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Parliamentary paper

Transport sector: Results of the 2011/12 audits





Office of the Auditor-General
PO Box 3928, Wellington 6140

Telephone: (04) 917 1500
Facsimile: (04) 917 1549

Email: reports@oag.govt.nz
Website: www.oag.govt.nz

Transport sector: Results of the 2011/12 audits

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Auditor-General's overview

This is our first report specifically about our audits of public entities in the transport sector. It builds on the overview of our work on transport that we provided to the Transport and Industrial Relations Committee in March 2012.

This report focuses on the results of our annual audits of central government transport entities and the transport-related information contained in local authorities' 2011/12 annual reports and 2012-22 long-term plans.

From our audit work in the sector, we found that the central government transport entities have good systems and controls. These entities have improved the quality of their service performance reporting in recent years. We also found that some local authorities' service performance reporting has improved through explaining their longer-term results.

In 2010 and 2011, we completed two performance audits into how NZTA is maintaining and renewing the state highway network. We found that, overall, NZTA effectively and efficiently maintains the state highway network to the required condition by ensuring that quality and timely maintenance and renewal work is completed on the network.

In our 2011/12 annual audit of KiwiRail, we found that it is making steady progress to improve its asset management and recommended where we think further attention is required.

Our audits of local authorities' 2012-22 long-term plans found that local authorities face many challenges planning transport activities – these include how best to replace ageing infrastructure, responding to changing land use, and managing higher input costs.

There is evidence that local authorities are well placed for long-term sustainability of transport assets because of forecast investment and reinvestment. However, the investment forecast relies on good asset management planning.

Transport is important to all New Zealanders. Strong links between road, rail, shipping, and aviation are vital for moving people and freight around the country and overseas and for supporting our country's social and economic performance.

The transport sector employs more than 80,000 people and accounts for about 5.2% of New Zealand's gross domestic product. The transport sector also has strategically important assets of high value, such as the state highway network, local roads, and rail networks.

There are complex arrangements between central government, local government, and private investors who provide diverse public and commercial services. Transport entities operate in a regulated environment with challenges and opportunities.

The transport sector faces both old and new challenges. Pressure on funding has led to changes such as new road user charges, and local authorities are looking at alternative ways to manage local roads. We have seen the effects of such disasters as the Canterbury earthquakes and the oil spill resulting from the grounding of the MV *Rena*. Events such as these challenge the resilience and reliability of our transport infrastructure and services, and test how ably the transport sector can adapt and respond effectively, efficiently, and sustainably.

Change is under way. We will be watching to see how transport entities adapt and respond to regulatory reform and reviews of the funding arrangements for work on local roads.

A handwritten signature in black ink, appearing to read 'Lyn Provost', written in a cursive style.

Lyn Provost
Controller and Auditor-General

25 March 2013

Part 1

Introduction

- 1.1 The Government's objective for transport is for an effective, efficient, safe, secure, accessible, and resilient transport network that supports the growth of our economy, to deliver greater prosperity, security, and opportunities for all New Zealanders.
- 1.2 The priorities for transport are:
 - investment in infrastructure;
 - better quality regulation;
 - a safe transport system; and
 - opening markets.¹
- 1.3 Alongside those priorities, the transport system also needs to be able to respond to other issues, including the Government's drive for better public services, and unforeseen circumstances such as the Canterbury earthquakes or the MV *Rena* grounding.
- 1.4 The annual and permanent appropriations for Vote Transport for 2012/13 total \$3.8 billion.² The Vote also includes two multi-year appropriations that total \$152.6 million for 2012/13.³ Local authorities provide revenue for transport through rates and charges, and Crown entities receive fees and charges for the services they provide. Part 2 contains further information about funding for the transport sector.
- 1.5 The main value we add to the transport sector is through our annual audits, which provide independent, professional assurance of the quality of transport entities' public reporting. We provide assurance about financial and service performance information by stating whether that information, in our opinion, fairly reflects the entities' performance. If the information fairly reflects performance, then that allows Parliament and the public to evaluate it and should allow them to be confident about decision-making.
- 1.6 The purpose of this report is to inform Parliament and the public about the results of our 2011/12 annual audits of transport entities in the public sector and the transport-related information contained in local authorities' 2011/12 annual reports and 2012-22 long-term plans.
- 1.7 In addition to our annual and long-term plan audit work, we work with transport entities to help them to improve service performance reporting information and, from time to time, we carry out performance audits and inquiries on aspects of their business.

1 Ministry of Transport, *Statement of Intent 2012-15*, page 1.

2 The Estimates of Appropriations 2012/13, page 283.

3 The Estimates of Appropriations 2012/13, page 284.

- 1.8 Recent performance audits have included looking at how ONTRACK (now the New Zealand Railways Corporation, trading as KiwiRail) and the New Zealand Transport Agency (NZTA) maintain and renew the rail and state highway networks, and follow-up audits that looked at the certification and surveillance functions of the Civil Aviation Authority of New Zealand (CAA).
- 1.9 During 2011/12, we started work to look at the introduction of integrated ticketing into Auckland's public transport network. However, this work is on hold pending resolution of a dispute between some of the parties involved in integrated ticketing.
- 1.10 Part 2 contains a brief overview of the transport sector and the nature and extent of our work in the sector.
- 1.11 In Part 3, we provide information about the results of our audit work on the central government transport entities. This includes information about our audit reports on the financial statements and other information (such as service performance information), our assessment of how effective the systems and controls used to manage operations are, and the significant matters that annual audits have raised.
- 1.12 In Part 4, we report the results of our analysis of transport-related information included in local authorities' 2011/12 annual reports.
- 1.13 In Part 5, we report the results of our analysis of the transport-related information included in local authorities' 2012-22 long-term plans.
- 1.14 In line with our plan to do more sector-specific reporting, we plan to write a transport sector report every two to three years, depending on other priorities.
- 1.15 We are also preparing a multi-year work programme that will signal our likely work on central and local government during the next five years. Our first integrated multi-year work programme is likely to be in place for 2014/15 and will include the transport topics that we are likely to focus on.

Part 2

Overview of the transport sector

- 2.1 In this Part, we list the main central government transport-related entities and discuss the role of local government in the transport sector, the transport operating environment, how public transport is funded, and risks and challenges (including emerging risks) in the transport sector.

