regulations are developed as specified in the agreed annual rules programme.	Aviation: 2 of 4 rules signed Road: 4 of 4 rules signed Maritime: 4 of 6 rules signed	Priority work as detailed in the work programme
Not measured	Scope for redesigned rules development process agreed by 31 July 2011	Achieved	Achieved
Achieved	Legislation development and issuing of drafting instructions as agreed with the Minister(s) for the relevant calendar year.	Achieved	Achieved
70 percent	Percentage of policy papers submitted to the annual survey by NZ Institute of Economic Research that receive a score of 6.5 out of 10 or more.	Not achieved 83 percent	100 percent

While all of the Ministry's policy advice papers are subject to peer review and assessment against quality characteristics, the Ministry considers that this only provides part of the picture of quality. The Ministry utilises the NZ Institute of Economic Research to provide an external assessment and benchmark for the quality of our policy advice. The Ministry's assessment mean score in 2012 was 7.3, a significant improvement from the previous mean of 6.9.

The Ministry's annual work programme with the Minister is a 'living' document that is subject to change throughout the year in discussion with the Minister. Quarterly reports to the Minister identify new, deferred and cancelled projects. In addition, changes to milestones and time frames are agreed with the Minister through briefings and discussions on individual initiatives.

The Ministry's 2011–2014 Statement of Intent outlined its programme of key deliverables for the period covered by this annual report. The key deliverables were separated by mode and a desired impact was provided. It is acknowledged that some of those impacts are long term in their nature, and the Ministry expects to be demonstrating their success by 2014 as indicated in the 2011-2014 Statement of Intent. This annual report has, where possible, recorded the deliverables against each of the planned actions. A progress update has been provided for initiatives that span more than the single reporting year covered by this report.

Output: Road

Actual 2010/11	Performance measures	Actual 2011/12	Standards/Targets 2011/12
New	Support provided for the implementation of 2012–2015 Government Policy Statement on Land Transport Funding (GPS 2012)	Achieved	Achieved
New	Actions from Safer Journeys first action plan are implemented according to agreed timeframes	28 of 34 actions are complete, with the last actions being delivered by 31 December 2012.	Achieved
\$7,367,354	Cost This output is produced within the overall output class appropriation (GST exclusive)	\$8,873,496	\$8,213,000

The *Government Policy Statement on Land Transport Funding 2012/13–2021/22* was published in July 2011 and is for the period 2012–2015. The amended timeframe was as agreed with the Minister. The Ministry supported the implementation of the GPS 2012 through a range of work that included:

- preparing speeches, website and other support material
- advising the government on the required legislative changes to set fuel excise duty and road user charges rates as outlined in GPS 2012
- monitoring the development and management of the Road Maintenance Sector Taskforce that was proposed in GPS 2012
- working with the Treasury and the NZ Transport Agency on the detail of the short-term borrowing facility outlined in GPS 2012 and seeking government agreement to it
- working with the NZ Transport Agency as necessary to develop the National Land Transport Programme

2011/12 Planned actions	Deliverables
Develop and implement land transport safety initiatives.	<p>Deliverable</p> <p>Implementing the first Safer Journeys Action Plan 2011/12 and the legislative changes from the Land Transport (Road Safety and other Matters) Amendment Bill, the Driver Licensing Rule and the Road User Rule.</p> <p>Impact sought</p> <p>By reducing deaths and injuries on the roads, we will reduce social costs and deliver a more efficient, effective and safer transport system.</p> <p>Initiatives</p> <p>Safer Journeys Action Plan 2011/12:</p> <p>The Ministry completed 82 percent of the actions it was responsible for. The remaining actions are expected to be completed by December 2012.</p> <p>Ministry actions included: implementing the raising of the minimum driving age, introducing zero blood alcohol content for youth, the alcohol interlock programme and tougher penalties for dangerous driving.</p> <p>The Ministry also provided policy advice on new initiatives including: child restraints, red light cameras, 'R' plates for restricted licences, drug driving, compulsory third party insurance and vehicle power restrictions for novice car drivers.</p> <p>The Ministry worked with road safety partners to develop many other initiatives such as establishing the Centre of Road Safety Intelligence and developing a Safer Journey Communications Strategy that will embed the Safe System Approach.</p>

Review regulation and legislation to improve land transport outcomes while reducing compliance costs where possible for transport users

Deliverables

Identification of further options to simplify and streamline land transport rules and legislation.

A new Road User Charges Act and supporting regulations, agricultural vehicle reform, vehicle licensing reform, amendments to the Land Transport Management Act.

Impact sought

Land Transport regulations are simpler and more streamlined allowing transport outcomes to be delivered with minimal delay and reduced compliance costs.

Initiatives

A new system for road user charges

The Road User Charges Act 2012 was passed in February and new road user charges regulations came into force on 1 August 2012. The reformed regulatory framework will reduce compliance costs leading to greater efficiency in the freight sector and help grow the economy by making the road user charges system simpler and fairer (refer page 30 for more information).

Agricultural vehicle reform

The Ministry led a review team with NZ Police, NZ Transport Agency and the Department of Labour to develop options for simplifying and reforming the transport law relating to agricultural vehicles and better align it with the needs of the agricultural sector. Reforms will remove barriers to increased productivity and economic growth by reducing compliance costs without compromising safety. The main changes will amend the laws relating to work time, road user charges and vehicle inspection.

After feedback on a consultation document and workshops, the Ministry undertook further cost benefit analysis and a regulatory impact analysis that informed government decisions in August 2012.

Vehicle licensing reform

The Ministry developed options for reform of vehicle licensing that have the potential to save households and businesses time and money, and reduce the volume of infringements in the criminal justice system, while maintaining road safety. Change will impose some implementation costs on the government and could have financial impacts on businesses that do inspections. A discussion document is being developed that is expected to be released for public consultation in September 2012.

The project has been trialling a collaborative approach, jointly with NZ Transport Agency. It involves the Ministry working closely with other government departments such as ACC, the Ministry of Business, Innovation and Employment and the Ministry of Justice as well as early and ongoing engagement with key industry stakeholders.

Land Transport Management Act

The Ministry, in consultation with Local Government NZ, the Automobile Association, the Land Transport Forum and regional councils, developed a more effective, efficient decision making process for land transport expenditure decisions that will reduce compliance costs for the sector and advance economic growth. These changes are incorporated in the Land Transport Management Bill. The Bill, that was introduced to Parliament on 13 August 2012 also introduces legislation that simplifies the process of approving tolling and public private partnerships while maintaining robust approval processes and introduces changes to the public transport operating model (refer page 4).

Land transport rules

The Ministry worked with NZ Transport Agency to complete amendments to the following rules in 2011/12:

- Driver Licensing Amendment Rule 2011
- Road User Amendment Rule 2011
- Land Transport Omnibus Amendment Rule 2011
- Passenger Services Vehicle Amendment Rule 2012 (signed in July 2012)

<p>Align policy on investment, planning and management of roads with the government's desired outcomes</p>	<p>Deliverable Publication of the Government Policy Statement on Land Transport Funding 2012-2015 in mid 2011.</p> <p>Impact sought Increased efficiency of national and urban networks to enhance economic activity, meet affordability needs of communities and use funds more efficiently.</p> <p>Initiative <i>Government Policy Statement on Land Transport Funding 2012-15</i> The Government Policy Statement 2012 was approved by the government and published in July 2011. It sets outcomes and priorities for the investment of the National Land Transport Fund from 1 July 2012.</p> <p>Its publication will allow the transport decisions taken by the NZ Transport Agency and local authorities and other organisations to be aligned with the government's outcomes and priorities. The government investment in the National Land Transport Fund over the next 10 years will focus on projects supporting economic growth, value for money and road safety.</p>
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Output: Rail

Actual 2010/11	Performance measures	Actual 2011/12	Standards/Targets 2011/12
\$2,583,764	<p>Cost</p> <p>This output is produced within the overall output class appropriation (GST exclusive)</p>	\$417,741	\$495,000

2011/12 Planned Actions	Deliverables
Develop and implement operating models for metro rail services in Auckland and Wellington, and monitor rail infrastructure upgrades in Auckland and Wellington.	<p>Deliverables</p> <p>Contribute to operations and upgrades within the agreed operating model.</p> <p>Impact sought</p> <p>Streamlined ownership and operating arrangements that will improve efficiency and risk management of the significant public investment in urban passenger rail services.</p> <p>Improved services for communities.</p> <p>Initiative</p> <p><i>Development and implementation of operating model for Auckland and Wellington metro rail</i></p> <p>The Ministry completed its contribution to the upgrades for the Auckland and Wellington metro rail systems with Auckland Transport signing a purchase agreement for 57 three-car railway units from Spain in late 2011.</p>
Provide advice on the implementation of the KiwiRail Turnaround Plan and outcomes achieved in conjunction with Treasury.	<p>Deliverable</p> <p>Second opinion advice on KiwiRail Group performance and funding of the Turnaround Plan.</p> <p>Impact sought</p> <p>KiwiRail has the required resources to become commercially viable and contribute to growing the economy.</p> <p>Initiative</p> <p><i>Advice on implementation of the KiwiRail Turnaround Plan</i></p> <p>The Ministry provided input into the Treasury's advice with respect to the capital restructuring that led in turn to the May 2012 announcement of the government support for year three of the KiwiRail Turnaround Plan. This involved a \$250 million investment in 2012/13.</p>

Output: Aviation

Actual 2010/11	Performance measures	Actual 2011/12	Standards/Targets 2011/12
\$3,480,464	<p>Cost</p> <p>This output is produced within the overall output class appropriation (GST exclusive).</p>	\$3,258,914	\$3,113,000

2011/12 Planned actions	Deliverables
Ensure New Zealand's international aviation agreements are fit for purpose for a changing international aviation environment.	<p>Deliverable</p> <p>A revised international air transport policy is developed.</p> <p>Impact sought</p> <p>Improve competition and support increased passenger and freight movements to and from New Zealand.</p> <p>Initiative</p> <p><i>International air transport policy review</i></p> <p>A discussion document outlining proposals for a new international air transport policy was released in May. A policy statement was agreed by the government in August 2012 and will be released later in 2012.</p>
	<p>Deliverables</p> <p>New and enhanced air services arrangements with other key jurisdictions that increased international air traffic rights and lead to increased opportunities for airlines.</p> <p>Impact sought</p> <p>Improved access and choice and increased passenger and air freight movements to and from New Zealand.</p> <p>Initiatives</p> <p><i>Air services agreements</i></p> <p>The Ministry negotiated liberalisation of arrangements with Japan and China.</p> <p>The Ministry undertook exchanges of views with French Polynesia, Brazil and Colombia on new or enhanced arrangements.</p> <p>The Ministry also worked with the Ministry of Foreign Affairs and Trade to determine how best to progress air services relationships with Indonesia, Thailand, Vietnam and Argentina.</p>
Manage and monitor the Crown funding and interests in charging and capital expenditure initiatives at joint venture airports.	<p>Deliverable</p> <p>Ongoing management and review of Crown financial interests in joint venture airports.</p> <p>Impact sought</p> <p>By ensuring effective management of joint venture airports we will protect the Crown's financial interests and support regional economic activity.</p> <p>Initiative</p> <p><i>Monitoring the Crown interest in joint venture airports</i></p> <p>The Ministry provided comments on annual Financial Statements and Statements of Intent from joint venture airports.</p>

<p>Review regulation and legislation to improve aviation-focused transport outcomes, while reducing compliance costs where possible for transport users.</p>	<p>Deliverable</p> <p>Application of new rule development processes for the aviation rules programme.</p> <p>An aviation regulatory programme that meets government objectives for more effective and efficient regulation and enhance economic performance.</p> <p>Impact sought</p> <p>Simplified and streamlined legislative and regulatory framework for air transport that reduces compliance costs, increases effectiveness and meets government priorities.</p> <p>Initiatives</p> <p>Civil Aviation Rules:</p> <p>The Ministry worked with the Civil Aviation Authority to amend the following rules in 2011/12:</p> <ul style="list-style-type: none"> • Aviation Rule Part 115 Adventure Aviation • Aviation Rule Part 121 Training Requirements (signed in July 2012)
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In addition to the above deliverables that were outlined in the Ministry's 2011–2014 Statement of Intent, the following initiative was undertaken during the year.

National airspace policy released

The Ministry developed a National Airspace Policy Statement in collaboration with the Civil Aviation Authority and representatives of the aviation sector. The government formally issued the policy statement on 26 April 2012. The Policy is in response to technological changes that impact on how aircraft navigate between airports and how air traffic will be managed in the future. The policy provides guidance to the aviation sector on the future direction of airspace design and designation, and the principles that will be followed in decision-making on airspace matters.

Output: Maritime

Actual 2010/12	Performance measures	Actual 2011/12	Standards/Targets 2011/12
\$2,103,367	<p>Cost</p> <p>This output is produced within the overall output class appropriation (GST exclusive).</p>	\$4,412,258	\$4,197,000

Costs during the year were high due to the work required on the Clifford Bay project.

2011/12 Planned actions	Deliverables
<p>Ensure New Zealand's international maritime arrangements are fit for purpose for a changing international maritime environment.</p>	<p>Deliverable</p> <p>Amendment to Maritime Transport Act in line with international requirements.</p> <p>Updated maritime rules in line with international obligations.</p> <p>Maintenance of New Zealand's participation in existing international conventions and consideration of participation in new conventions.</p> <p>Impacts sought</p> <p>By complying with international standards, we will enhance the safety of maritime freight and passenger movements, which will assist in growing the economy and sustaining access to the international maritime system</p> <p>Initiatives</p> <p>Marine Protection Legislation Bill</p> <p>The Ministry advised the government on the policy issues for the Bill which will implement marine environment protection and liability conventions, and improve port and harbour safety control. Amendments to the Maritime Transport Amendment Bill are now to be implemented through the Marine Protection Legislation Bill. This omnibus Bill is expected to be introduced to the House in August 2012.</p> <p>Oil pollution levy</p> <p>The Ministry worked with Maritime NZ on options to increase the oil pollution levy. The levy is used to fund the Marine Pollution Response Service and is paid for by commercial coastal and foreign ships and offshore oil platforms.</p>
<p>Review regulations and legislation to improve maritime focused transport outcomes.</p>	<p>Deliverable</p> <p>Application of new rule development process for the maritime rules programme.</p> <p>A maritime rules programme that will meet government objectives for more effective and efficient regulation and that will enhance economic performance.</p> <p>Impact sought</p> <p>By simplifying and streamlining the legislative and regulatory framework for maritime transport, we will reduce compliance costs, increase effectiveness and meet government priorities.</p> <p>Initiatives</p> <p>The Ministry worked with Maritime NZ to amend the following Maritime and Marine Protection Rules in 2011/12:</p> <ul style="list-style-type: none"> • Maritime Rule Part 24B Carriage of Cargos • Maritime Rule Parts 31A & 32 Standards for Training Certification Watchkeeping Manila Amendments • Maritime Rule Part 40D Design of Fishing Vessels (signed in July 2012) • Maritime Rule Part 82 Jet Boat Operations (signed in July 2012)

In addition to the above deliverables that were outlined in the Ministry's 2011–2014 Statement of Intent, the Ministry undertook the following work:

Clifford Bay

Since September 2011, the Ministry of Transport has led a detailed evaluation and developed a full business case into the possible development of a ferry terminal at Clifford Bay. Developing a port at Clifford Bay has the potential to increase the efficiency of freight movement between the North and South Islands.