The main transport entities

- 2.2 This report focuses on eight central government transport entities:
- Airways Corporation of New Zealand Limited;
 - the CAA, including the Aviation Security Service;
 - Maritime New Zealand;
 - the Ministry of Transport;
 - KiwiRail;
 - NZTA;
 - the Road Safety Trust; and
 - the Transport Accident Investigation Commission.
- 2.3 Other central government entities that play an important role in transport are:
- New Zealand Police, which provides road policing services;
 - Meteorological Service of New Zealand Limited, which provides public weather forecasting services and information for international air navigation; and
 - the Treasury's National Infrastructure Unit, which analyses Vote Transport and reviews business cases for major investments in transport infrastructure that are outside the National Land Transport Fund (NLTF), and the Crown Owned Monitoring Unit (COMU), which monitors the transport State-owned enterprises.
- 2.4 This report also focuses on local authorities' important role in the transport sector. Local authorities own, maintain, and build the local roading network and carry out regulatory transport functions. Local authorities fund land transport infrastructure alongside central government and are also responsible for regional and local transport planning and land use planning.
- 2.5 Private and public (both central and local government) interests own and invest in aviation infrastructure and air services. Local authorities own most of the country's ports and airports.

The transport operating environment

- 2.6 The transport operating environment is characterised by:
- transport being a vital enabler in supporting New Zealand's economic growth and a crucial component of the domestic and international supply chain;
 - strategically important and high-value infrastructure assets;
 - complex and high-value funding arrangements within and between central and local government and the private sector;
 - a mix of public and private ownership of transport infrastructure, with (financially significant) land transport infrastructure being largely in public ownership and most maritime and aviation services being provided commercially;
 - multiple and complex relationships that include bilateral and multilateral agreements, often between parties with different priorities and agendas;
 - a highly regulated international environment with respect to maritime and aviation, which means New Zealand needs to make significant efforts to maintain alignment with international standards;
 - challenging, sensitive, and high-profile public/social policy matters, such as blood alcohol limits and the minimum driving age;
 - influential and active sector interest and user groups; and
 - some out-dated regulations.
- 2.7 In common with other public entities, transport entities face fiscal constraints and many are reviewing business models to ensure that they work in the most effective and efficient way.
- 2.8 During 2011/12, many transport entities took steps to save costs, such as by sharing corporate functions through shared services arrangements.

Funding the transport sector

Central government

- 2.9 Land transport projects and activities in the National Land Transport Programme are funded through the NLTF. Fuel excise duties, road user charges, and motor vehicle registration fees fund the NLTF.
- 2.10 NZTA assigns NLTF money, which is used only for land transport investments and services. The NLTF funds:
- the full cost of state highways;
 - New Zealand Police's road safety work;

- about half the cost of local roads;
- transport planning and public transport services; and
- walking, cycling, and safety initiatives.

2.11 Four key themes underpin National Land Transport Programme (NLTP) activities in 2012-15:⁴

- ensuring value for money;
- supporting economic growth and productivity;
- improving safety; and
- providing travel choices.

2.12 NZTA uses the NLTF to allocate funds to local roads and public transport work and services. The amount is based on its NLTP.

The role of local government

2.13 Local authorities are responsible for local roads and public transport services. Local roads make up about 80,000 kilometres (or 88%) of all New Zealand roads. The funding for work on local roads and public transport comes from several sources, including:

- local rates;
- other local sources, such as development contributions;
- fares; and
- government funding through the NLTF – the central government funding that a local authority receives from the NLTF is based on the funding assistance rate (FAR).

2.14 NZTA is currently reviewing the FAR.

2.15 The NLTF provides subsidies for public transport, mainly to local authorities for planning and providing public passenger transport services.

2.16 The Government directly funds certain work, such as providing capital investment to support KiwiRail's Turnaround Plan. Other transport agencies receive revenue from service fees and charges. For example, the CAA collects passenger security levies.

Ports and airports

2.17 Port and airport companies are mostly funded through user charges.

4 See the National Land Transport Programme 2012-2015, available at www.nzta.govt.nz.

Sector risks and challenges

- 2.18 Our audit work identified a number of risks and challenges to the transport sector, including:
- funding challenges;
 - a high risk of natural disasters and significant costs involved in the response to them;
 - significant oil price spikes affecting the cost of building assets and providing services;
 - challenges of regulatory reform; and
 - alignment of central and regional policies and planning.
- 2.19 In addition, we note that transport entities have an ongoing focus on delivering greater value for money, improving transport safety, and strengthening network resilience.
- 2.20 Our preliminary risk assessment identified that the transport sector is more exposed to global events than other sectors. This is partly because of the interconnectedness of the global transport supply chain.
- 2.21 In paragraphs 2.22-2.43, we comment on these challenges and risks.

Funding challenges

- 2.22 Making the best use of the funding available to the sector remains an ongoing challenge for transport entities. In the current fiscal environment, all transport entities need to ensure that they get the most value from the funding available to them.
- 2.23 There have been efforts to address the medium- and longer-term funding challenges. For example, in October 2012, NZTA introduced new charges for some road users and for registering and licensing motor vehicles. Also, the Government recently announced that it intended to increase petrol excise duties in each of the three years 2012/13 to 2014/15. By increasing revenue, these changes will help to fund the Roads of National Significance and other transport work set out in the *Government Policy Statement on Land Transport Funding 2012*.
- 2.24 KiwiRail's 10-year Turnaround Plan is aimed at making KiwiRail a sustainable rail business by 2020. The Turnaround Plan envisages KiwiRail receiving government funding of \$1.1 billion during the 10 years to 2020 to support its \$3.1 billion (excluding metropolitan projects and renewals) capital work programme. Budget 2012 included an appropriation of \$250 million for KiwiRail, the final part of a three-year funding package in support of the Turnaround Plan. On 16 July 2012,

the Government also agreed to convert \$322.5 million of historic debt to equity. KiwiRail has begun talks with the Government about funding beyond 2013, particularly about the remaining government funding signalled in the original plan.

- 2.25 Having identified significant funding pressure on their maintenance of local roads, local authorities have reprioritised and, in some cases, reduced their investment and services. To do this, local authorities will need to consider how they renew and maintain roads. This is likely to affect the road condition and levels of service roads provide. Part 5 contains more commentary on transport funding and capital expenditure in local authorities' long-term plans.