The work completed over 2011/12 followed an earlier report to the government which found that there was a financial and economic case for progressing Clifford Bay. The current evaluation has considered a possible ferry terminal at Clifford Bay from a national perspective and has undertaken a detailed engineering study of the proposed terminal. All key stakeholders have been involved in the evaluation.

Response to the *Rena* grounding

During the early stages of the *Rena* container ship grounding, the Ministry was heavily involved in supporting Maritime NZ. It provided specialist policy advice and legal, financial and communications support and regular updates to the Minister of Transport at the time. It also set up and led a cross-government *Rena* Coordination Group, including key government agencies and the Bay of Plenty Regional Council.

The Ministry is now contributing to the commercial negotiations with the owners and insurers of the *Rena*.

Output: Multi-modal

Actual 2010/11	Performance measures	Actual 2011/12	Standards/ Targets 2011/12
\$14,549,041	<p>Cost</p> <p>This output is produced within the overall output class appropriation (GST exclusive).</p>	\$11,578,154	\$13,070,000

Work was undertaken in 2011/12 to improve the Ministry's understanding of the key strategic issues for the transport sector and how governments can respond to these over time.

2011/12 Planned actions	Deliverables
Engage with Auckland Council and Auckland Transport on government policy and funding issues, to address Auckland transport and wider spatial issues.	<p>Deliverable</p> <p>Transport input to the Auckland Spatial Plan and engagement with Auckland Transport on funding and policy issues.</p> <p>Impact Sought</p> <p>Support for integrated decision making and long-term planning in line with government priorities and funding commitments for transport.</p> <p>Initiatives</p> <p><i>Auckland transport</i></p> <p>The Ministry contributed to the analysis of drafts of the new Auckland Spatial Plan. It also wrote the transport component of the central government submission on the Spatial Plan when it was put out for consultation.</p> <p>Together with the Treasury and NZ Transport Agency, the Ministry also coordinated central government input into, and assessment of, the responses to the Government Review of the 2011 Business Case on Centre City Rail Link by Auckland Council and Auckland Transport.</p> <p>The Ministry provided advice and monitored progress on a range of other projects including the South Western Multi-Modal Airport Study, Additional Waitemata Harbour Crossing and Harbour Bridge walk/cycle pathway.</p> <p><i>CBD Access Strategy (an outcome of the city centre rail link)</i></p> <p>The Ministry is coordinating government input and assessment (also provided by the Treasury and the NZ Transport Agency) on the Auckland Council and Auckland Transport responses to the actions listed in the government review of the 2011 Business Case on Centre City Rail Link. This is work in progress.</p>
Review use of regulatory interventions and their implementation.	<p>Deliverable</p> <p>Implementation of a streamlined process that improves efficiency of transport rule making.</p> <p>Impact Sought</p> <p>Improved processes for regulatory intervention that will result in simpler and more streamlined regulation, so that transport outcomes are delivered with minimal delay and reduced compliance costs.</p> <p>Initiatives</p> <p><i>Transport rules redesign project</i></p> <p>Two initiatives were developed and implemented by the Ministry that will assist transport agencies to achieve a more efficient rule development process.</p> <p>A new Regulatory Policy Statement was developed in 2011.</p> <p>To implement the policy statement, the 2012 edition of the Rules Development Handbook was drafted, consulted on, circulated to transport Crown entities and supported by workshops. An interactive internet version of the handbook is also being developed.</p>

<p>Develop transport policy and contribute to the all-of-government response to the Christchurch earthquake.</p>	<p>Deliverable Transport input to and support for Christchurch's recovery.</p> <p>Impact Sought Christchurch's transport system is up and running and contributing to growing the economy, as quickly as possible.</p> <p>Initiatives <i>Christchurch recovery support</i> Throughout the year, the Ministry has worked with Christchurch Earthquake Recovery Authority and NZ Transport Agency on funding issues relating to transport recovery and providing advice to government on funding issues. The Ministry commented on the transport aspects of the Recovery Strategy and the CBD Recovery Plan and was involved in the development of the Greater Christchurch Transport Statement.</p>
<p>Identify options to enhance the contribution of the freight sector to economic growth and productivity.</p>	<p>Deliverable Improved freight data and collection and understanding of the New Zealand freight supply chain. Regular reporting on freight-related data. Identify freight-related issues for policy development.</p> <p>Impact sought By understanding the freight supply chain we can contribute to better informed policy advice and sector decision-making, increase the effectiveness of the freight supply chain and contribute to growing the economy.</p> <p>Initiatives <i>Freight Information Gathering System (FIGS):</i> This system developed by the Ministry in 2010/11 has been fully implemented and clarification and consistency of data measurement methods have been achieved with all 10 ports that participate. Information provided by ports on freight volumes, export/import imbalances and traffic can now inform policy decisions. Quarterly reports are published on the Ministry website. The port and freight sectors find the information very useful and often enquire when the latest information will be available.</p>
<p>Work with NZ Transport Agency and local government to deliver better value for money from the National Land Transport Fund.</p>	<p>Deliverable Amendments to the Land Transport Management Act.</p> <p>Impact sought Deliver greater value for money in relation to public transport.</p> <p>Initiatives <i>Better value public transport services</i> The Ministry completed work on a policy for a new public transport operating model which is based on partnerships between regional authorities and private sector transport operators. The new model will grow patronage for public transport services while reducing reliance on public subsidy. The Ministry completed work on drafting Part 5 of the Land Transport Management Bill which will provide the legislative framework that will allow the new model to be implemented.</p>

In addition to the above deliverables that were outlined in the Ministry's 2011–2014 Statement of Intent, the following initiatives were undertaken during the year.

SuperGold card budget bid

The Ministry prepared a Budget bid that successfully increased the appropriation for SuperGold card transport concessions to ensure sustainability for 2012/13.

Connecting New Zealand

The Ministry finalised and published Connecting New Zealand in August 2011. Connecting New Zealand provided stakeholders with a summary of the government's policy direction for transport over the coming decade. It set out the government's long-term outcomes for transport and assisted stakeholders to better understand how the government wants the transport system to develop over time.

Briefing to the incoming Minister

The Ministry prepared a comprehensive briefing to the incoming Minister of Transport outlining the Ministry's assessment of the key transport challenges and opportunities. The briefing was not intended to set out policy recommendations but to set out issues that the Minister may wish to progress. The briefing has also been used within the Ministry to identify issues to be included in future work programmes.

New outcomes framework

The Ministry has developed a new framework to more clearly articulate the long-term objectives for the transport sector, how the Ministry contributes to those objectives, and how they relate to the priorities of the government of the day. This new framework has formed the basis of our 2012-15 Statement of Intent and will form the framework for next year's annual report. The new framework also includes additional indicators to demonstrate how the Ministry contributes to long-term objectives.

Ministerial servicing

Throughout the year, the Ministry addressed 658 ministerials for draft reply, 967 for direct action and responded to 90 Official Information Act requests to the Minister and 106 to the Ministry of Transport. The Ministry also prepared 62 Cabinet papers.

Output Class: Policy advice – financial performance

Actual 2010/11 \$000		Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
29,425	Revenue Crown	28,044	29,718	28,518
-	Revenue from fees	-	-	-
659	Other revenue	534	400	570
30,084	Total revenue	28,578	30,118	29,088
30,084	Total expenses	28,540	30,118	29,088
-	Net surplus	38	-	-

Commentary on performance

The Ministry reprioritised its activities during the year to assist Maritime NZ to manage its business as usual activity while also dealing with the Rena grounding. This explains the drop in funding during the year as \$1.25 million was transferred to Maritime NZ.

The Ministry's output plan was still largely delivered as agreed with the Minister.

OUTPUT CLASS: GOVERNANCE AND PERFORMANCE ADVICE FOR CROWN AGENCIES

This output involves assessing and advising on the transport Crown entities' ongoing capability and performance in contributing to the government's objectives, relevant government policy and each Crown entity's statutory mandate. It includes providing advice to transport Ministers and Crown entities on where improvements can be made. This output also supports the Minister in the selection, appointment and development of Crown entity and other transport agency boards.

Actual 2010/11	Performance measures	Actual 2011/12	Standards/Targets 2011/12
Delivered on 4 February 2011	Date by which advice on Crown entity strategic issues and expectations is provided to the Minister.	Advice provided in February 2012 and letter of expectations finalised in March 2012.	Delivered on 29 February 2012
Achieved	Regularity of Ministry strategic discussions with each Crown entity chair/board.	Twice yearly (August 2011 and February 2012)	Twice yearly
\$1,741,914	Cost This output is produced within appropriation (GST exclusive)	\$619,474	\$700,000

Operating intentions

<p>Facilitate effective governance, performance and capability of transport Crown agencies.</p>	<p>Deliverables</p> <p>Board appointments made as required.</p> <p>Funding and value for money initiatives for Maritime NZ, Civil Aviation Authority and NZ Transport Agency implemented.</p> <p>Impact sought</p> <p>By making Board appointments and working with transport Crown entities to deliver on the Minister's priorities, we will contribute to value for money from improved decisions, better government services and reduced costs for the transport sector.</p> <p>Initiatives</p> <p><i>Facilitate improved governance, accountability and performance in transport Crown agencies</i></p> <p>The Ministry advised the government on the appointment of several deputy chairs and board members of the transport Crown agencies.</p> <p>After the General Election, the Ministry facilitated early strategic discussions between Ministers and agency boards. The Ministry also continued to engage strategically with agency chief executives and boards, which led to better information flows and to agencies better understanding the government's priorities and the Minister's needs. This, coupled with continued involvement with agency work on value for money and business models, has enhanced the Ministry's understanding of the strategic direction and challenges for the agencies. In turn, this has informed our governance and accountability advice to Ministers.</p> <p>The Ministry prepared Ministerial letters of expectations for the boards and advised on agencies' final draft Statements of Intent, which led to further improvements from the previous documents.</p> <p>The Ministry continued to work with the Civil Aviation Authority and the Office of the Auditor-General on initiatives undertaken by the Authority to complete the recommendations arising from a report prepared by the Office of the Auditor-General on the Authority's progress with improving its certification and surveillance functions. Nine out of 13 recommendations have now been closed.</p>
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	<p>Maritime NZ funding review</p> <p>The Ministry and Maritime New Zealand continued to work on the Maritime NZ funding review. Preparation of the review was delayed by the Rena grounding. A consultation document has now been prepared and consultation is expected to take place later in 2012.</p> <p>Civil Aviation Authority funding review</p> <p>The Ministry advised the Minister of Transport on the Civil Aviation Authority's business case to complete and sustain its significant organisational change programme, and deliver further improvements over the 2012–15 period. This business case proposed both increases to civil aviation fees, charges and levies, and more equitable funding arrangements. Subsequently, the Ministry prepared a related Cabinet paper and regulatory impact statement.</p> <p>Review of land transport administration fees</p> <p>The Ministry supported the NZ Transport Agency with the review of a land transport administration fees project which was undertaken during the year. A new schedule of administration fees was agreed that removes the over-recovery of revenue (approximately \$8 million in 2011/12) and realigns fees with the costs they were intended to recover. Additionally, nine new fees were introduced to recover costs from users who directly receive a benefit from the service but did not previously pay for it.</p> <p>New administration fees relating to road user charges were introduced on 1 August 2012, and revised administration fees relating to the motor vehicle register will be introduced from 1 October 2012.</p>
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Output Class: Governance and performance advice for Crown agencies – financial performance

Actual 2010/11 \$000		Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
1,742	Revenue Crown	619	1,400	700
-	Revenue from fees	-	-	-
-	Other revenue	-	-	-
1,742	Total revenue	619	1,400	700
1,742	Total expenses	619	1,400	700
-	Net surplus	-	-	-

The Estimates budget was set based on 2010/11 expenditure. The activity undertaken in 2011/12 was different to that, and so the budget was reprioritised to other outputs.

OUTPUT CLASS: LAND TRANSPORT REVENUE FORECASTING AND STRATEGY

Through this output class, the Ministry provides land transport revenue forecasting and strategy advice.

Actual 2010/11	Performance measures	Actual 2011/12	Standards/Targets 2011/12
100%	Revenue forecasts are completed as required.	100%	100%
100%	Revenue system improvements developed and implemented as agreed, in accordance with agreed time frames.	100%	100%
100%	Fuel excise duty and road user charges levels adjusted as required, in accordance with agreed time frames.	100%	100%
\$1,488,241	Cost This output is produced within appropriation (GST exclusive)	\$1,593,436	\$1,600,000

Operating intentions

<p>Review regulation and legislation to improve transport outcomes, while streamlining and simplifying processes and reducing compliance costs for transport users.</p>	<p>Deliverable An amended Road User Charges Act to be passed and supporting regulations agreed to.</p> <p>Impact sought Simplified and streamlined planning and decision-making processes, along with reduced compliance costs.</p> <p>Initiative <i>A new system for road user charges</i></p> <p>The Road User Charges Act 2012 was passed in February and new road user charges regulations came into force on 1 August 2012. The reformed regulatory framework will reduce compliance costs leading to greater efficiency in the freight sector and help grow the economy by making the road user charges system simpler and fairer.</p> <p>The new system was the result of four years work that included wide consultation with key stakeholders.</p> <p>An updated cost allocation model underpins the new charges. This is intended to encourage transport operators to make efficient choices when transporting freight that is to use vehicles that balance direct operating costs and damage to roads.</p> <p>The Ministry is working with NZ Transport Agency to implement the new system. An evaluation framework has been developed to monitor effectiveness of the regulations and to inform any adjustments that may be necessary.</p> <p>To help meet funding requirements for the National Land Transport Fund, adjustments to the level of fuel excise duty and road user charges were also implemented on 1 August 2012.</p>
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Output Class: Land transport revenue forecasting and strategy – financial performance

Actual 2010/11 \$000		Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
565	Revenue Crown	593	-	600
1,000	Revenue from fees	1,000	1,000	1,000
-	Other revenue	-	-	-
1,565	Total revenue	1,593	1,000	1,600
1,488	Total expenses	1,593	1,000	1,600
77	Net surplus	-	-	-

This output class is funded from the administration fees paid on road user charges. Due to the work on the charges review, the Ministry has incurred costs higher than the \$1 million appropriation from fees but has met the increase by reprioritising other activities.

OUTPUT CLASS: ROAD USER CHARGES COLLECTION, INVESTIGATION AND ENFORCEMENT

Through this output class, the Secretary for Transport (Chief Executive) delegates to, and contracts with, the NZ Transport Agency to provide an administrative and accounting service for the collection and refund of road user charges, and the investigation and enforcement of road user charges evasion.

Actual 2010/11	Performance measures	Actual 2011/12	Standards/Targets 2011/12
New	Cost per road user charges transaction	Not achieved \$5.80	<\$5.70
\$17,344,000	Cost This output is produced within appropriation (GST exclusive).	\$16,329,000	\$18,829,000

Commentary on performance

The cost per road user charges transaction was slightly higher than the target. The cost, however, has been trending down due to higher volumes and channel shifts to online transactions.

The higher targeted charge was due to additional expenditure for the road user charges legislation.

Output Class: Road user charges collection, investigation and enforcement – financial performance

Actual 2010/11 \$000		Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
-	Revenue Crown	-	-	-
17,344	Revenue from fees	16,329	17,855	18,829
-	Other revenue	-	-	-
17,344	Total revenue	16,329	17,855	18,829
17,344	Total expenses	16,329	17,855	18,829
-	Net surplus	-	-	-

Permission has been received to carry forward the unspent funding to 2012/13, as some costs relating to the new system are still being worked through.