Natural disasters

- 2.26 The *New Zealand Survey of Risk 2012 (The fifth Marsh biennial report)* rates risks to New Zealand from natural disasters as “high”.⁵
- 2.27 There are many examples of natural disasters affecting operational ability and transport infrastructure. The most notable example is the Canterbury earthquakes. Flooding in Nelson and the Manawatu, and Waioeki Gorge slips, have also had significant effects on regional transport movements.
- 2.28 The direct costs of recovery from these events are significant. However, the indirect costs of being unable to respond or of recovering slowly can significantly affect the economy for a long time.
- 2.29 Public entities should have strong asset management plans and practices including how they intend to address the risks of, and to respond to, natural disasters. They should invest appropriately in maintaining their assets in case of uncertain events or circumstances. Also, strategic asset management plans may include cost-effective actions for responding to risks related to climate change.

Oil price volatility

- 2.30 Volatile oil prices are a significant risk to the transport sector. Higher oil prices will increasingly affect services to communities and businesses.
- 2.31 High oil prices put pressure on consumers to use less oil. Reduced car use and more-efficient vehicles lower the tax revenue from fuel excise and reduce funding for transport solutions. At the same time, reduced car use leads to increased demand for passenger transport services and therefore, an increase in the volume of subsidies paid to regional councils who provide those services.
- 2.32 High oil prices increase the cost of maintaining and building transport infrastructure. For example, the main cost in building roads is the price of oil and

⁵ Available at the Marsh website, www.marsh.co.nz.

bitumen used in road materials. Local authorities are turning to alternative ways to build and replace road assets while seeking to provide the same service (see paragraph 5.25).

- 2.33 Airlines are investing in more fuel-efficient aircraft that are more environmentally friendly.

Transport regulation reform

- 2.34 The Government has a focus on improving the quality of regulation and removing unnecessary regulation. The Ministry of Transport has a role in promoting transport regulations and frameworks that reflect good practice.

- 2.35 Lifting the quality of transport regulation will help markets to function well by ensuring that regulatory costs and charges are minimised, so businesses and others are not burdened by unnecessary compliance costs or outdated regulation, and that transport regulation is well understood and compliance is maximised.⁶

- 2.36 The National Infrastructure Unit considers transport regulation to be effective but has identified that “it is not clear that the current regulatory settings facilitate the investment needed to meet long-term infrastructure needs”.⁷ The Ministry of Transport is carrying out regulatory reform. In its view, “Improving the quality of regulation and removing any unnecessary regulation is an important part of the Government’s economic programme.”⁸

- 2.37 In collaboration with the Ministry of Transport, NZTA has responded to the Government’s expectation of better regulation by changing the warrant and certificate of fitness regimes. The changes are designed to save motorists and businesses money when they register and license a vehicle. NZTA has increased other fees and charges to reflect the costs of delivering the service.

Alignment of central and regional policies and planning

- 2.38 There is a risk that funding decisions made nationally do not consider the competing needs of all regions.
- 2.39 The Government is prioritising Roads of National Significance and the Canterbury rebuild. This creates funding pressures in other aspects of the NLTP. Local authorities rely heavily on central government subsidies for work on roads. Some local authorities have ageing roading networks and have to decide how best to maintain those assets (see paragraphs 5.16-5.26).

6 Ministry of Transport, *Statement of Intent 2012-2015*.

7 *National Infrastructure Plan 2011*, page 13. The National Infrastructure Unit is a Unit within the Treasury to help it to permanently lift the sustainable growth rate of the economy.

8 See the Ministry of Transport website, www.transport.govt.nz.

- 2.40 The cross-sector Road Maintenance Task Force in October 2012 identified four areas for improving value for money and opportunities to reduce costs for roading authorities in the road maintenance, operations, and renewals areas. The four recommendations were about collaboration between roading authorities, procurement, prioritisation of decision-making, and asset management planning.⁹
- 2.41 After the Task Force report, a Roothing Efficiency Group was established to continue the work of the Task Force. This Group expects to complete most of its work by the end of 2013.
- 2.42 The Treasury's *National State of Infrastructure Report 2012* highlights increasing co-ordination between local and central government, especially in Auckland and Christchurch, and continued development of the upper North Island freight network.¹⁰ This report builds on work to identify the main strategic freight routes and reclassify the roading network to better understand the core functions of each road and target planning and investment most effectively.
- 2.43 Work is ongoing to agree the long-term funding model for the Canterbury rebuild. There is also work being done to identify an agreed and affordable way forward to improve Auckland's transport infrastructure and services.¹¹ Both of these major challenges increase pressure on available funding and require good quality information on which to prioritise infrastructure investment decisions.

9 The report of the Road Maintenance Task Force is available on NZTA's website: www.nzta.govt.nz.

10 *National State of Infrastructure Report 2012*, page 22.

11 The Government spends about \$1 billion a year on Auckland's transport needs.

Part 3

Results of audits of central government transport entities

Summary

- 3.1 Under section 15 of the Public Audit Act 2001, the Auditor-General audits the financial statements and other information that each of eight central government transport entities (see paragraphs 3.4 and 3.5) and their subsidiaries are required to have audited. Appendix 2 includes details of the subsidiaries for each of these entities.
- 3.2 Our annual audits of these entities are designed to give assurance that each entity's annual report fairly reflects its financial and service performance.
- 3.3 In this Part, we discuss the eight central government transport entities' audit results for 2011/12, including the audit opinion, our assessment of their management control environments, our assessment of their systems and controls for financial and (where required) service reporting, and significant matters arising from our audit work.

Audit opinions

- 3.4 We issued an unmodified audit opinion on the financial statements and service performance information of:
- the CAA;
 - Maritime New Zealand;
 - the Ministry of Transport;
 - NZTA; and
 - the Transport Accident Investigation Commission.
- 3.5 We also issued an unmodified audit opinion on the financial statements of:
- Airways Corporation of New Zealand Limited;
 - KiwiRail; and
 - the Road Safety Trust.¹²
- 3.6 An unmodified audit opinion means that the financial statements (and service performance information) complied with generally accepted accounting practice and fairly reflected the entities' performance for 2011/12.
- 3.7 Under the Land Transport Management Act 2003, we are required to separately audit the financial statements and statement of service performance of the NLTF.
- 3.8 We expressed an unmodified audit opinion on the NLTF's financial statements and statement of service performance for 2011/12.