OUTPUT CLASS: FUEL EXCISE DUTY REFUND ADMINISTRATION

Through this output class, the Secretary for Transport (Chief Executive) delegates to, and contracts with, the NZ Transport Agency to provide an administrative and accounting service for the refund of fuel excise duty.

Actual 2010/11	Performance measures	Actual 2011/12	Standards/ Targets 2011/12
92.1%	Percentage of refund applications that are audited, processed and paid within 20 working days.	95.8%	85%
\$429,000	Cost This output is produced within appropriation (GST exclusive).	\$429,000	\$429,000

Output Class: Fuel excise duty refund administration – financial performance

Actual 2010/11 \$000		Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
-	Revenue Crown	-	-	-
429	Revenue from fees	429	429	429
-	Other revenue	-	-	-
429	Total revenue	429	429	429
429	Total expenses	429	429	429
-	Net surplus	-	-	-

OUTPUT CLASS: MILFORD SOUND/PIOPIOTAHU AERODROME OPERATION AND ADMINISTRATION

This output class covers the operation of the Milford Sound/Piopiotaui Aerodrome to provide a safe and efficient aerodrome operation.

Actual 2010/11	Performance measures	Actual 2011/12	Standards/Targets 2011/12
100%	The aerodrome operation will conform to appropriate Civil Aviation Authority safety requirements.	100%	100%
\$251,189	Operating costs not within third-party revenue (GST exclusive).	\$253,661	\$200,000

Commentary on performance

During the 2011/12 year, the Civil Aviation Authority advised that vegetation clearance was necessary to rectify intrusion into the lower buffer of runway approach slopes. The Ministry has employed a contractor to undertake this work.

Output Class: Milford Sound/Piopiotaui Aerodrome operation and administration – financial performance

Actual 2010/11 \$000		Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
-	Revenue Crown	-	-	-
-	Revenue from fees	-	-	-
174	Other revenue	216	200	223
174	Total revenue	216	200	223
251	Total expenses	254	200	223
(77)	Net deficit	(38)	-	-

The Ministry reviewed the adequacy of the landing fees against the 2011/12 budget and after consultation with the Queenstown Milford Users Group, an increase in charges was approved by the Minister of Transport with effect from 1 December 2011 to ensure that the revenue covered the operation and administration costs.

Costs at the airport have remained higher than usual, due to the ongoing contractual dispute over the runway resealing.

OUTPUT CLASS: SEARCH AND RESCUE ACTIVITY COORDINATION PLA

Through this output class, the Ministry houses the Secretariat function of the New Zealand Search and Rescue Council which administers the search and rescue sector in New Zealand.

Actual 2010/11	Performance measures	Actual 2011/12	Standards/Targets 2011/12
100%	Provision of: <ul style="list-style-type: none"> effective leadership and strategic coordination to the New Zealand search and rescue sector effective support services and policy advice to the satisfaction of the New Zealand Search and Rescue (NZSAR) Council.	100%	90%
100%	Develop and monitor Service Level Agreements with key providers in the SAR sector	100%	100%
100%	Maintain a comprehensive understanding of the location, scope, cost and effect of SAR activity within the New Zealand Search and Rescue Region and the size, nature and capabilities of the NZSAR sector.	100%	100%
100%	Deliver the national SAR support programme including: <ul style="list-style-type: none"> air observer training. SAR forums to enhance cooperation support of significant SAR exercises coordinate joint SAR training 	100%	100%
100%	Monitor, analyse and report on sector funding.	100%	100%
100%	Inform and support SAR preventative strategies, campaigns and actions.	100%	100%
\$1,134,544	Cost This output is produced within appropriation (GST exclusive).	\$1,113,497	\$1,136,000

The New Zealand Search and Rescue (NZSAR) Secretariat provides the NZSAR Council with support services, policy advice and the implementation of agreed measures in order to give effective leadership and strategic coordination to the New Zealand search and rescue sector. The Secretariat also implements the national search and rescue (SAR) support programme.

Approved and monitored by the NZSAR Council, the programme provides an array of high value activities in support of SAR organisations throughout New Zealand which contribute directly towards NZSAR Council goals of: enhancing the effectiveness and efficiency of New Zealand's SAR sector; achieving a culture of 'one SAR Body'; promoting continuous improvement; maximising the potential of SAR people and supporting SAR preventative strategies.

Output Class: Search and rescue activity coordination PLA – financial performance

Actual 2010/11 \$000		Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
1,134	Revenue Crown	1,113	1,136	1,136
-	Revenue from fees	-	-	-
-	Other revenue	-	-	-
1,134	Total revenue	1,113	1,136	1,136
1,134	Total expenses	1,113	1,136	1,136
-	Net surplus	-	-	-

MINISTRY IMPACTS

The table below summarises the relationship between the intended impact of Ministry actions as listed in the 2011–2014 Statement of Intent and the government's long-term outcomes for transport.

IMPACT OF MINISTRY ACTIONS	GOVERNMENT'S LONG-TERM TRANSPORT OUTCOMES			
	A An efficient transport system that supports high levels of economic productivity, strong international connections and meets international obligations.	B Sustainable funding basis for transport infrastructure investments and use	C A high quality transport system for Auckland	D An accessible and safe transport system that contributes positively to the nation's economic, social and environmental welfare.
Making board appointments and working with transport Crown entities contributes to better value for money from improved decisions, better government services and reduced costs for the transport sector.	✓			
Engaging with Auckland Council and Auckland Transport supports decision making and long-term planning in line with government policy and funding issues.	✓		✓	
Simpler, more streamlined regulatory interventions deliver transport outcomes with minimal delay and compliance costs.	✓			✓
Policy advice and support ensures Christchurch's transport system is able to support its recovery and its contribution to the economy.	✓	✓		✓
Better understanding of the freight system contributes to better informed policy and sector decisions, increasing the effectiveness of the freight supply chain in growing the economy.	✓	✓		
Revised funding and procurement policies in public transport, walking and cycling, as well as regulations and legislation applying to public transport, delivers greater value for money.	✓	✓	✓	
Developing policies on the planning, management and funding of the network identifies settings which allow effective targeting of road investment and, in the long term, ensures increased efficiency of national and urban road networks.	✓	✓		✓
Policy advice on a range of safety focused measures reduces death and injuries on the roads, reduces social costs and delivers a more efficient effective and safer transport system.	✓			✓
Land transport legislative and regulatory framework is simplified and streamlined resulting in improved planning and decision making processes, reduced compliance costs and increased effectiveness in meeting government priorities.	✓	✓	✓	✓

IMPACT OF MINISTRY ACTIONS	GOVERNMENT'S LONG-TERM TRANSPORT OUTCOMES			
	A An efficient transport system that supports high levels of economic productivity, strong international connections and meets international obligations.	B Sustainable funding basis for transport infrastructure investments and use	C A high quality transport system for Auckland	D An accessible and safe transport system that contributes positively to the nation's economic, social and environmental welfare.
Policy advice on the implementation of streamlined ownership and operating arrangements for metro rail contributes to reliable and financially sustainable passenger rail services in Auckland and Wellington.	✓		✓	✓
KiwiRail is assisted in developing a strong business case to ensure it has the required resources to become commercially viable and contribute to growing the economy.		✓		
Increased international air traffic rights and improved access and choice improve competition and support increased passenger and freight movements to and from New Zealand.	✓			
Effective monitoring of joint venture airports protects the Crown's financial interest and supports regional economic activity.	✓			
Compliance with international standards enhances the safety and security of air travel and freight movements and ensures sustained access to the international aviation system.	✓			✓
Simplification and streamlining of the legislative and regulatory framework for air transport reduces compliance costs, increases effectiveness and meets government priorities.	✓			
Compliance with international standards enhances the safety and security of maritime freight movements and ensures sustained access to the international aviation system.	✓			✓
Simplification and streamlining the legislative and regulatory framework for maritime transport reduces compliance costs, increases effectiveness and meets government priorities.	✓			

MEASURING PROGRESS AGAINST THE GOVERNMENT'S LONG-TERM OUTCOMES

This section provides information on the transport sector's progress against the government's four long-term outcomes for transport using a series of headline indicators.

Long-term outcome A – an efficient transport system that supports high levels of economic productivity, provides strong international connections for freight, business and tourism, and meets international obligations.

Ministry actions over 2011/12 that contribute to this outcome include:

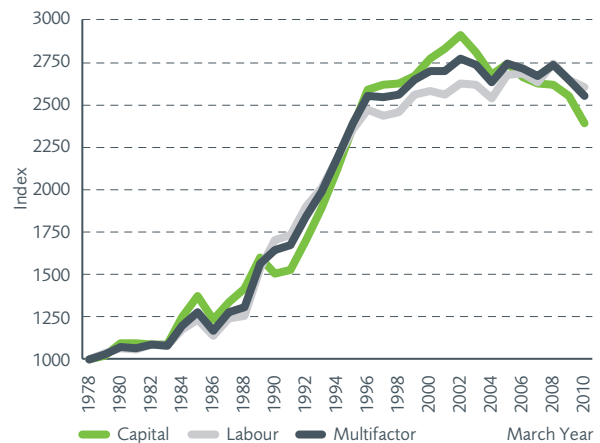
- releasing the Government Policy Statement on Land Transport Funding 2012
- providing advice on proposed Clifford Bay ferry terminal
- developing and implementing the Freight Information Gathering System
- reviewing international air transport policy
- increasing access to and the choices of international air services
- providing advice on Wellington and Auckland metro rail funding
- developing the legislation required to implement the new operating model for public transport operators and councils

Headline indicator 1: Increasing productivity in the transport and storage sectors, measured in labour, capital and multifactor¹ terms.

Figure 1 shows the rapid growth in productivity in the transport and storage sector after 1983 that coincided with government actions that included major regulatory reform and investment in transport infrastructure. The impact of these changes began to level off by the late 1990s.

The graph shows that productivity has fallen since 2008. Transport productivity can be significantly influenced by events and trends outside government control, which since 2008 have included the economic downturn, increasing fuel prices and the impact of the exchange rate on trade. The Ministry is only one of many institutions, both public and private, whose actions might impact on these trends.

Figure 1 — Transport and storage productivity indexes

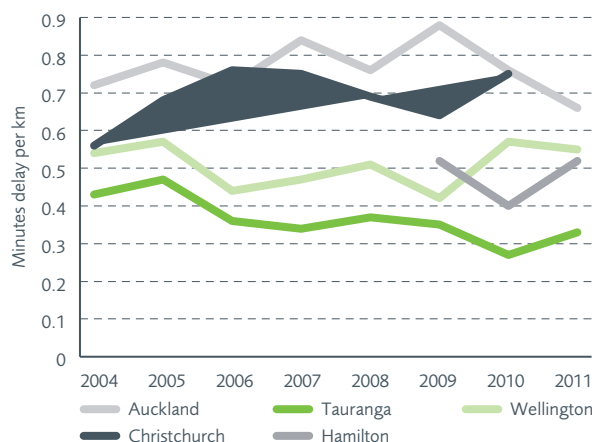


Source: Statistics New Zealand

Headline indicator 2: Decreasing network congestion in the five largest metropolitan areas.

Figure 2 shows significant changes in network congestion in the five largest metropolitan areas for the morning (A.M.) peak period. The most notable change is as anticipated, the impact on congestion in Auckland of the completion of key roading projects. Auckland congestion levels will continue to decrease over the next few years as more projects are completed. Congestion levels continue to fluctuate in Tauranga, Wellington, Christchurch and Hamilton, but these will also be impacted by investment in infrastructure.

Figure 2 — A.M. peak congestion



¹ Multifactor productivity measures the productivity of a combination of labour and capital inputs used in the production process.

Long-term outcome B – a sustainable funding basis for transport infrastructure investment and use.

Efficient funding is vital to the effectiveness of New Zealand's transport system, and needs to align with the realities of how people travel and how goods are transported.

Ministry actions over 2011/12 that contribute to this outcome include:

- reviewing and amending road user charges legislation and regulations
- adjustments made to the level of fuel excise duty and road user charges

Headline indicator 1: Growth in revenue (in real terms) remaining stable in relation to growth in traffic volume.

Figures 3 and 4 below show the revenue levels from fuel excise duty, light road user charges and heavy road user charges (charge rate adjusted), compared to vehicle kilometres travelled. The growth in the level of light-vehicle revenue was broadly in line with the growth in light-vehicle travel.

Once the effect of increases in heavy-vehicle road user charges rates is accounted for, there is steady growth in heavy-vehicle road user charges revenue, consistent with the steady upward trend in heavy vehicle tonne per kilometre. The gap between these has been widening in past years. This may be a result of more weight being carried per heavy vehicle on the roads, resulting in greater tonnes-km carried, but lower revenue increases.

Figure 3 — Growth in fuel excise duty and light road user charges revenue (charge rate adjusted) relative to growth in traffic volume

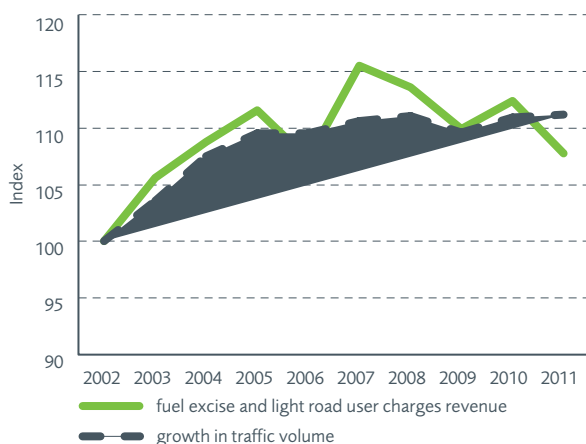
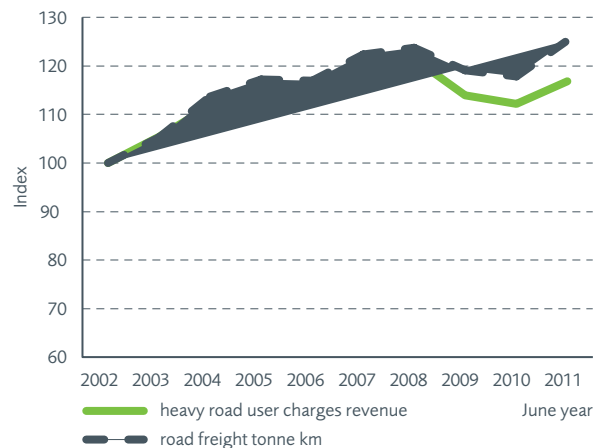


Figure 4 — Growth in heavy road user charges revenue (charge rate adjusted) relative to growth in traffic volume



Long-term outcome C – a high-quality transport system for Auckland, the nation's largest economic hub

Auckland is the 'gateway' to New Zealand for most visitors and for a significant proportion of international freight. It is vital for New Zealand's economic growth potential that Auckland's road congestion is managed effectively, and wise decisions are made about transport infrastructure and services.

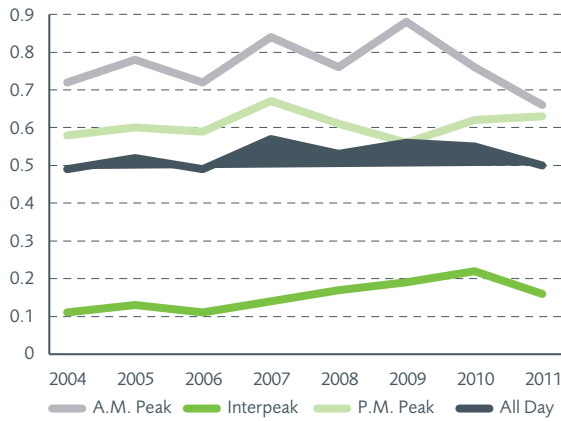
Ministry actions over 2011/12 that contribute to this outcome include:

- providing advice on Auckland metro rail infrastructure funding
- developing a new operating model for public transport operators and councils
- engaging with Auckland Council and Auckland Transport in the development of a high quality transport system

Headline indicator 1: Stable or decreasing congestion in Auckland, measured by delay in minutes per kilometre travelled.