¹² These three public entities do not have to have their service performance information audited. The Road Safety Trust is a Crown-established Trust that is to be wound up by June 2013. NZTA is to take over the Road Safety Trust's functions.

Good systems and controls

- 3.9 In our view, all central government transport entities have good systems and controls.
- 3.10 As part of our annual audits, we assess and grade the management control environment of all public entities and their financial information systems and controls. (Appendix 3 contains more information about this, including explanations of the grades.) We assess and grade the service performance reporting of some central government transport entities (see Figure 1). We report our assessments to each entity's management and governing board (where appropriate) and to the relevant Ministers.
- 3.11 In 2011/12, the seven transport entities that we assessed had "very good" or "good" management control environments and financial information systems and controls. The Road Safety Trust was not assessed because of its small size and entity type.
- 3.12 The grades for service performance information and associated systems showed a significant improvement in 2011/12. Four of the five transport entities we assessed had "good" grades, and one entity was graded as "needs improvement". These entities are continuing to work to further improve their service performance information.

Figure 1

Summary of central government transport entities' 2011/12 grades for management control environment, financial information systems and controls, and service performance information and associated systems

Public entity	Management control environment	Financial information systems and controls	Service performance information systems and controls
Airways Corporation of New Zealand Limited	Very good	Good	N/A
Civil Aviation Authority	Good	Good	Good
Maritime New Zealand	Very good	Very good	Good
Ministry of Transport	Very good	Very good	Good
KiwiRail	Good	Very good	N/A
NZTA	Good	Good	Good
Transport Accident Investigation Commission	Very good	Very good	Needs improvement

Significant matters arising from the 2011/12 audits

3.13 Paragraphs 3.14-3.49 discuss the most significant matters arising from our 2011/12 audits of central government transport entities.

KiwiRail's balance sheet restructure

3.14 On 27 June 2012, the Government announced a balance sheet restructure of KiwiRail. There were two main parts of the restructure:

- New Zealand Railways Corporation would continue to hold the 18,000 hectares of rail network land, from which no financial return is expected. After the restructuring of KiwiRail, the sole purpose of the New Zealand Railways Corporation would be to own the railway land.
- From 1 January 2013, KiwiRail's freight, passenger, infrastructure, and ferry businesses, together with rolling stock, rail infrastructure, and plant and equipment, would be transferred to a new state-owned enterprise, KiwiRail Holdings Limited. New Zealand Railways Corporation would grant the use of the railway land to KiwiRail Holdings Limited, and all New Zealand Railways Corporation's employees were to be transferred to KiwiRail Holdings Limited on 1 January 2013.

3.15 In April 2012, we told KiwiRail's Board that, although KiwiRail Holdings Limited will be an entity with mixed objectives (because it will incorporate metropolitan and freight rail infrastructure), we were satisfied on balance that the Board's decision to designate KiwiRail Holdings Limited as a profit-oriented entity for financial reporting purposes was not unreasonable but marginal. We noted the importance of continuing to reassess the appropriateness of KiwiRail Holdings Limited being designated as a profit-oriented entity.

3.16 The main considerations in reaching our view were:

- although the intentions of the Government, the Board, and management are clearly in line, it was difficult to assess how realistic those intentions are for the medium to long term;
- as an asset-intensive business, KiwiRail will continue to have significant renewal and replacement "capital expenditure" and will need to account appropriately for this;
- KiwiRail is more than a commercially focused freight business – it has responsibility for metropolitan passenger services and significant metropolitan infrastructure assets; and
- the rail infrastructure assets (metropolitan and freight) represent a significant asset management challenge for KiwiRail, irrespective of how those assets are valued.

- 3.17 Our concerns included that a significant recent financial investment in public benefit assets (metropolitan rail infrastructure) would effectively be written off and dilute accountability for those assets. However, the subsequent treatment of metropolitan rail assets within the Government's financial statements as public benefit assets means that this is now less of a concern to us. If much of what would normally be accounted for as capital expenditure had to be expensed in future, it would not sit comfortably with KiwiRail Holdings Limited being a commercially focused business.
- 3.18 Because the Government's decision on the balance sheet restructure happened before the end of 2011/12, the infrastructure and rolling stock assets that were to be transferred to KiwiRail Holdings Limited (as a profit-oriented entity) had to be tested for impairments to take into account future cashflows. The results of these impairment tests are reflected in the 2011/12 financial statements.
- 3.19 KiwiRail wrote down the value of the infrastructure and rolling stock assets by \$7 billion. In our view, the \$7 billion asset impairment in KiwiRail's 2011/12 financial statements complied with generally accepted accounting practice.
- 3.20 KiwiRail offset almost \$5 billion of the impairment against revaluation reserves.¹³ The remaining \$2 billion was expensed through the statement of financial performance.
- 3.21 We note that, in the Government's 2011/12 financial statements, the metropolitan-only rail infrastructure assets have been accounted for differently than in KiwiRail's financial statements. KiwiRail has treated these assets purely commercially, consistent with the Government's expectation that KiwiRail generate a commercial return from the whole rail network.
- 3.22 The metropolitan-only rail infrastructure assets are recognised differently in the Government's financial statements because, despite the Government's expectation, the primary purpose for those assets at a whole-of-government level is a public benefit purpose (such as reduced congestion on roads and, therefore, reduced travel times) rather than generating a commercial return from the use of those assets. This has resulted in the metropolitan-only rail assets being valued higher by \$0.5 billion in the Government's financial statements than in KiwiRail's financial statements.

KiwiRail's progress with managing assets

- 3.23 KiwiRail is steadily improving how it manages assets, particularly in the Freight and Infrastructure and Engineering business units. We note the internal advice to KiwiRail's Infrastructure and Asset Management Committee at its February 2012 meeting that "asset management planning is in a varying state of development".

¹³ KiwiRail, 2012 Annual Report, note 17 *Impairment of property, plant, and equipment*, page 74.

- 3.24 We recommended that KiwiRail consider strengthening its asset information database and prepare asset management plans for the Interislander business unit and for Property (Land and Commercial Building) assets. In our view, KiwiRail has addressed five of the nine recommendations from our 2010/11 audit. We consider that KiwiRail could address the remaining “open” recommendations when the next round of asset management plans are released.
- 3.25 KiwiRail faces significant financial constraints. When the Crown bought back the rail network, many catch-up renewals were required. Managers said that clearing this legacy would take 20 to 40 years. Funding for asset renewals and maintenance for the three years 2012/13 to 2014/15 is short of what is required to address the legacy of deferred maintenance. However, managers told us that it is plans to increase funding from 2015/16 to address backlog maintenance and renewal requirements. To ensure that greater earnings growth is realised before over-extending the business with capital expenditure, the Infrastructure and Engineering business unit is reducing capital expenditure by \$200 million in the three years 2012/13 to 2014/15, including track renewal reductions of 20% in 2012/13, 45% in 2013/14, and 50% in 2014/15. Planned expenditure for these three years is \$750 million (\$550 million capital expenditure and \$200 million maintenance).¹⁴
- 3.26 KiwiRail has advised us that it took into account how budget decisions affect service. We note that there could be increased risks of unexpected failure of assets. Managers told us that KiwiRail’s inspection and maintenance procedures will secure safe operations and that – mostly – this should not affect the most important train corridors in terms of service performance.

How the New Zealand Transport Agency manages cashflow

- 3.27 NZTA uses a borrowing facility with the New Zealand Debt Management Office. NZTA may borrow up to \$250 million to help pay for the delivery of activities funded by the NLTF.
- 3.28 To use the borrowing facility, NZTA must manage cash well.
- 3.29 Recognising the need to better manage cash, NZTA commissioned an independent review to contribute to the overall management of the NLTF and related cashflows.
- 3.30 The review identified the need for a more formal system and better forecasts of cashflow.
- 3.31 NZTA has made good progress in addressing the review’s recommendations and is working to formalise how it manages cashflow and make cash requirements

¹⁴ The capital expenditure of \$550 million includes \$91.5 million for metropolitan rail infrastructure renewals.

forecasting more reliable. We plan to review the changes as part of our 2012/13 annual audit of NZTA.

- 3.32 As part of our 2011/12 audit, we looked at the processes in place to ensure that the financial records of NZTA and the Ministry of Transport reconciled.
- 3.33 We recommended that the Ministry of Transport advise NZTA the balance available for the NLTF each month. We understand that the entities have addressed our recommendation.

The New Zealand Transport Agency's future work on the state highway valuation

- 3.34 NZTA is working with external valuers, Opus Limited, to improve the asset and financial records of the state highway assets.
- 3.35 A key component of the proposed changes is to include a calculation of the "brownfield" costs of roadwork.¹⁵ These costs are not currently incorporated in the valuation.
- 3.36 NZTA plans to set up a project team to review the external valuer's assessment of brownfield costs. The project team will ensure that the valuer's assessments of costs meet the definition of property, plant, and equipment in New Zealand Accounting Standard NZ IAS 16: *Property, Plant and Equipment*.
- 3.37 We understand that, when the review is complete, NZTA plans to capitalise the costs as part of its regular valuation of state highways.

How the New Zealand Transport Agency procures and manages contracts

- 3.38 Funding, procuring, and managing contracts effectively remains a focus throughout the public sector and is significant for NZTA.
- 3.39 Our previous reviews of NZTA's procurement policies led us to conclude that they were consistent with good practice. Our review of related assurance activity in 2010/11 led us to conclude that NZTA had adequate assurance mechanisms in place for all major procurement work, including new work, renewals, and maintaining state highways.
- 3.40 In 2011/12, we followed up on NZTA's progress in addressing previous audit recommendations and reviewed a sample of projects to ensure that the policies were being followed. We did not find any significant discrepancies.

¹⁵ "Brownfields" in the NZTA context are where highways have been built through built-up areas, resulting in movement of buildings and services.

The Civil Aviation Authority's financial viability and funding review

- 3.41 In July 2011, the Government decided to reduce passenger security charges at airports, so as to reduce the significant amounts in the domestic and international passenger security charge accounts by the end of 2012/13. In deciding to reduce the charges, the Government recognised that they would not fully recover current costs until the account balances were sufficiently reduced. Charges would then be increased to fully recover costs. Reducing the charges successfully reduced the passenger security account balances. However, because passenger volumes were lower than forecast, this happened three months earlier than expected.
- 3.42 The CAA's longer-term financial viability needs to be addressed. The Minister of Transport is working with the CAA Board to change the passenger security charges to allow operations to continue sustainably. The Minister and Board are finalising the review of passenger security charges that the Aviation Security Services sets. New security charges are expected to be set before the end of 2012/13.

How the Civil Aviation Authority is responding to our performance audit recommendations

- 3.43 Having put in place changes to improve performance and work culture, the CAA was required to report to the Minister of Transport each quarter about how it was addressing the recommendations included in the report on our June 2010 performance audit.¹⁶ In our view, cultural change in the organisation was required to make these changes permanent.
- 3.44 We worked with the CAA to complete our quarterly reports review, which was then provided to the Minister of Transport. We provided feedback on the CAA's work to address the recommendations in our performance audit. The CAA has made good progress in responding to these recommendations. As at 30 June 2012, the CAA had addressed nine recommendations, with four remaining.
- 3.45 As part of our annual audits of the CAA, we will continue to monitor progress on the outstanding recommendations.

Maritime New Zealand's response to the *Rena* grounding

- 3.46 On 4 October 2011, New Zealand experienced its worst marine environmental disaster when the MV *Rena* hit the Astrolabe Reef near Tauranga.
- 3.47 Maritime New Zealand and the New Zealand Oil Pollution Fund put in place emergency measures to manage the resulting oil spill and oversee the salvage operations of the vessel and cargo.

¹⁶ *The Civil Aviation Authority's progress with improving certification and surveillance*, June 2010.

- 3.48 We extended the scope of our audit of Maritime New Zealand and the New Zealand Oil Pollution Fund to assure those concerned that the financial management of the response was appropriate.
- 3.49 We found that Maritime New Zealand and the New Zealand Oil Pollution Fund put in place appropriate systems and controls to manage expenditure and revenue. We are satisfied that there were appropriate systems in place to record, collate, and report on the financial transactions involved in managing the response to the *Rena* grounding.