Even though not yet completed, the investments in transport infrastructure and services have had the effect of significantly lowering congestion levels in the A.M. peak period and to a lesser extent in the interpeak period. The trend of increasing congestion in the P.M. peak has also begun to reverse.

Figure 5 — Auckland congestion



Long-term outcome D – an accessible and safe transport system that contributes positively to the nation's economic, social and environmental welfare.

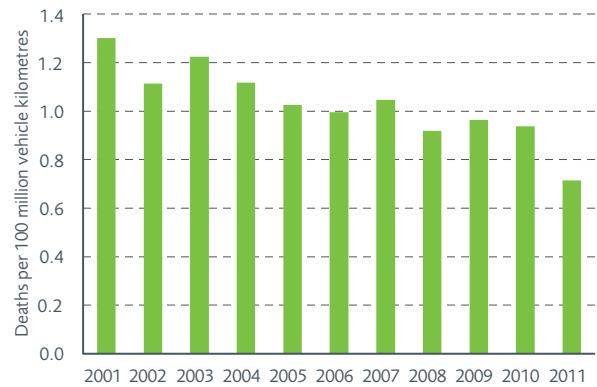
Accessible and safe transport systems are fundamental to improving the quality of life for New Zealanders. People have greater mobility than in the past, are travelling further on New Zealand's roads, using public transport in higher volumes (a 30 percent increase during the last decade), and travelling by air more often. The Ministry provides policy advice on legislative and regulatory change to improve the safety of our roads and reduce the road toll. The headline indicator is also influenced by the work of the NZTA, local authorities, the Police and ACC.

Ministry actions over 2011/12 that contribute to this outcome include implementing actions arising from the first Safer Journeys Action Plan.

Headline indicator 1: Reducing the number of deaths on roads per 100 million vehicle kilometres travelled.

Figure 6 shows a reduction in road deaths over the last 11 years. The road toll dropped to a record low level in 2011 (284 deaths compared with 375 the year before) and was low for all four quarters of the year. There have been pronounced drops for a single quarter before, but they did not endure for an entire year. It is likely that economic factors, fuel prices, legislation, safety improvements and road policing have all been influences on the toll. Road safety has also had a high profile in recent times. Public debate around various road safety initiatives has resulted in heightened media interest, and the potential of increased public awareness of road safety.

Figure 6 — Deaths per 100 million kilometres of travel



Headline indicator 2: Decreasing amounts of carbon dioxide emitted from domestic transport per kilometre travelled.

Figure 7 shows that the level of carbon dioxide emitted from domestic transport per kilometre travelled has increased slightly from 300 to 313 grams over the last 10 years. Data for 2011 is not yet available. The Ministry will publish this data on its website when it is available late in 2012.

Figure 7 — Grams of carbon dioxide emissions (CO₂-e) per kilometre of road travel



Financial Performance

Statement of comprehensive income

for the year ended 30 June 2012

Actual 2010/11 \$000		Notes	Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
	Income				
32,865	Revenue Crown	2	30,371	32,254	30,954
18,773	Revenue from fees	3	17,758	19,284	20,258
834	Other revenue	4	750	600	793
52,472	Total operating income		48,879	52,138	52,005
	Expenditure				
21,168	Contractual payments to Crown entities	5	19,849	21,375	22,349
18,211	Personnel expenses	6	17,465	17,829	18,035
12,002	Other operating expenses	7	10,447	11,762	10,614
234	Capital charge	8	249	250	250
504	Depreciation of property, plant and equipment	11	500	522	504
332	Amortisation of intangible assets	12	302	400	253
21	Finance cost	15	67	-	-
52,472	Total expenditure		48,879	52,138	52,005
-	Net surplus/(deficit)		-	-	-
-	Gain on revaluation of Milford Aerodrome	11	-	-	-
-	Total comprehensive income		-	-	-

Explanations of significant variances against budget are detailed in note 22.

Statement of movements in equity

for the year ended 30 June 2012

Actual 2010/11 \$000		Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
3,116	Balance at 1 July	3,116	3,116	3,116
-	Total comprehensive income	-	-	-
-	Capital withdrawal	-	-	-
3,116	Balance at 30 June	3,116	3,116	3,116

Statement of financial position

as at 30 June 2012

Actual 2010/11 \$000		Notes	Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
	Equity				
2,355	Taxpayers funds		2,355	2,355	2,355
761	Revaluation reserve – aerodrome		761	761	761
3,116	Total equity	9	3,116	3,116	3,116
	<i>Represented by:</i>				
	Current assets				
3,117	Cash and cash equivalents		4,227	2,456	3,661
2,289	Debtors, prepayments and other receivables	10	2,742	1,953	788
5,406	Total current assets		6,969	4,409	4,449
	Non-current assets				
3,236	Property, plant and equipment	11	2,872	3,151	2,875
555	Intangible assets	12	382	563	523
62	Work in progress		-	-	-
3,853	Total non-current assets		3,254	3,714	3,398
9,259	Total assets		10,223	8,123	7,847
	Current liabilities				
3,347	Creditors and other payables	13	3,999	2,585	2,183
1,518	Employee entitlements	14	1,498	1,139	1,211
4,865	Total current liabilities		5,497	3,724	3,394
	Non-current liabilities				
685	Employee entitlements	14	950	711	724
593	Provision for lease make-good	15	660	572	613
1,278	Total non-current liabilities		1,610	1,283	1,337
6,143	Total liabilities		7,107	5,007	4,731
3,116	Net assets		3,116	3,116	3,116

Statement of cash flows

for the year ended 30 June 2012

Actual 2010/11 \$000		Notes	Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
	Cash flows from operating activities				
33,133	Crown		30,371	33,194	34,368
19,610	Fees		17,201	18,344	18,344
392	Departments		413	400	408
194	Crown entities		103	-	136
338	Other		309	200	249
(17,986)	Personnel costs		(17,238)	(17,740)	(17,946)
(12,995)	Operating expenses		(9,478)	(11,762)	(12,024)
(20,740)	Contractual payments to Crown entities		(19,849)	(21,464)	(22,438)
(76)	Net GST paid		(264)	-	-
(234)	Capital charge		(249)	(250)	(250)
1,636	Net cash flows from operating activities	16	1,319	922	847
	Cash flows from investing activities				
(353)	Purchase of property, plant and equipment		(142)	(470)	(144)
(321)	Purchase of intangible assets		(67)	(280)	(159)
(674)	Net cash flows from investing activities		(209)	(750)	(303)
	Cash flows from financing activities				
-	Capital withdrawal by the Crown	9	-	-	-
-	Net cash flows from financing activities		-	-	-
962	Net increase in cash held		1,110	172	544
2,155	Cash at 1 July		3,117	2,284	3,117
3,117	Total cash at 30 June		4,227	2,456	3,661

The net GST paid component of operating activities reflects the net GST paid to and received from the Inland Revenue Department. This component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes and to be consistent with the presentation basis of the other primary financial statements.

Statement of commitments

as at 30 June 2012

Non-cancellable operating lease commitments

The Ministry leases property in the normal course of business. The majority of these leases are for premises, which have non-cancellable leasing periods ranging from 1 to 6 years. The Ministry also outsources its IT support.

Actual 2010/11 \$000		Actual 2011/12 \$000
	Non-cancellable operating lease commitments	
2,124	Not later than 1 year	2,366
6,308	Later than 1 year and not later than 5 years	6,608
2,384	Later than 5 years	954
10,816	Total non-cancellable lease commitments	9,928

The Ministry's non-cancellable operating leases have varying terms, escalation clauses and renewal rights. There are no restrictions placed on the Ministry by any of its leasing arrangements. Some accommodation leases are cancellable, subject to penalty. The amount disclosed is based on the current rental rates. Total operating lease cost is expensed on a straight-line basis over the life of the lease.

The reduction in commitments is mainly due to the property leases being one year closer to expiry. However, the Ministry has also renewed its contract with its supplier of IT support services for two years, expiring in January 2014.

Capital commitments

There were no capital commitments as at 30 June 2012 (2011: \$nil).

Statement of contingent liabilities and contingent assets

as at 30 June 2012

Quantifiable contingent liabilities

Actual 2010/11 \$000		Actual 2011/12 \$000
161	Contractual dispute and related claims	-
161	Total quantifiable contingent liabilities	-

Contractual dispute and related claims

The Ministry is involved in a dispute regarding performance of a contract. There are also two claims for damages from affected third parties. The Ministry assesses the likelihood of these contingencies eventuating as low and so is disclosing the contingent liability as zero.

Contingent assets

The Ministry has no contingent assets (2011: \$nil).

Statement of departmental expenses and capital expenditure against appropriations

for the year ended 30 June 2012

Actual Expenditure 2010/11 \$000		Actual Expenditure 2011/12 \$000	Supplementary Estimates 2011/12 \$000	Section 26A Transfer 2011/12 \$000	Voted Appropriation 2011/12 \$000
	Vote Transport				
	Appropriations for output expenses				
30,084	Policy advice	28,542	29,088	-	29,088
17,344	Road user charges collection, investigation and enforcement	16,329	18,829	-	18,829
1,742	Governance and performance advice for Crown agencies	619	750	(50)	700
1,488	Land transport revenue forecasting and strategy	1,593	1,550	50	1,600
1,134	Search and rescue activity coordination PLA	1,113	1,136	-	1,136
429	Fuel excise duty refund administration	429	429	-	429
251	Milford Sound/Piopiotaahi Aerodrome operation and administration	254	223	-	223
52,472	Total appropriation for output expenses	48,879	52,005	-	52,005
	Appropriation for capital expenditure				
674	Ministry of Transport — Capital expenditure PLA	209	303	-	303

The Voted Appropriation column includes all adjustments made in the 2011/12 Supplementary Estimates and a transfer approved under Section 26A of the Public Finance Act 1989.

In respect of the appropriation Land Transport Revenue Forecasting and Strategy, a Section 26A approval was obtained for the transfer of \$50,000 from the appropriation Governance and Performance Advice for Crown Agencies under Order in Council. This was done to allow activity to remain within budget due to the importance of the work being undertaken and pending deadlines.

Statement of departmental unappropriated expenditure against appropriations

for the year ended 30 June 2012

Unappropriated Expenditure 2010/11 \$000		Actual Expenditure 2011/12 \$000	Voted Appropriation 2011/12 \$000	Unappropriated Expenditure 2011/12 \$000
	Vote Transport			
	Appropriations for output expenses			
-	Policy advice	28,542	29,088	-
-	Road user charges collection, investigation and enforcement	16,329	18,829	-
-	Land transport revenue forecasting and strategy	1,593	1,600	-
-	Governance and performance advice for Crown agencies	619	700	-
-	Search and rescue activity coordination PLA	1,113	1,136	-
-	Fuel excise duty refund administration	429	429	-
-	Milford Sound/Piopiotahi Aerodrome operation and administration	254	223	31
-		48,879	52,005	31

Expenses and capital expenditure incurred in excess of appropriation

In respect of the departmental output class Milford Sound/Piopiotahi Aerodrome operation and administration, the appropriation was exceeded by \$31,000 due to additional costs incurred in relation to a contractual dispute. A certificate under Section 26C has been approved by the Minister of Transport for inclusion in the Report on Unappropriated Expenses and Capital Expenditure for tabling in the House of Representatives.

Expenses and capital expenditure incurred without appropriation or other authority, or outside scope of appropriation

Nil.

Breaches of projected departmental net asset schedules

Nil.

No unappropriated expenditure or breaches of net asset schedules occurred in 2010/11.

Notes to financial statements

for year ended 30 June 2012

NOTE 1: STATEMENT OF ACCOUNTING POLICIES

Reporting entity

The Ministry of Transport is a government department as defined by section 2 of the Public Finance Act 1989 and is domiciled in New Zealand.

In addition, the Ministry has reported the Crown activities which it administers.

The primary objective of the Ministry is to provide services to the public rather than making a financial return. Accordingly, the Ministry has designated itself as a public benefit entity for the purpose of the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements of the Ministry are for the year ended 30 June 2012. The financial statements were authorised for issue by the Chief Executive of the Ministry on 28 September 2012.

The information in these financial statements comprises the revenue, expenditure, assets and liabilities associated with the Ministry operating its Wellington, Auckland and Christchurch offices and the Milford Sound/ Piopiotahi Aerodrome for the year.

Basis of preparation

Statement of compliance

The financial statements of the Ministry have been prepared in accordance with the requirements of the Public Finance Act 1989, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP) and Treasury Instructions.

These financial statements have been prepared in accordance with NZ GAAP as appropriate for public benefit entities, and comply with NZ IFRS.

Measurement base

The financial statements have been prepared on a historical cost basis, modified by the revaluation of certain assets.

Functional and presentation currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency of the Ministry is the New Zealand dollar.

Changes in accounting policies

There have been no changes in accounting policies during the financial year.

The Ministry has adopted the following revisions to accounting standards during the financial year. These have had only a presentational or disclosure effect:

- Amendments to NZ IAS 1 Presentation of Financial Statements. The amendments introduce a requirement to present, either in the statement of changes in equity or the notes, for each component of equity, an analysis of other comprehensive income by item. The Ministry has decided to present this analysis in note 9
- FRS-44 New Zealand Additional Disclosures and Amendments to NZ IFRS to harmonise with IFRS and Australian Accounting Standards (Harmonisation Amendments). The purpose of the new standard and amendments is to harmonise Australian and New Zealand accounting standards with source IFRS and to eliminate many of the differences between the accounting standards in each jurisdiction. The main effect of the amendments to the Ministry is that certain information about property valuations is no longer required to be disclosed. Note 11 has been updated for these changes
- Amendments to NZ IFRS 7 Financial Instruments: Disclosures. The amendment reduces the disclosure requirements relating to credit risk. Note 10 has been updated for the amendments
- NZ IAS 24 *Related Party Disclosures* (Revised 2009). The Ministry has early adopted this standard. The effect of early adoption is:
 - more information is required to be disclosed about transactions between the Ministry and entities controlled, jointly controlled, or significantly influenced by the Crown
 - commitments with related parties require disclosure
 - information is required to be disclosed about any related party transactions with Ministers of the Crown with portfolio responsibility for the Ministry. An exemption is provided from reporting transactions with other Ministers of the Crown.

Standards, amendments, and interpretations issued that are not yet effective and have not been early adopted

Standards, amendments, and interpretations issued that are not yet effective and have not been early adopted and which are relevant to the Ministry, are:

- NZ IFRS 9 Financial Instruments – this will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following three main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology and Phase 3 Hedge Accounting.

Phase 1 on the classification and measurement of financial assets has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual

cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in NZ IAS 39.

The new standard is required to be adopted for the year ended 30 June 2014. The Ministry has not yet assessed the effect of the new standard and expects it will not be early adopted.

- **New Accounting Standards Framework.** The Minister of Commerce has approved this new Framework (incorporating a Tier Strategy) developed by the External Reporting Board (XRB). Under this Framework, the Ministry is classified as a Tier 1 reporting entity and it will be required to apply full Public Benefit Entity Accounting Standards (PAS). These standards are being developed by the XRB based on current International Public Sector Accounting Standards.