Part 4

Analysing transport-related information in our audits of local authorities' 2011/12 annual reports

- 4.1 In this Part, we give an overview of the roads that local authorities are responsible for maintaining. The local authorities with the largest populations do not always have the largest roading networks.
- 4.2 We also comment on the transport-related information in local authorities' 2011/12 annual reports. We noted that:
- in 2011/12, local authorities received \$938 million of NZTA transport subsidies towards their transport activities – NZTA is currently carrying out a comprehensive review of the financial assistance rate that it provides to local authorities;
 - local authorities had less capital expenditure on transport activities than budgeted, with significant variances for Auckland Council and Christchurch City Council; and
 - local authorities' reporting of service performance has improved – we continue to encourage local authorities to consider how best to present service performance information, which is an important part of telling their performance story.

The information that we considered

- 4.3 For their 2011/12 annual reports, local authorities reported against the financial and service performance targets set out in their 2009-19 long-term plans (formerly the Long-Term Council Community Plans).¹⁷
- 4.4 Local authorities set out actual financial results against the forecast (“budget” or “annual plan”) financial information in their annual reports, in compliance with Part 3 of Schedule 10 of the Local Government Act 2002 (LGA). Apart from the financial statements, local authorities must include financial and service information about groups of activities.¹⁸
- 4.5 For the 2009-19 long-term plans, local authorities could choose which activities to include within a group of activities. Because of this, how local authorities set out or grouped their transport services varied. For example, Ashburton District Council included roading and footpath activities within “Essential Services”, Marlborough District Council’s “Land Transport” activities included roading and parking, and Auckland Council provides roading services through Auckland Transport.

¹⁷ Because 2011/12 is the third year of the 2009-19 long-term plans, local authorities prepare an annual plan for 2011/12 that includes forecast information from the long-term plan and updated annual plan forecasts.

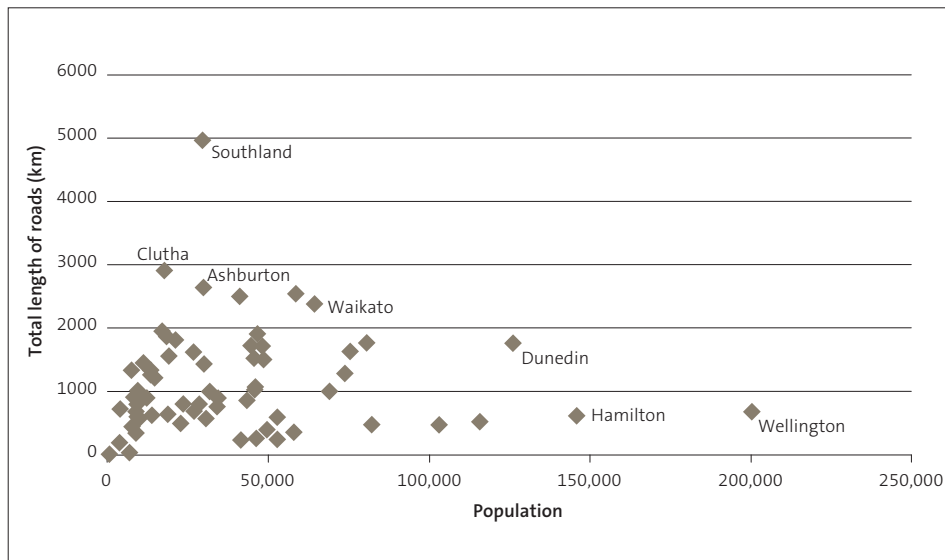
¹⁸ The Local Government Act defines a “group of activities” as one or more related activities provided by, or on behalf of, a local authority or council-controlled organisation.

- 4.6 Regional authorities grouped public transport and regional transport planning activities differently. As a result, we were unable to collect and report information that relates only to transport.
- 4.7 The changes resulting from the transparency, accountability, and financial management (TAFM) reform of the LGA should mean that, from 2012/13, we will be able to provide more comparable financial information on local authority transport work and results. Part 5 outlines what local authorities needed to comply with when preparing their 2012-22 long-term plans.

Where the roads and people are

- 4.8 Figure 2 shows the population and total length of roads for each territorial local authority.¹⁹ For reasons of scale, we have not shown Auckland Council (with a population of 1.5 million and 7144 kilometres of roads) or Christchurch City Council (with a population of 367,900 and 2909 kilometres of roads).

Figure 2
Population and total length of roading network of territorial local authorities, 2011



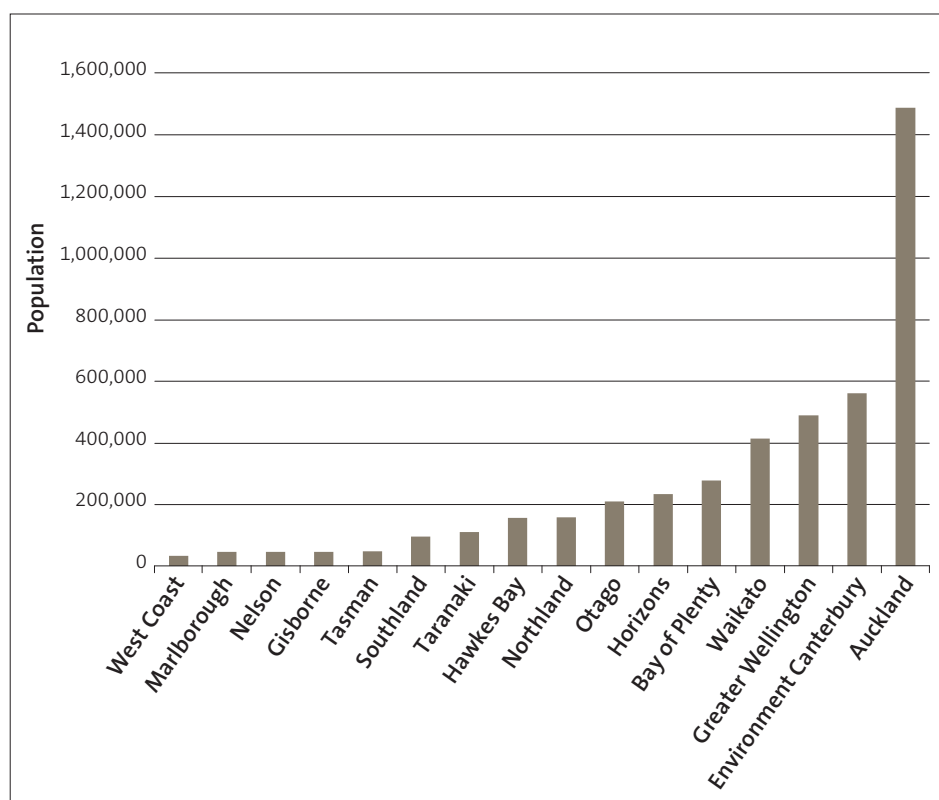
Note: Populations shown are Statistics New Zealand estimates for 2011.

- 4.9 Figure 2 shows that territorial local authorities with the largest populations (typically the metropolitan local authorities) do not always have the largest roading networks. Rural (and often small) local authorities typically have larger roading networks to maintain and service.

¹⁹ See the NZTA database at www.smartmovez.org.nz.

- 4.10 Figure 3 shows population by regional council or unitary local authorities – the population that the local authorities have to consider in their regional transport planning, which includes public transport planning and services.²⁰

Figure 3
Population by regional council area, 2011



Source: Statistics New Zealand population estimates, 2011.

Transport subsidies

- 4.11 In 2011/12, local authorities received NZTA subsidies of about \$938 million, which was \$140 million, or 17%, higher than the budgeted \$798 million. These amounts are not final because many local authorities did not disclose NZTA subsidies separately or they disclosed the actual amount but not the budget. Local authorities also carry out programmes and projects that are not subsidised by NZTA – for example, building new footpaths and new cycleways.

²⁰ Marlborough, Nelson, Gisborne, Tasman, and Auckland are unitary local authorities, which carry out the responsibilities of a regional council and of a territorial local authority. (Chatham Islands Council is not considered to be a unitary local authority, although it acts as a regional council for the purposes of the Resource Management Act 1991).

- 4.12 Three local authorities received more NZTA subsidies than budgeted:
- Auckland Council received \$43 million more than budgeted because of a Crown grant of \$46 million as part of the Electric Multiple Units purchase agreements;²¹
 - Christchurch City Council received \$24 million more than budgeted because of accrual of earthquake subsidies;²² and
 - Hamilton City Council received \$20 million of additional funding to speed up work on a ring road, which will manage congestion, support economic growth and productivity, and help people and freight to move more effectively between main transport, employment, and residential hubs.²³
- 4.13 Auckland Transport received NZTA subsidies of \$262 million in 2011/12, \$95 million (27%) less than the budget of \$357 million. Auckland Transport said that reduced revenue resulted from programming work more realistically and constrained funding.²⁴ Auckland Transport and NZTA signed a Financial Assistance Variance agreement because of a \$50 million reduction in subsidy, to be made up in the next two years. They agreed that, in return for this accommodation by Auckland Transport, NZTA would approve projects for subsidy over a three-year period. In 2013/14 and 2014/15, NZTA will pay its share of all approved spending on those projects.

Capital expenditure on transport

- 4.14 Local authorities had at least \$781 million of capital expenditure for transport work and a budget of \$967 million (so they spent \$186 million, or 19%, less than budget). We were unable to collect transport-related capital expenditure figures from 18 local authorities because they did not separately disclose this information.
- 4.15 Two local authorities' actual expenditure was significantly less than budget:
- Auckland Council budgeted \$335 million for capital projects but spent \$306 million – a variance of \$30 million – because the transport programme was reviewed and a variety of projects were reprioritised;²⁵ and
 - Christchurch City Council budgeted \$134 million for capital projects but spent \$32 million – a variance of \$102 million. The \$102 million variance is largely the result of delays in rebuilding infrastructure.²⁶ Delays in other activities,

21 Auckland Council, *Audit Report 2011/12*, page 283.

22 Christchurch City Council, *Annual Report 2011/12*, page 111.

23 Hamilton City Council, *Annual Report 2011/12*, pages 6 and 47.

24 Auckland Transport, *Annual Report 2011/12*, page 10.

25 Auckland Council, *Annual Report 2011/12*, page 283.

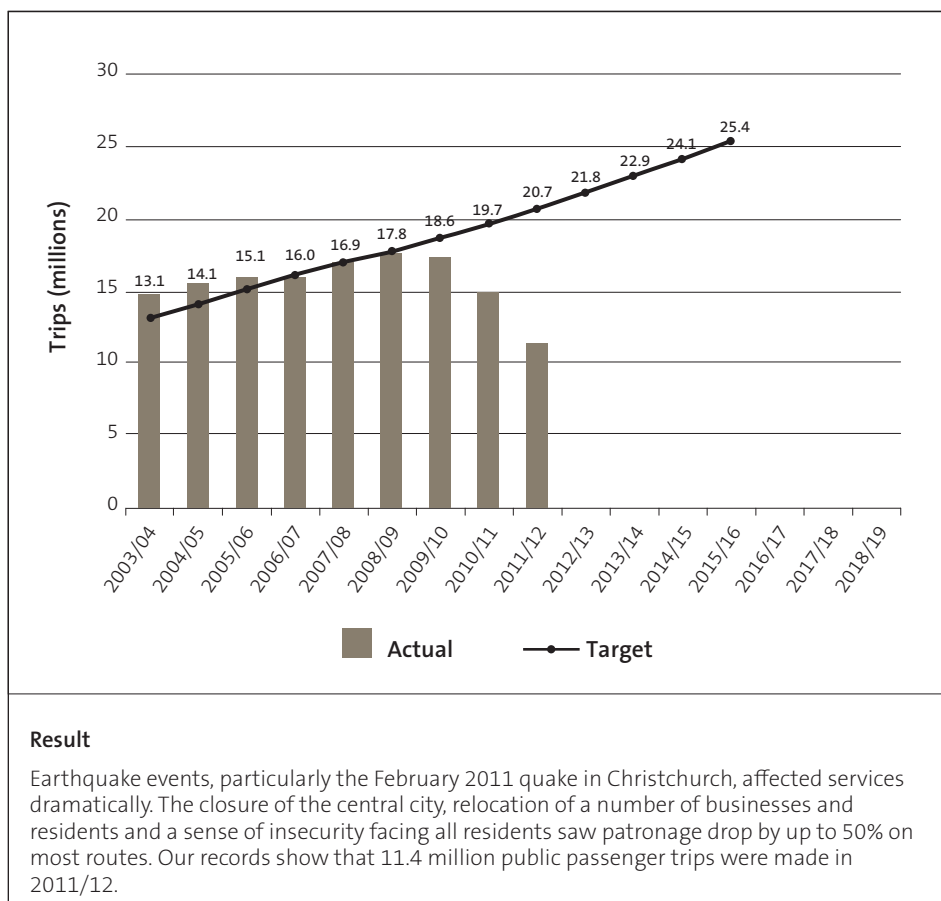
26 Christchurch City Council, *Annual Report 2011/12*, page 97.

particularly the below-ground infrastructure, delayed the streets repair programme. This work will continue in 2012/13 when the underground work has been completed. There were also delays in some projects awaiting post-earthquake assessments.