The effective date for the new standards for public sector entities is expected to be for reporting periods beginning on or after 1 July 2014. This means the Ministry expects to transition to the new standards when it prepares its 30 June 2015 financial statements. As the PAS are still under development, the Ministry is unable to assess the implications of the new Accounting Standards Framework at this time.

- **Accounting Standards Framework for public benefit entities.** Due to the change in this framework, it is expected that all new NZ IFRS and amendments to existing NZ IFRS will not be applicable to public benefit entities. Therefore, the XRB has effectively frozen the financial reporting requirements for public benefit entities until the new Accounting Standard Framework is effective. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

Budget figures

The budget figures are those included in the Information Supporting the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2012, which are consistent with the financial information in the Main Estimates. In addition, the financial statements also present the updated budget information from the Supplementary Estimates. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

Revenue

The Ministry derives revenue from the provision of outputs to the Crown and for services to third parties. Such revenue is recognised when earned and is reported in the financial period to which it relates. Revenue is measured at the fair value of the consideration received or receivable.

Capital charge

The capital charge is recognised as an expense in the period to which it relates.

Foreign currency transactions

Foreign currency transactions are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions. The Ministry does not enter into foreign exchange contracts. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

Operating leases

An operating lease is where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item. Lease payments under an operating lease are charged as expenses on a straight-line basis in the period in which they are incurred.

Financial instruments

The Ministry is party to financial instruments as part of its normal operations. These financial instruments include cash and bank balances, and accounts receivable and payable. Financial assets and financial liabilities are initially measured at fair value plus transaction costs, unless they are carried at fair value through profit or loss, in which case the transaction costs are recognised in the statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and funds on deposit with banks and are measured at their face value.

Debtors, prepayments and other receivables

Short-term debtors, prepayments and other receivables are recorded at their face value, less any provision for impairment.

Impairment of a receivable is established when there is objective evidence that the Ministry will not be able to collect amounts due according to the original terms of the receivable. Indicators that the debtor is impaired include significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments.

The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income. Overdue receivables that are renegotiated are reclassified as current (not past due).

Property, plant and equipment

Property, plant and equipment consist of leasehold improvements, furniture and fittings, office equipment, and the Milford Sound/Piopiotaahi Aerodrome.

Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses.

Individual assets costing more than \$2,000 are capitalised. Assets of a lower cost are capitalised if they are part of a group, or if they are attractive, to improve the control over them.

Additions

The cost of an item of plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Ministry and the cost of the item can be measured reliably.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Disposal

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the statement of comprehensive income. When revalued assets are sold, the amounts included in the property, plant and equipment revaluation reserves in respect of those assets are transferred to taxpayers' funds.

Revaluation

The Ministry does not revalue its assets, except for the Milford Sound/Piopiotaahi Aerodrome, which is stated at optimised depreciated replacement cost as determined by an independent registered valuer. It is revalued at least every 5 years. Additions between revaluations are recorded at cost.

The net revaluation result is credited or debited to the asset revaluation reserve for the aerodrome. Where a revaluation results in a debit balance in the revaluation reserve, the debit balance will be expensed in the statement of comprehensive income.

The net revaluation result is credited or debited to other comprehensive income and accumulated to an asset revaluation reserve in equity for the aerodrome. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive income but is recognised in the surplus or deficit. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the surplus or deficit will be recognised first in the surplus or deficit up to the amount previously expensed, and then recognised in other comprehensive income.

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Ministry and the cost of the item can be measured reliably.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Asset class	Useful Life	Depreciation Rate
Furniture and fittings	10 years	10% per annum
Leasehold improvements	10 years	10% per annum
Milford Sound/ Piopiotaahi Aerodrome	3-100 years	1-33.3% per annum
Plant and equipment	2-10 years	10-50% per annum

Computer equipment is classed as plant and equipment. Due to the rapid changes in personal computing technology, the useful life of some new equipment is now assessed as 2 years – previously the shortest life was 3. There was no change to the lives of existing assets.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter.

Capital work in progress is not depreciated. The total cost of this work is transferred to the relevant asset category on the completion of the project and then depreciated.

The residual value and useful life of an asset is reviewed, and adjusted if appropriate, at each financial year end.

Intangible assets

Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs that are directly associated with the development of software for internal use by the Ministry are recognised as an intangible asset. Direct costs include the software development, employee costs and an appropriate portion of relevant overheads.

Staff training cost is recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the statement of comprehensive income.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Asset class	Useful Life	Depreciation Rate
Other software	3-5 years	20-33.3% per annum
Crash analysis system	2 years	50% per annum

Capital work in progress is not depreciated. The total cost of this work is transferred to the relevant asset category on the completion of the project and then depreciated.

Impairment of non-financial assets

An intangible asset that is not yet available for use at the balance sheet date is tested annually for impairment.

Property, plant and equipment and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use.

Value in use is the depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets, the impairment loss is recognised against the revaluation reserve for that class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the statement of comprehensive income.

For assets not carried at a revalued amount, the total impairment loss is recognised in the statement of comprehensive income.

The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that class of asset was previously recognised in the statement of comprehensive income, a reversal of the impairment loss is also recognised in that statement.

For assets not carried at a revalued amount, the reversal of an impairment loss is recognised in the statement of comprehensive income.

Creditors and other payables

Short-term creditors and other payables are recorded at their face value.

Employee entitlements

Employee entitlements include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, retirement and long service leave entitlements, and sick leave.

Presentation of employee entitlements

Sick leave, annual leave, vested long service leave, and non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date are classified as current liabilities. All other employee entitlements are classified as non-current liabilities.

Current liability for employee entitlements

Employee entitlements that the Ministry expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

The Ministry recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that the Ministry anticipates it will be used by staff to cover those future absences.

The Ministry recognises a liability and an expense for bonuses where it is contractually obliged to pay them, or where there is a past practice that has created a constructive obligation.

Long-term employee entitlements

Employee benefits that are due to be settled beyond 12 months after the end of the reporting period in which the employee renders the related service, such as long service leave and retiring leave, are calculated on an actuarial basis. The calculations of likely future entitlements are based on:

- years of service
- years to entitlement
- the likelihood that staff will reach the point of entitlement
- contractual entitlements information
- the present value of the estimated future cash flows

Expected future payments are discounted using market yields on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated future cash outflows for entitlements. The inflation factor is based on the expected long-term increase in remuneration for employees. The discount rates used are detailed below and are provided by the Treasury.

	2012/13	2013/14	Outyears
Discount rate %	2.43	2.47	6.00
Salary inflation factor %	2.75	3.50	3.50

Defined contribution superannuation schemes

Obligations for employer contributions to the State Sector Retirement Savings Scheme, Kiwisaver and the Government Superannuation Fund are accounted for as defined contribution schemes and are recognised as an expense in the statement of comprehensive income as incurred.

Equity

Equity is the Crown's investment in the Ministry and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified as taxpayers funds, memorandum accounts and property revaluation reserves.

Memorandum accounts

Memorandum accounts reflect the cumulative surplus/ (deficit) on those departmental services provided that are intended to be fully cost recovered from third parties through fees, levies, or charges. The balance of each memorandum account is expected to trend toward zero over time. There are no memorandum accounts established for the services provided by the Ministry to third parties

Property revaluation reserves

These reserves relate to the revaluation of land and buildings to fair value. The reserve relates to the revaluation of Milford Sound/Piopirotahi Aerodrome to fair value.

Provisions

The Ministry recognises a provision for future expenditure of uncertain amount or timing when:

- there is a present obligation (either legal or constructive) as a result of a past event
- it is probable that an outflow of future economic benefits will be required to settle the obligation and
- a reliable estimate can be made of the amount of the obligation

Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax discount rate that reflects current market assessments of the time, value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

Goods and services tax (GST)

All items in the financial statements, including appropriation statements, are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the Inland Revenue Department, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Income tax

Government departments are exempt from income tax as public authorities. Accordingly, no charge for income tax has been provided for.

Statement of cash flows

Cash means cash balances on hand and held in bank accounts.

Operating activities include cash received from all income sources of the Ministry and record the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise the payment to the Crown of the operating surplus achieved by the Ministry and any capital withdrawals or investments by the Crown.

Commitments

Expenses yet to be incurred on non-cancellable contracts that have been entered into on or before balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are disclosed at the point at which the contingency is evident.

Statement of cost accounting policies

The Ministry has determined the cost of outputs using the cost allocation system outlined below.

Types of Cost

Direct costs are those costs directly attributed to an output. Indirect costs are those costs that cannot be identified with a specific output in an economically feasible manner.

Method of assigning direct costs to outputs

Direct costs, such as consultants, are charged to outputs on the basis of the cost of the service provided.

Personnel costs are allocated to outputs based on the time recording data from the Ministry's time recording system.

Method of assigning indirect costs to outputs

Indirect costs are allocated to outputs through a two-stage process. The costs are assigned to cost centres within the Ministry, and then the costs are allocated to outputs on the basis of the direct staff time attributable to the outputs of that cost centre.

Critical accounting estimates and assumptions

In preparing these financial statements, the Ministry has made estimates and assumptions about the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Retirement and long service leave

Note 14 provides an analysis of the exposure in relation to estimates and uncertainties surrounding retirement and long service leave liabilities.

Useful lives of property, plant and equipment and intangible assets

Useful lives of assets are determined by the Ministry based on its best assessment of the asset's use.

Critical judgements in applying the Ministry's accounting policies

Management has exercised the following critical judgements in applying the Ministry's accounting policies for the year ended 30 June 2012.

Operating lease

Determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the Ministry. Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term and determining an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset is recognised in the statement of financial position as property, plant and equipment. With an operating lease, no such asset is recognised.

The Ministry has exercised its judgement on the appropriate classification of accommodation leases, and has determined the lease arrangements to be operating leases.

NOTE 2: REVENUE CROWN

Actual 2010/11 \$000		Actual 2011/12 \$000
29,424	Policy advice	28,046
565	Land transport revenue forecasting and strategy	593
1,742	Governance and performance advice for Crown agencies	619
1,134	Search and rescue activity coordination PLA	1,113
32,865	Total revenue Crown	30,371

NOTE 3: REVENUE FROM FEES

Actual 2010/11 \$000		Actual 2011/12 \$000
17,344	Road user charges collection, investigation and enforcement	16,329
1,000	Land transport revenue forecasting and strategy	1,000
429	Fuel excise duty refund administration	429
18,773	Total revenue from fees	17,758

NOTE 4: OTHER REVENUE

Actual 2010/11 \$000		Actual 2011/12 \$000
392	From other departments	413
194	From Crown entities	103
248	Other recoveries	234
834	Total other revenue	750

NOTE 5: CONTRACTUAL PAYMENTS TO CROWN ENTITIES

Actual 2010/11 \$000		Actual 2011/12 \$000
	NZ Transport Agency:	
17,344	For road user charges collection, investigation and enforcement activity	16,329
800	For rules programme activity	848
429	For refund of fuel excise duty activity	429
1,665	Civil Aviation Authority for rules programme activity and other costs	1,493
930	Maritime New Zealand for rules programme activity and other costs	750
21,168	Total contractual payments to Crown entities	19,849

NOTE 6: PERSONNEL EXPENSES

Actual 2010/11 \$000		Actual 2011/12 \$000
16,956	Salary and wages	16,431
596	Employer contributions to defined contribution schemes	569
37	Annual leave	(108)
17	Long service leave	(8)
219	Retirement leave	334
-	Sick leave	-
386	Other personnel costs	247
18,211	Total personnel expenses	17,465

Employer contributions to defined contribution plans include contributions to State Sector Retirement Savings Scheme, Kiwisaver, and the Government Superannuation Fund.

NOTE 7: OTHER OPERATING EXPENSES

Actual 2010/11 \$000		Actual 2011/12 \$000
6,791	Professional and specialist services	5,279
1,953	Other operating expenses	1,857
1,544	Operating lease payments	1,533
1,548	Computer bureau and software licence fees	1,559
92	Advertising and publicity	137
74	Audit fees for the financial statement audit	76
-	Net loss on property, plant and equipment	6
12,002	Total other operating expenses	10,447

NOTE 8: CAPITAL CHARGE

The Ministry pays a capital charge to the Crown on its taxpayers funds as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2012 was 8 percent (2011: 7.5 percent).

NOTE 9: EQUITY

Actual 2010/11 \$000		Actual 2011/12 \$000
	<i>Taxpayers funds</i>	
2,355	Balance at 1 July	2,355
-	Net surplus/(deficit)	-
-	Capital withdrawal	-
2,355	Balance at 30 June	2,355
	<i>Property revaluation reserves</i>	
761	Balance at 1 July	761
-	Revaluation gains	-
761	Balance at 30 June	761
3,116	Total equity	3,116

The Ministry has no memorandum accounts in respect of operational services provided to third parties.

NOTE 10: DEBTORS, PREPAYMENTS AND OTHER RECEIVABLES

Actual 2010/11 \$000		Actual 2011/12 \$000
2,103	Due from the Crown	2,660
29	Prepayments	-
157	Other receivables	82
2,289	Total debtors, prepayments and other receivables	2,742

The Ministry is owed money by the Crown, as Crown revenue is only drawn down as required.

The carrying value of debtors, prepayments and other receivables approximates their fair value. No debtor is past due, and the Ministry has assessed that no provision for impairment is required.

NOTE 11: PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements \$000	Plant and equipment \$000	Milford Sound/ Piopiotahi Aerodrome \$000	Furniture and fittings \$000	Total \$000
Cost or valuation					
Balance at 1 July 2010	2,170	1,544	1,345	843	5,902
Additions	-	353	-	-	353
Disposals	-	-	-	-	-
Balance at 30 June 2011	2,170	1,897	1,345	843	6,255
Balance at 1 July 2011	2,170	1,897	1,345	843	6,255
Additions	-	129	-	13	142
Disposals	-	(544)	-	(14)	(558)
Balance at 30 June 2012	2,170	1,482	1,345	842	5,839
Accumulated depreciation					
Balance at 1 July 2010	899	1,200	7	409	2,515
Depreciation expense	217	177	29	81	504
Disposals	-	-	-	-	-
Balance at 30 June 2011	1,116	1,377	36	490	3,019
Balance at 1 July 2011	1,116	1,377	36	490	3,019
Depreciation expense	217	172	29	82	500
Disposals	-	(543)	-	(9)	(552)
Balance at 30 June 2012	1,333	1,006	65	563	2,967
Carrying amounts					
At 1 July 2010	1,271	344	1,338	434	3,387
At 30 June and 1 July 2011	1,054	520	1,309	353	3,236
At 30 June 2012	837	476	1,280	279	2,872

Milford Sound/Piopiotahi Aerodrome was valued at 31 March 2010 by an independent valuer, G Hughson (BE, MIPENZ), of Maunsell Limited. This valuation was done on the basis of the aerodrome's optimised depreciated replacement cost.

NOTE 12: INTANGIBLE ASSETS

	Crash analysis system \$000	Other software \$000	Total \$000
Cost			
Balance at 1 July 2010	408	1,265	1,673
Additions	-	347	347
Disposals	-	(136)	(136)
Balance at 30 June 2011	408	1,476	1,884
Balance at 1 July 2011	408	1,476	1,884
Additions	-	129	129
Disposals	-	-	-
Balance at 30 June 2012	408	1,605	2,013
Accumulated depreciation			
Balance at 1 July 2010	408	725	1,133
Amortisation expense	-	332	332
Disposals	-	(136)	(136)
Balance at 30 June 2011	408	921	1,329
Balance at 1 July 2011	408	921	1,329
Amortisation expense	-	302	302
Disposals	-	-	-
Balance at 30 June 2012	408	1,223	1,631
Carrying amounts			
At 1 July 2010	-	540	540
At 30 June and 1 July 2011	-	555	555
At 30 June 2012	-	382	382

There are no restrictions over the title of the Ministry's intangible assets, nor are any intangible assets pledged as security for liabilities.

NOTE 13: CREDITORS AND OTHER PAYABLES

Actual 2010/11 \$000		Actual 2011/12 \$000
1,699	Accrued expenses	3,428
1,352	Trade creditors	539
296	GST payable	32
3,347	Total creditors and other payables	3,999

Creditors and other payables are non-interest bearing and are normally settled on the 20th of the next month, therefore the carrying value of creditors and other payables approximates their fair value.

NOTE 14: EMPLOYEE ENTITLEMENTS

Actual 2010/11 \$000		Actual 2011/12 \$000
	Current liabilities	
337	Accrued salary	364
1,024	Annual leave	917
115	Long service leave	117
11	Retirement leave	69
31	Sick leave	31
1,518	Total of current portion	1,498
	Non-current liabilities	
148	Long service leave	138
537	Retirement leave	812
685	Total of non-current portion	950
2,203	Total provision for employee entitlements	2,448

Accrued salary arises through the paydate being based on a fortnightly cycle, and that on 30 June 2012 there had been seven working days from the last paydate of 20 June 2012. Annual leave reflects the current year entitlement yet to be taken by staff.

Long service and retirement leave obligations are determined on an actuarial basis using a number of assumptions. Two key assumptions used in calculating this liability are the discount rate and the salary inflation factor. Any changes in this assumption will impact on the carrying amount of the liability. The discount rate and inflation factors used are detailed in the accounting policies.

If the discount rate were to differ by one percent from the Ministry's estimates, with all other factors held constant, the estimated carrying amount of the liability would be \$83,000 higher/lower.

If the inflation factor were to differ by one percent from the Ministry's estimates, with all other factors held constant, the estimated carrying amount of the liability would be \$101,000 higher/lower.

NOTE 15: PROVISION FOR LEASE MAKE-GOOD

Actual 2010/11 \$000		Actual 2011/12 \$000
572	Balance at 1 July	593
21	Discount unwind (Finance cost)	67
593	Balance at 30 June	660

In respect of its leased premises, the Ministry is required at the expiry of the lease term to make good any damage caused to the premises and to remove any fixtures or fittings installed by the Ministry. The Ministry may have the option to renew these leases, which impacts on the timing of expected cash outflows.

The finance cost reflects the annual cost incurred in making this provision and is based on an actuarial determination.

NOTE 16: RECONCILIATION OF THE NET SURPLUS IN THE STATEMENT OF COMPREHENSIVE INCOME WITH NET CASH FLOWS FROM OPERATING ACTIVITIES IN THE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2012

Actual 2010/11 \$000		Actual 2011/12 \$000
-	Net surplus	-
	Add non-cash items	
504	Depreciation of property, plant and equipment	500
332	Amortisation of intangible assets	302
-	Loss on disposal of assets	6
836	Total of non-cash items	808
	Add/(deduct) movements in working capital items	
(29)	(Increase)/decrease in prepayments	29
1,194	(Increase)/decrease in debtors and other receivables	(482)
(637)	Increase/(decrease) in payables and provisions	719
272	Increase/(decrease) in employee entitlements	245
800	Net movements in working capital items	511
1,636	Net cash flows from operating activities	1,319

NOTE 17: FINANCIAL INSTRUMENTS

The Ministry's activities expose it to a variety of financial instrument risks, including market risk, credit risk, and liquidity risk. The Ministry has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

Credit risk

Credit risk is the risk that a third party will default on its obligation to the Ministry, causing the Ministry to incur a loss.

In the normal course of its business, credit risk arises from debtors, deposits with banks, and derivative financial instrument assets.

The Ministry is only permitted to deposit funds with Westpac, a registered bank, and enter into foreign exchange forward contracts with the New Zealand Debt Management Office. These entities have high credit ratings. For its other financial instruments, the Ministry does not have significant concentrations of credit risk.

The Ministry's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents, net debtors, and derivative financial instrument assets. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

Liquidity risk

Liquidity risk is the risk that the Ministry will encounter difficulty raising liquid funds to meet commitments as they fall due.

In meeting its liquidity requirements, the Ministry closely monitors its forecast cash requirements with expected cash drawdowns from the New Zealand Debt Management Office. The Ministry maintains a target level of available cash to meet liquidity requirements.

The table below analyses the Ministry's financial liabilities that will be settled, based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows, based on the liabilities in note 13.

Actual 2010/11 \$000		Actual 2011/12 \$000
3,347	Less than 6 months (note 13)	3,999
-	Greater than 6 months	-

Market risk

Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate, or the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.

The Ministry has no exposure to interest rate risk because it has no interest-bearing financial instruments.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Ministry has no exposure to currency risk because it does not enter into foreign exchange forward contracts.

NOTE 18: CATEGORIES OF FINANCIAL INSTRUMENTS

The carrying amount of the financial assets and financial liabilities in each of the NZ IAS 39 categories are as follows:

Actual 2010/11 \$000		Actual 2011/12 \$000
	Loans and receivables	
3,117	Cash and cash equivalents	4,227
2,289	Debtors, prepayments and other receivables (note 10)	2,742
	Financial liabilities measured at amortised cost	
3,347	Creditors and other payables (note 13)	3,999

NOTE 19: RELATED PARTY INFORMATION

All related party transactions have been entered into on an arms-length basis. The Ministry is a wholly-owned entity of the Crown.

Significant transactions with government-related entities

The Ministry has been provided with funding from the Crown of \$30.4 million (2011: \$32.9 million) and from fees of \$17.8 million (2011: \$18.8 million) for specific purposes as set out in the scopes of the relevant government appropriations.

Revenue was also received from other entities controlled by the Crown as described in note 4. This was to reimburse the Ministry for costs.

In conducting its activities, the Ministry is required to pay various taxes and levies (such as GST, PAYE, and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The Ministry is exempt from paying income tax.

The Ministry also purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2012 totalled \$0.4 million (2011: \$0.5 million). These purchases included electricity from Genesis Energy \$0.05 million (2011: \$0.05 million), air travel from Air New Zealand \$0.3 million (2011: \$0.4 million) and postal services from New Zealand Post \$0.01 million (2011: \$0.01 million).

The Ministry also purchases transport outputs from other transport entities controlled by the Crown. These transactions are detailed in note 5 of these financial statements.

Transactions with key management personnel

During 2011/12 and 2010/11, the Ministry did not enter into any transactions with key management personnel or their close families.

Key management personnel compensation

Actual 2010/11 \$000		Actual 2011/12 \$000
1,474	Salaries and other short-term employee benefits	1,576
-	Other long-term benefits	-
-	Termination benefits	100
1,474	Total key management personnel compensation	1,676

At 30 June 2012, key management personnel includes the Chief Executive and the five members (2011: five members) of the senior management team, as well as the Minister and Associate Minister of Transport. The increase in the cost is mainly due to staff movements during the year.

Key management personnel compensation excludes the remuneration and other benefits that the Minister and the Associate Minister of Transport receive. The Minister's and Associate's remuneration and other benefits are not received only for their roles as members of key management personnel of the Ministry. Their remuneration and other benefits are set by the Remuneration Authority under the Civil List Act 1979 and are paid under Permanent Legislative Authority, and not paid by the Ministry of Transport.

NOTE 20: CAPITAL MANAGEMENT

The Ministry's capital is its equity which comprise taxpayers funds and property revaluation reserves. Equity is represented by net assets.

The Ministry manages its revenues, expenses, assets, liabilities and general financial dealings prudently. The Ministry's equity is largely managed as a by-product of managing income, expenses, assets, liabilities and compliance with the government Budget process and the Treasury instructions.

The objective of managing the Ministry's equity is to ensure the Ministry effectively achieves the goals and objectives for which it has been established, whilst remaining a going concern.

NOTE 21: MAJOR CHANGES TO THE DEPARTMENTAL OUTPUT BUDGETS

Changes were made to the Ministry's departmental output budgets for the year 2011/12 by way of the Supplementary Estimates. Explanations for the major changes were outlined in the 2011/12 Supplementary Estimates (page 817 onwards). The net changes appear in the following table.

Appropriations for departmental output expenses	Main Estimates \$000	Supplementary Estimates \$000	Section 26A Transfer \$000	Cumulative Vote \$000
Policy advice	30,118	(1,030)	-	29,088
Road user charges collection, investigation and enforcement	17,855	974	-	18,829
Land transport revenue forecasting and strategy	1,000	550	50	1,600
Governance and performance advice for Crown agencies	1,400	(650)	(50)	700
Fuel excise duty refund administration	429	-	-	429
Milford Sound/Piopiotahe Aerodrome operation and administration	200	23	-	223
Search and rescue activity coordination PLA	1,136	-	-	1,136
Total departmental appropriations	52,138	(133)	-	52,005

The department appropriations reduced in total for a number of reasons and the Ministry also made fiscally neutral adjustments between outputs to reflect the costs of work being done. The overall effect was minimal – a reduction of \$133,000. The most significant adjustments were:

- funding of \$1.25 million was transferred to Maritime NZ to assist the latter to cover its business as usual activities while it was managing the grounding of the *Rena* off Tauranga (Policy advice)
- funding of \$0.974 million carried forward from 2010/11 for system changes to implement the new road user charges regime (Road user charges collection, investigation and enforcement)
- funding of \$0.15 million carried forward from 2010/11 for work on the development of the new road user charges regime (Land transport revenue forecasting and strategy)
- a fiscally neutral adjustment between outputs Land transport revenue forecasting and strategy and Governance and performance advice to reflect the costs of work being done.

NOTE 22: EXPLANATION OF MAJOR VARIANCES BETWEEN ACTUAL AND BUDGET FIGURES

The significant variances between the actual results and the figures included in the Supplementary Estimates of Appropriations for the year ended 30 June 2012 are:

Statement of comprehensive income

Revenue Crown

The actual revenue Crown figure was \$0.6 million below the Supplementary Estimates because the amount was not required to fund expenditure.

Revenue from fees

The actual revenue from fees was \$2.5 million below the Supplementary Estimates because work has been delayed and the funding was not required. An application to carry forward up to \$2.5 million to 2012/13 has been approved by the Minister of Finance.

Expenditure

The significant areas of reduction in expenditure are:

- operational expenditure reduced by \$0.7 million following an organisational review and the identification of efficiency savings
- payments to the NZ Transport Agency for road user charge administration were lower than budgeted by \$2.5 million, as noted above under Revenue from fees.

Statement of financial position (and cash flows)

Total Assets is \$2.4 million higher than anticipated in the Supplementary Estimates. The significant variances are as follows:

- cash and cash equivalents balance was \$0.5 million higher, due to payables being greater than anticipated at year-end
- debtors, prepayments and other receivables balance was \$1.9 million higher as Supplementary Estimates anticipated there being no Debtor Crown at year-end.

NOTE 23: EVENTS AFTER BALANCE SHEET DATE

No event has occurred since the end of the financial period (not otherwise dealt with in the financial statements) that has affected, or may significantly affect, the Ministry's operations or state of affairs for the year ended 30 June 2012.

Non-departmental schedules and statements

INTRODUCTION/OVERVIEW

The following non-departmental statements and schedules record the revenue and receipts, expenses, assets and liabilities that the Ministry manages on behalf of the Crown.

The Ministry administered:

- \$1.259 billion of non-departmental revenue and receipts
- \$2.878 billion of non-departmental expenditure
- \$0.102 billion of non-departmental assets
- \$0.349 billion of non-departmental liabilities

on behalf of the Crown for the year ended 30 June 2012.

Further details of the management of these Crown assets and liabilities are provided later in this report.

Schedule of non-departmental revenue and receipts for the year ended 30 June 2012`

This schedule summarises non-departmental revenues and receipts that the Ministry collects on behalf of the Crown.

Actual 2010/11 \$000		Notes	Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
1,151,672	Indirect taxation	2	1,184,162	1,179,742	1,176,520
1,340	Other 'sovereign power' revenue	3	2,182	100	1,100
76,074	Other operational revenue	4	74,285	80,592	73,591
278	Share of net asset increase in joint venture airports	9	(1,374)	-	-
1,229,364	Total non-departmental revenue and receipts		1,259,255	1,260,434	1,251,211

Schedule of non-departmental expenses for the year ended 30 June 2012`

This schedule summarises non-departmental expenses that the Ministry administers on behalf of the Crown. Further details are provided in the Statement of non-departmental expenditure and capital expenditure appropriations.

Actual 2010/11 \$000		Notes	Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
1,803,962	Non-departmental output classes	5	1,889,348	1,886,441	1,946,732
760,659	Purchase or development of capital assets	6	625,661	671,663	629,587
408,078	Other expenses to be incurred by the Crown	7	356,099	365,767	374,293
5,858	Bad debts expense		6,161	6,000	7,000
(1,236)	Movement in doubtful debts provision		768	-	-
2,977,321	Total non-departmental expenses		2,878,037	2,929,871	2,957,612

Schedule of non-departmental assets

as at 30 June 2012

This schedule summarises the assets that the Ministry administers on behalf of the Crown.

Actual 2010/11 \$000		Notes	Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
	Current assets				
22,395	Cash and bank balances		20,119	35,853	3,706
63,316	Receivables and advances	8	57,172	33,345	63,317
	Non-current assets				
24,728	Investment in joint venture airports	9	24,358	25,902	26,180
110,439	Total non-departmental assets		101,649	95,100	93,203

In addition, the Ministry monitors a number of Crown entities. These are:

- Civil Aviation Authority (which includes the Aviation Security Service)
- Maritime New Zealand
- NZ Transport Agency
- Transport Accident Investigation Commission.

The investment in these entities is recorded within the Crown financial statements on a line-by-line basis. No disclosure is made in this schedule.

Schedule of non-departmental liabilities

as at 30 June 2012

This schedule summarises the liabilities that the Ministry administers on behalf of the Crown.

Actual 2010/11 \$000		Notes	Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
	Current liabilities				
277,872	Payables	11	348,583	262,743	259,184
277,872	Total non-departmental liabilities		348,583	262,743	259,184

Payables are non-interest bearing and are normally settled on 30-day terms, therefore, carrying value of payables approximates their fair value.

Statement of non-departmental expenditure and capital expenditure against appropriations

for the year ended 30 June 2012

This statement details expenditure and capital payments incurred against appropriations. The Ministry administers these appropriations on behalf of the Crown.

Actual 2010/11 \$000		Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
	Appropriations for non-departmental output classes			
3,938	Accident or incident investigation and reporting	3,865	3,865	3,865
14,000	Canterbury transport project	5,000	5,000	5,000
2,250	Licensing activities	2,475	2,475	2,675
145	Maritime port security	145	145	145
548	Ministerial servicing by the New Zealand Transport Agency	548	548	548
41,406	Motor vehicle registry	47,966	40,016	47,966
33,001	National Land Transport Programme – demand management and community programmes PLA **	-	-	-
274,768	National Land Transport Programme – maintenance and operation of local roads PLA **	-	-	-
328,380	National Land Transport Programme – maintenance and operation of State highways PLA **	-	-	-
30,709	National Land Transport Programme – management of the funding allocation system PLA **	-	-	-
163,142	National Land Transport Programme – new and improved infrastructure for local roads PLA **	-	-	-
43,130	National Land Transport Programme – public transport infrastructure PLA **	-	-	-
194,630	National Land Transport Programme – public transport services PLA **	-	-	-
-	National Land Transport Programme – rail and coastal freight PLA **	-	-	-
205,500	National Land Transport Programme – renewal of local roads PLA **	-	-	-
3,400	National Land Transport Programme – sector training and research PLA **	-	-	-
384,000	National Land Transport Programme – State highway renewals PLA **	-	-	-
23,250	National Land Transport Programme – transport planning PLA **	-	-	-
12,300	National Land Transport Programme – walking and cycling facilities PLA **	-	-	-
-	National Land Transport Programme PLA **	1,742,800	1,792,653	1,742,800
2,261	Policy advice – civil aviation	2,219	2,219	2,219
5,689	Policy advice on safety regulation and monitoring - maritime	7,097	5,689	7,232
-	Rail – Waikato network funding	3,824	5,415	3,824
11,000	Regional development transport funding	2,000	2,000	2,000
-	Reinstatement of local roads in Canterbury	45,000	-	102,000
3,274	Search and rescue activities	3,316	3,274	3,316
4,533	Search and rescue and recreational boating safety activities PLA	4,473	4,473	4,473
135	SuperGold card – administration of the public transport concessions scheme	47	95	95
18,573	Weather forecasts and warnings	18,573	18,574	18,574
1,803,962	Sub-total	1,889,348	1,886,441	1,946,732

Actual 2010/11 \$000		Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
	Appropriations for other expenses to be incurred by the Crown			
171,578	Auckland rail development MYA	132,498	248,202	133,686
5,858	Bad debt provision – motor vehicle registration/licenses and road user charges	6,161	6,000	7,000
-	Loan for Auckland metro rail electric multiple unit package fair value write-down	43,454	-	50,600
743	Membership of international organisations	685	743	743
21,139	Metro rail network costs	-	-	-
102,182	Rail – metro rail rolling stock and infrastructure (Wellington)	112,027	80,000	117,442
3,270	Rail – public policy projects	3,270	3,270	3,270
500	Rail – railway safety	500	500	500
70,761	Rail network and rolling stock upgrade MYA	10,147	10,147	10,147
20,735	SuperGold card – public transport concessions for cardholders	21,339	22,905	22,905
-	Tauranga maritime incident response	32,179	-	35,000
17,170	Wellington rail development MYA	-	-	-
413,936	Sub-total	362,260	371,767	381,293
	Appropriations for capital contributions to other organisations			
2,410	Aviation Security Service	103	303	303
4,340	Civil Aviation Authority loan	-	-	-
430	Joint venture airports – Crown contribution MYA	154	500	601
167	Maritime New Zealand capital expenditure PLA	-	-	-
-	NLTF borrowing facility for a short-term advance in 2011/12	-	-	180,000
110,000	NLTF borrowing facility for short-term advances	170,000	750,000	750,000
250,000	Rail – KiwiRail Turnaround Plan funding	250,000	250,000	250,000
-	Rail – loan for Auckland metro rail electric multiple unit package	60,000	-	200,000
55,000	Rail – New Zealand Railways Corporation loans	250,000	330,769	250,000
-	Wellington metro rail network upgrade	11,713	8,552	11,713
422,347	Sub-total	741,970	1,340,124	1,642,617
	Appropriations for purchase or development of capital assets from the Crown			
33,700	Accelerated State highway construction	-	-	-
717,098	National Land Transport Programme – New infrastructure for and renewal of State highways PLA	625,661	671,134	625,661
9,861	New & improved infrastructure for State highways – Crown contribution	-	529	3,926
760,659	Sub-total	625,661	671,663	629,587
3,400,904	Total non-departmental expenditure and appropriations	3,619,239	4,269,995	4,600,229

** These appropriations are permanent legislative authority appropriations (PLAs) that relate to the National Land Transport Fund (the NLTF). The total of these appropriations is limited by the revenue that is hypothecated to the NLTF and the appropriation sizes in the Estimates are indicative only. For 2011/12, the separate expense appropriations were replaced by one appropriation – National Land Transport Programme PLA.

Details of multi-year appropriations

	Auckland Rail Development \$000	Joint Venture Airports – Crown Contribution \$000	Rail Network and Rolling Stock Upgrade \$000
Commences	1 July 2009	1 July 2011	1 July 2009
Expires	30 June 2014	30 June 2015	30 June 2012
Appropriation at 1 July 2011	683,597	2,000	111,831
Adjustments	(20,000)	101	-
Total funding	663,597	2,101	111,831
Expenditure in prior years	350,158	-	101,684
Expenditure in current year	132,498	153	10,147
Total expenditure to 30 June 2012	482,656	153	111,831
Balance of appropriation remaining at 30 June 2012	180,941	1,948	-

The adjustment to Auckland Rail Development relates to the transfer of funding to another appropriation.

The adjustment to the joint venture airport appropriation relates to the balance of the previous appropriation for the same purpose that expired in 30 June 2011. Cabinet had approved the transfer of the remaining balance of \$101,000 to the new appropriation.

Statement on non-departmental commitments

as at 30 June 2012

This statement records those expenditures to which the Crown is contractually committed and which will become liabilities if and when the terms of the contracts are met.

Actual 2010/11 \$000		Actual 2011/12 \$000
	Operating commitments	
74,296	Other non-cancellable contracts for the supply of goods and services	74,296
74,296	Total operating commitments	74,296
	Term classification of commitments	
18,574	Not later than 1 year	18,574
18,574	More than 1 year but less than 2 years	18,574
37,148	Between 2 and 5 years	37,148
74,296	Total operating commitments	74,296

The liability is a contract with a State-owned enterprise for the supply of outputs. The contract is for an indefinite term and can be terminated by mutual agreement between the parties. The fee is renegotiable every 3 years. The commitment is disclosed based on the term of 4 years currently within the approved Estimates of Appropriation.

Statement of non-departmental contingent liabilities

as at 30 June 2012

This statement discloses situations which exist at 30 June 2012, the ultimate outcome of which is uncertain and will be confirmed only on the occurrence of one or more future events after the date of approval of the financial statements.

Actual 2010/11 \$000		Actual 2011/12 \$000
10,000	Transport Accident Investigation Commission emergency guarantee	10,000
10,000	Total contingent liabilities	10,000

The Minister of Finance has issued a \$10 million guarantee to the Transport Accident Investigation Commission. The guarantee is to be used in the event of a major transport accident (air or rail) where the Commission would have to hire specialist recovery equipment. This is expected to be a near permanent guarantee.

In addition to the contingent liability disclosed above, an indemnity has been provided by the Crown to the Meteorological Service of New Zealand for potential third party claims in excess of arranged public liability cover. The value of the liability will depend on the circumstances of the claim (unchanged since 21 August 2000).

Statement of non-departmental unappropriated expenditure

for the year ended 30 June 2012

There was no unappropriated expenditure noted during 2011/12 (2011: nil).

Notes to non-departmental schedules

for the year ended 30 June 2012

NOTE 1: STATEMENT OF ACCOUNTING POLICIES

Reporting entity

These non-departmental schedules and statements present financial information on public funds managed by the Ministry on behalf of Crown.

The Ministry's responsibility is to manage the revenue, expenditure, assets and liabilities on behalf of the Crown. The non-departmental balances are consolidated into the Crown financial statements. For a full understanding of the Crown's financial position and the results of its operations and cash flows for the year, reference should be made to the consolidated audited Crown financial statements for the year ended 30 June 2012.

The schedules in respect of the activities administered by the Ministry on behalf of the Crown comprise:

- collection of indirect tax revenues
- payment of refunds on claims received
- joint venture airports

The schedules and statements have been prepared pursuant to section 35 of the Public Finance Act 1989.

Basis of preparation

The non-departmental schedules and statements have been prepared in accordance with the government's accounting policies as set out in the Financial Statements of the Government, and in accordance with the relevant Treasury instructions and Treasury circulars.

Measurement and recognition rules applied in the preparation of these non-departmental schedules and statements are consistent with New Zealand generally accepted accounting practice as appropriate for a public benefit entity.

The accounting policies set out below have been applied consistently to all years presented in these schedules and statements. The following particular accounting policies have been applied:

Significant accounting policies

Budget figures

The budget figures are consistent with the financial information in the Main Estimates. In addition, these schedules and statements also present the updated budget information from the Supplementary Estimates.

Revenue

Revenues from road user charges, motor vehicle licensing fees, infringement fees and tolling revenue are recognised on an accrual basis.

Debtors and other receivables

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate, less impairment changes.

Impairment of a receivable is established when there is objective evidence that the Crown will not be able to collect amounts due according to the original terms of the receivable. Indicators that the debtor is impaired include the significant financial difficulties of the debtor, the probability that the debtor will enter into bankruptcy, and any default in payments. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the schedule of non-departmental expenses. When a debtor is not collectible, it is written off against the allowance account for debtors. Overdue receivables that are renegotiated are reclassified as current (not past due).

Investments in joint venture airports

Investments represent the Crown's investment in joint venture airports. Investments in the joint venture airports are accounted using the equity method, consolidating the post acquisition net asset increase or decrease into these non-departmental schedules.

Creditors and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

Financial instruments

Crown: Vote Transport is party to financial instruments as part of its normal operations. These financial instruments include cash and bank balances, accounts receivable and accounts payable. Revenue and expenses in relation to all financial instruments are recognised in the schedule of non-departmental revenue and receipts and the schedule of non-departmental expenses. All financial instruments are recognised in the schedule of non-departmental assets and the schedule of non-departmental liabilities.

Goods and services tax (GST)

All items in the financial statements, including appropriation statements, are stated exclusive of GST, except for receivables and payables, which are stated on a GST-inclusive basis. In accordance with Treasury Instructions, GST is returned on revenue received on behalf of the Crown, where applicable. However, an input tax deduction is not claimed on non-departmental expenditure. Instead, the amount of GST applicable to non-departmental expenditure is recognised as a separate expense and eliminated against GST revenue on consolidation of the Financial Statements of the Government.

Commitments

Future expenses and liabilities to be incurred on non-cancellable contracts that have been entered into at balance date are disclosed as commitments to the extent that they are equally unperformed obligations.

Contingent liabilities

Contingent liabilities are disclosed at the point at which the contingency is evident.

Changes in accounting policies

The accounting policies have been applied consistently to all years presented in these schedules and statements.

NOTE 2: INDIRECT TAXATION

Actual 2010/11 \$000		Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
171,529	Motor vehicle registration fees	174,655	167,811	173,655
1,015,779	Road user charges	1,044,600	1,049,109	1,038,245
1,187,308	Sub-total	1,219,255	1,216,920	1,211,900
(35,636)	Fuel excise duty refunds	(35,093)	(37,178)	(35,380)
1,151,672	Total indirect taxation	1,184,162	1,179,742	1,176,520

NOTE 3: OTHER 'SOVEREIGN POWER' REVENUE

Actual 2010/11 \$000		Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
1,340	Tolling and other infringement fees	2,182	100	1,100
1,340	Total other 'sovereign power' revenue	2,182	100	1,100

NOTE 4: OTHER OPERATIONAL REVENUE

Actual 2010/11 \$000		Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
6,150	Tolling fees from the Northern Gateway toll road (note 10)	6,415	7,000	6,200
46,751	Motor vehicle registration administration fees	47,002	46,206	46,708
14,176	Road user charges administration fees	14,401	16,886	14,283
8,997	Motor vehicle registration recoveries	6,467	10,500	6,400
76,074	Total other operational revenue	74,285	80,592	73,591

NOTE 5: NON-DEPARTMENTAL OUTPUT CLASSES

Actual 2010/11 \$000		Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
1,803,962	This expense item is equal to the appropriations for non-departmental output classes listed in the statement of non-departmental expenditure and appropriations	1,889,348	1,886,441	1,946,732
1,803,962	Total non-departmental output classes	1,889,348	1,886,441	1,946,732

NOTE 6: PURCHASE OR DEVELOPMENT OF CAPITAL ASSETS

Actual 2010/11 \$000		Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
760,659	This expenditure is for the construction of, and improvement to the State highway network including pavement rehabilitation and seal widening	625,661	671,663	629,587
760,659	Total purchase or development of capital assets	625,661	671,663	629,587

NOTE 7: OTHER EXPENSES TO BE INCURRED BY THE CROWN

Actual 2010/11 \$000		Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
171,578	Auckland rail development MYA	132,498	248,202	133,686
-	Loan for Auckland metro rail electric multiple unit package fair value write-down	43,454	-	50,600
743	Membership of international organisations	685	743	743
21,139	Metro rail network costs	-	-	-
102,182	Rail – metro rail rolling stock and infrastructure (Wellington)	112,027	80,000	117,442
3,270	Rail – public policy projects	3,270	3,270	3,270
70,761	Rail network and rolling stock upgrade MYA	10,147	10,147	10,147
500	Rail – railway safety	500	500	500
20,735	SuperGold Card – public transport concessions for cardholders	21,339	22,905	22,905
-	Tauranga maritime incident response	32,179	-	35,000
17,170	Wellington rail development MYA	-	-	-
408,078	Total other expenses to be incurred by the Crown	356,099	365,767	374,293

NOTE 8: RECEIVABLES AND ADVANCES

Actual 2010/11 \$000		Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
43,685	Motor vehicle registration fees	53,597	40,074	43,685
12,106	Prepayments	-	221	12,106
12,687	Road user charge revenue	9,201	12,006	12,687
1,461	Tolling revenue	1,639	1,350	1,910
548	Infringement revenue	674	100	100
70,487	Sub-total	65,111	53,751	70,488
(7,171)	Provision for doubtful debts	(7,939)	(20,406)	(7,171)
63,316	Total receivables and advances	57,172	33,345	63,317

The carrying value of receivables and advances approximates their fair value. No debtor is past due, and the Ministry has assessed that no provision for impairment is required at 30 June 2012 (30 June 2011: \$nil).

For motor vehicle fees and road user charges revenue, debts are assessed for impairment regularly and provision made for non-collectable debts as shown above.

NOTE 9: INVESTMENT IN JOINT VENTURE AIRPORTS

Actual 2010/11 \$000		Actual 2011/12 \$000
12,838	New Plymouth	11,726
3,368	Taupō	3,726
4,845	Wanganui	5,135
770	Westport	716
435	Whakatane	584
2,472	Whangarei	2,471
24,728	Total investment in joint venture airports	24,358

The Crown has a 50 percent interest in each airport. The value of the investment at 30 June 2012 is based on the annual financial statements of each airport for the year ending 30 June 2011 (2011: 30 June 2010) plus adjustments for equity movements and capital payments made during 2011/12. These adjustments amounted to a \$1.374 million reduction in the Crown's equity position for the year ended 30 June 2012 (2010/11: \$0.278 million increase).

NOTE 10: INVESTMENT IN THE NORTHERN GATEWAY TOLL ROAD

The Alpurū B2 roading project was completed during 2008/09 with a contribution from the Crown of \$158 million. The road is now known as the Northern Gateway toll road. The charging of a toll for using the road began in February 2009. The Crown issued infrastructure bonds to fund the project and the toll revenue is intended to cover the costs of the bonds. The bonds are shown within the financial statements of the Treasury and the tolling revenue is recorded as other operational revenue (note 4).

It was agreed that a notional account would be kept of the 'cost' of the project using an estimated interest rate charged on the balance advanced. The interest charge is calculated daily, based on the outstanding balance of money advanced, plus interest, less tolling revenue received. The interest rate used is the average infrastructure bond rate, plus 15 basis points. This is 6.45 percent and this will not change in the future as all of the bonds have been issued. The project was modelled using an estimated rate of 6.4 percent. The two tables below show the project since the start and then for the current year. Further information is available at www.tollroad.govt.nz.

Since commencement of project

Actual 2010/11 \$000		Actual 2011/12 \$000
158,000	Funding provided for construction	158,000
38,720	Interest charged since funding first drawn	50,750
(14,522)	Tolling revenue since February 2009	(20,937)
182,198	Balance at the year end	187,813

Current year

Actual 2010/11 \$000		Actual 2011/12 \$000
176,717	Balance brought forward	182,198
11,631	Interest cost for the year	12,030
(6,150)	Tolling revenue for the year	(6,415)
182,198	Balance at the year end	187,813

NOTE 11: PAYABLES

Actual 2010/11 \$000		Actual 2011/12 \$000	Main Estimates 2011/12 \$000	Supplementary Estimates 2011/12 \$000
204,369	National Land Transport Fund revenue payable to the New Zealand Transport Agency	279,515	196,001	200,000
-	Output funding payable to Maritime New Zealand	753	50	-
27,322	Output funding payable to New Zealand Railways Corporation	18,727	20,335	13,414
1,741	Output funding payable to Meteorological Service	1,741	1,741	1,741
14,353	GST payable	14,585	11,285	14,352
28,291	Motor vehicle registration third party collections	32,055	32,324	28,445
410	Capital funding payable to Aviation Security Service	-	-	-
154	Wanganui Airport	-	-	-
1,232	Road user charges refunds	1,208	1,007	1,232
277,872	Total payables	348,584	262,743	259,184

Payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of payables approximates their fair value.

NOTE 12: FINANCIAL INSTRUMENTS

The carrying amounts of financial assets and financial liabilities in each of the NZ IAS 39 categories are as follows:

Actual 2010/11 \$000		Actual 2011/12 \$000
	Loans and receivables	
22,395	Cash and cash equivalents	20,119
63,316	Receivables and advances	57,172
85,711	Total loans and receivables	77,291
	Financial liabilities measured at amortised cost	
277,872	Payables	348,583

Credit risk

Credit risk is the risk that a third party will default on its obligation, causing a loss to be incurred. Credit risk arises from debtors and deposits with banks.

Funds must be deposited with Westpac, a registered bank.

The maximum credit exposure for each class of financial instruments is represented by the total carrying amount of cash and cash equivalents and net debtors. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired. Other than Westpac Bank, there are no significant concentrations of credit risk.

NOTE 13: MAJOR BUDGET CHANGES

Changes were made to the non-departmental budgets in the 2011/12 Supplementary Estimates. Explanations for significant variances only are provided below.

Revenue and receipts

	Main Estimates \$000	Supplementary Estimates \$000	Cumulative Vote \$000
Tax revenue			
Motor vehicle registration	167,811	5,844	173,655
Road user charges	1,049,109	(10,864)	1,038,245
Fuel excise duty refunds	(37,178)	1,798	(35,380)
	1,179,742	(3,222)	1,176,520
Other 'sovereign power' revenue			
Tolling and other infringement fees	100	1,000	1,100
Other operational revenue			
Motor vehicle registration administration fees	46,206	502	46,708
Road user charges administration fees	16,886	(2,603)	14,283
Motor vehicle registration recoveries	10,500	(4,100)	6,400
Tolling fees	7,000	(800)	6,200
	80,592	(7,001)	73,591

Tax revenue and related fees

The National Land Transport Fund Revenue Forecasting Group meets on a 6-monthly basis to reforecast the tax revenue that is expected for the National Land Transport Fund based on the current economic forecasts. The changes reflect the result of this process. The administration revenue is also forecast as part of this.

Tolling revenue and tolling infringement fees

Infringements on tolling revenue began to be earned in 2010/2011. The level of toll infringements on an ongoing basis is uncertain at this time.

Non-departmental expenditure and capital appropriations

	Main Estimates \$000	Supplementary Estimates \$000	Cumulative Vote \$000
Appropriations for non-departmental output expenses			
Motor vehicle registry	40,016	7,950	47,966
National Land Transport Programme PLA	1,792,653	(49,853)	1,742,800
Policy advice on safety regulation and monitoring – maritime	5,689	1,543	7,232
Rail – Waikato network funding	5,415	(1,591)	3,824
Reinstatement of local roads in Canterbury	-	102,000	102,000
Non-departmental other expenses			
Auckland rail development MYA	248,202	(114,516)	133,686
Bad debt provision – motor vehicle registration/licenses and road user charges	6,000	1,000	7,000
Loan for Auckland metro rail electric multiple unit package fair value write-down	-	50,600	50,600
Rail – metro rail rolling stock and infrastructure (Wellington)	80,000	37,442	117,442
Tauranga maritime incident response	-	35,000	35,000
Capital expenditure			
National Land Transport Programme – New infrastructure for and Renewal of State highways PLA	671,134	(45,473)	625,661
NLTF borrowing facility for a short-term advance in 2011/12	-	180,000	180,000
New & improved infrastructure for State highways – Crown contribution	529	3,397	3,926
Rail – Loan for Auckland metro rail electric multiple unit package	-	200,000	200,000
Rail – New Zealand Railways Corporation loans	330,769	(80,769)	250,000
Wellington metro rail network upgrade	8,552	3,161	11,713

Explanations for the major changes were outlined in the 2011/12 Supplementary Estimates (pages 817 onwards). They were:

Motor vehicle registry

The increase comprises \$0.85 million carried forward from 2010/11 for delayed system work and additional funding of \$7.1 million approved during the year to make up an amount of third party revenue not received, and ensure that funding was sufficient to cover costs.

National Land Transport Programme PLA, and

National Land Transport Programme – New infrastructure for and renewal of State highways PLA

The NZ Transport Agency is responsible for the National Land Transport Programme which delivers the government objectives laid out in the Government Policy Statement on Land Transport Funding. Road tax revenue is allocated to the fund by legislation and is appropriated in these two appropriations.

There are two main reasons for the changes in these appropriations:

- road tax revenue is forecast every six months. The State highway capital appropriation is adjusted as required as revenue increases or decreases.
- funding is moved between the two appropriations to reflect the planned levels of operating and capital expenditure for the year.

Policy advice on safety regulation and monitoring – maritime

The increase reflects \$1.25 million transferred from Ministry of Transport departmental funding to enable Maritime New Zealand to deliver its planned day-to-day operations while also managing the response to the grounding of the *Rena* off Tauranga, and \$0.293 million to meet an increased capital charge.

Waikato rail funding

Auckland rail development MYA

Rail – metro rail rolling stock and infrastructure (Wellington), and Wellington metro rail network upgrade

The agencies responsible for the funding have requested transfers between financial years to match the timing of planned expenditure in these appropriations.

Reinstatement of local roads in canterbury

This is a new appropriation to fund the restoration costs of roads within the Canterbury region that have been damaged by the earthquakes.

Bad debt provision – motor vehicle registration/licences and road user charges

The increase reflects a rise on the anticipated levels of Crown revenue bad debt write off.

Rail – loan for Auckland metro rail electrical multiple unit package fair value write-down

This is a new appropriation to reflect the accounting adjustments that arise from Auckland Council receiving a loan at below market rates.

Tauranga maritime incident response

This is a new appropriation for the costs of the response to the grounding of the *Rena* off Tauranga.

NLTF borrowing facility for short-term advances in 2011/12

This is a new appropriation to provide additional loan funding to the New Zealand Transport Agency to manage cash flow variations between funding available in the National Land Transport Fund and the expenditure committed under the National Land Transport Programme.

New and improved infrastructure for State highways – Crown contribution

The motor vehicle registry and the road user charges systems are funded by administration fees. Once the year is complete, any excess fees are calculated and appropriated to the National Land Transport Fund, using this appropriation. During 2010/11, the surplus fees from 2009/10 were calculated at \$9.9 million, which was added to the Crown contribution appropriation. Subsequently \$0.9 million was transferred to a departmental appropriation to fund improvements to the road user charges system and \$4.2 million was transferred to non-departmental output class Motor Vehicle Registry to cover ongoing costs.

Rail – Loan for Auckland metro rail electrical multiple unit package

This is a new appropriation that replaces part of the Rail – NZ Railways Corporation Loans appropriation. It is to assist the Auckland Council with the purchase of new trains and a depot for the Auckland metropolitan rail network.

Rail – NZ Railways Corporation Loans

As noted above, this appropriation was reduced when the Rail – Loan for Auckland Metro Rail Electrical Multiple Unit Package appropriation was established. \$80.769 million was transferred to the new appropriation in 2011/12.

NOTE 14: MAJOR BUDGET TO ACTUAL VARIANCES

The significant variances between actual results and the Supplementary Estimates forecasts were:

Schedule of non-departmental revenue and receipts

Total revenue and receipts were \$9.4 million higher than forecast due to the following:

- actual indirect taxation was \$7.6 million higher than forecast. These revenues are forecast on a 6-monthly basis
- actual other 'sovereign power' revenue was \$1 million higher, due to greater than forecast receipt of tolling infringement fees
- other operational revenue was \$0.7 million higher than forecast. This revenue covers toll revenue and administration fees paid with motor vehicle registration charges and road user charges.

Schedule of non-departmental expenses

Total expenses were \$76.4 million less than appropriated in Supplementary Estimates. The significant variances relate to following appropriations:

- *Reinstatement of local roads in Canterbury*: costs were incurred more slowly than expected and funds will be carried forward to 2012/13 – an underspend of \$57 million
- *New and improved infrastructure for State Highways – Crown contribution*: There has been no funding drawn in 2011/12 – an underspend of \$3.9 million
- *Tauranga maritime incident response*: costs were lower than budgeted and funds will be carried forward to 2012/13 – an underspend of \$2.8 million
- *Metro rail rolling stock and infrastructure (Wellington)*: contractual delays meant that costs were lower than budgeted and funds will be carried forward to 2012/13 – an underspend of \$5.4 million
- *Rail – Loan for Auckland metro rail electrical multiple unit package fair value write-down*: The actual accounting adjustment was \$43.4 million – an underspend of \$7.2 million.

Schedule of non-departmental assets

Non-departmental assets were \$10 million higher than forecast due to following:

- cash and bank balances are higher by \$16.5 million as the NZ Transport Agency accrued expenditure at higher levels than previously
- receivables and advances are \$4.5 million lower due to:
 - no prepayments this year
 - tolling and infringement revenue is lower than forecast by \$5 million
 - motor vehicle register fees received are higher by \$6.0 million
 - the provision for doubtful debts reduced by \$6.5 million
- investment in joint venture airports is \$2 million lower than budget (note 10).

Schedule of non-departmental liabilities

Payables were \$82 million higher than forecast. Non-departmental payables relate to timing of payments to Crown agencies under Vote Transport. The agencies generally request sufficient cash to cover their expenditure for the month and this can vary.

Audit report

To the readers of the Ministry of Transport's financial statements, non financial performance information and schedules of non-departmental activities for the year ended 30 June 2012.

The Auditor-General is the auditor of the Ministry of Transport (the Ministry). The Auditor-General has appointed me, Kelly Rushton, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements, the non-financial performance information and the schedules of non-departmental activities of the Ministry on her behalf.

We have audited:

- the financial statements of the Ministry on pages 41 to 62, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2012, the statement of comprehensive income, statement of movements in equity, statement of departmental expenses and capital expenditure against appropriations, statement of unappropriated expenditure and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the non-financial performance information of the Ministry on pages 16 to 35, that comprises the statement of service performance, and the report on outcomes on pages 38 to 40;
- the schedules of non-departmental activities of the Ministry on pages 63 to 78 that comprise the schedule of assets, schedule of liabilities, statement of commitments and statement of contingent liabilities as at 30 June 2012, the schedule of revenue and receipts, schedule of expenses, statement of expenditure and capital expenditure against appropriations, statement of unappropriated expenditure and capital expenditure, for the year ended on that date and the notes to the schedules that include accounting policies and other explanatory information.

OPINION

In our opinion:

- the financial statements of the Ministry on pages 41 to 62:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect the Ministry's:
 - financial position as at 30 June 2012;
 - financial performance and cash flows for the year ended on that date;
 - expenses and capital expenditure incurred against each appropriation administered by the Ministry and each class of outputs included in each output expense appropriation for the year ended 30 June 2012; and
 - unappropriated expenses and capital expenditure for the year ended 30 June 2012; and
- the non-financial performance information of the Ministry on pages 16 to 35 and pages 38 to 40:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects the Ministry's service performance and outcomes for the year ended 30 June 2012, including for each class of outputs:
 - its service performance compared with the forecasts in the statement of forecast service performance at the start of the financial year; and
 - its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.
- the schedules of non-departmental activities of the Ministry on pages 63 to 78:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect:
 - the assets, liabilities, contingencies, commitments and trust monies as at 30 June 2012 managed by the Ministry on behalf of the Crown; and
 - the revenues, expenses, expenditure and capital expenditure against appropriations and unappropriated expenditure and capital expenditure for the year ended on that date managed by the Ministry on behalf of the Crown.

Our audit was completed on 28 September 2012. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Chief Executive and our responsibilities, and we explain our independence.

BASIS OF OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements, the non-financial performance information and the schedules of non-departmental activities are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements, the non-financial performance information and the schedules of non-departmental activities. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements, and the non-financial performance information and the schedules of non-departmental activities. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, the non-financial performance information and the schedules of non-departmental activities, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Ministry's preparation of the financial statements, the non-financial performance information and the schedules of non-departmental activities that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Ministry's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Chief Executive;
- the appropriateness of the reported non-financial performance information within the Ministry's framework for reporting performance;
- the adequacy of all disclosures in the financial statements the non-financial performance information and the schedules of non-departmental activities; and
- the overall presentation of the financial statements, the non-financial performance information and the schedules of non-departmental activities.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements, the non-financial performance information and the schedules of non-departmental activities. We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE CHIEF EXECUTIVE

The Chief Executive is responsible for preparing:

- financial statements and non-financial performance information that:
 - comply with generally accepted accounting practice in New Zealand;
 - fairly reflect the Ministry's financial position, financial performance, cash flows, expenses and capital expenditure incurred against each appropriation and its unappropriated expenses and capital expenditure; and
 - fairly reflect its service performance and outcomes;
- schedules of non-departmental activities, in accordance with the Treasury Instructions 2011 that:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect those activities managed by the Ministry on behalf of the Crown.

The Chief Executive is also responsible for such internal control as is determined is necessary to enable the preparation of financial statements, the non-financial performance information and schedules of non-departmental activities that are free from material misstatement, whether due to fraud or error.

The Chief Executive's responsibilities arise from the Public Finance Act 1989.

RESPONSIBILITIES OF THE AUDITOR

We are responsible for expressing an independent opinion on the financial statements, the non-financial performance information and the schedules of non-departmental activities and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

INDEPENDENCE

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Other than the audit, we have no relationship with or interests in the Ministry.



Kelly Rushton
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of the Ministry of Transport for the year ended 30 June 2012 included on the Ministry of Transport's web site. The Ministry of Transport is responsible for the maintenance and integrity of the Ministry of Transport's web site. We have not been engaged to report on the integrity of the Ministry of Transport's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 28 September 2012 to confirm the information included in the audited financial statements presented on this web site.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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