Service performance

- 4.16 In our June 2010 report, *Local Government: Examples of better practice in setting local authorities' performance measures*, we discussed the examples of better practice that we saw in local authorities' 2009-19 long-term plans. In their 2011/12 annual reports, local authorities reported their achievements against performance measures and targets.
- 4.17 Many local authorities have performance measures for:
- time to respond to requests for roading services;
 - roading network smoothness and roughness;
 - crashes, injuries, and fatalities;
 - congestion for the metropolitan local authorities; and
 - additional roading services that metropolitan and some larger provincial local authorities typically provide.
- 4.18 In our September 2011 report, *Local Government: Improving the usefulness of annual reports*, we set out examples of better practice in performance reporting. In that report, we said that it is important that local authorities are transparent about the costs, standards, effects, and outcomes of their work. That report focused on local authority performance reporting for the seven years 2003/04 to 2009/10. We recommended that local authorities use longer-term (five to 10 years) analysis to work out trends in performance, and analyse and evaluate the resulting information to help report on cost-effectiveness.
- 4.19 It is more than a year since local authorities first had the opportunity to consider our recommendations on improving performance reporting about transport activity in their 2011/12 annual reports.
- 4.20 We saw examples of better performance reporting in the 2011/12 annual reports (see Figures 4 and 5). We comment on some of these in paragraphs 4.21-4.22.
- 4.21 Since 2003/04, Environment Canterbury has reported the number of passenger trips on public transport in Canterbury and explained changes. Figure 4 shows the total number of passenger trips on public transport in Canterbury each year since 2003/04.

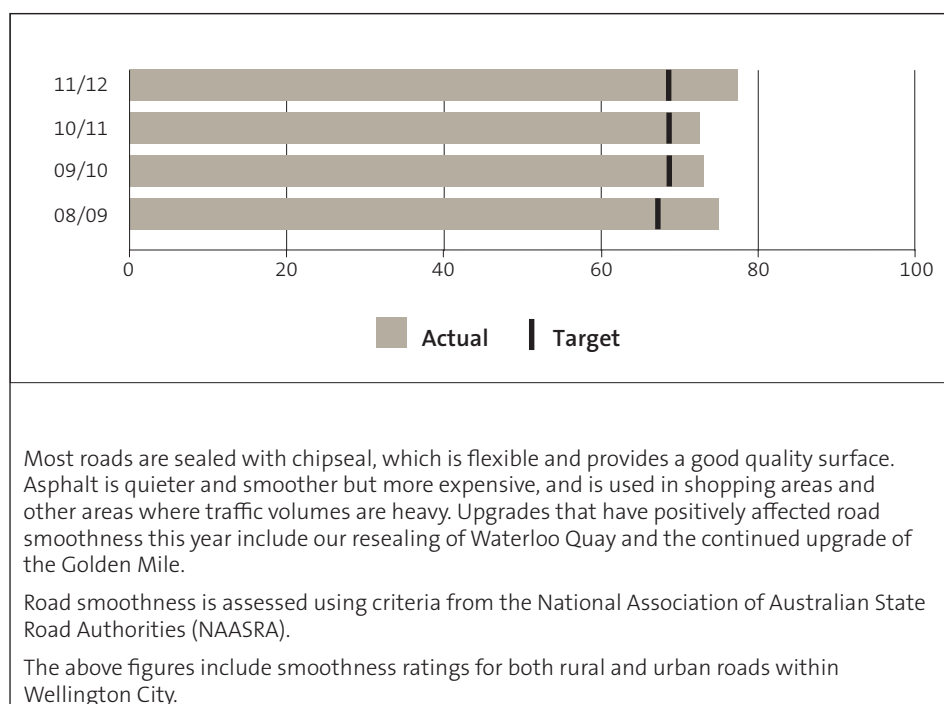
Figure 4
Total number of public passenger transport trips in Canterbury, by financial year since 2003/04



Source: Environment Canterbury, *Annual Report 2011/12*, page 116.

4.22 Figure 5 shows Wellington City Council’s reporting on smoothness of roads against the road smoothness standards. Wellington City Council explained some of the factors contributing to its achievement for the year and disclosed data from a four-year period to allow readers to make judgements about performance.

Figure 5
Smoothness of Wellington's roads (percentage of kilometres travelled on smooth roads), 2008/09-2011/12



Source: Wellington City Council, *Annual Report 2011/12*, pages 72 and 74.

- 4.23 Local authorities are continually challenged to provide affordable services that meet communities' expectations. Comparing and communicating financial and service performance over time is essential to show effectiveness and efficiency.
- 4.24 We continue to encourage local authorities to consider how they can better report their performance and the outcomes they seek to achieve in a way that the public can easily understand. From 2014/15, it is expected that local authorities will use a standard set of performance measures when reporting on the delivery of five groups of activities:
- water supply;
 - sewerage and the treatment and disposal of sewage;
 - stormwater drainage;
 - flood protection and control works; and
 - roads and footpaths.²⁷

²⁷ The performance measures will provide nationwide information on how well local authorities supply a local roading network. Being able to compare the levels of service provided by different local authorities will help communities to assess whether they need better service.

- 4.25 These are requirements under the reforms to the LGA (the TAFM reforms) that are designed to promote better transparency, accountability, and financial management of local government.
- 4.26 This information will help the public to contribute to discussions about services and allow them to contribute more easily and effectively to local authorities' decision-making.²⁸
- 4.27 The proposed performance measures focus on the following aspects:
- How safe are the local roads?
 - What is the overall condition of sealed roads in the local roading network?
 - Are sealed roads being maintained adequately?
 - Are the footpaths that form part of the local roading network being maintained adequately?
 - Does the local government entity responsible for the service provide a timely response if there is a problem?
- 4.28 Local authorities will be required to include the adopted mandatory performance measures in their 2015-25 long-term plans. A local authority may set other performance measures to allow the public to assess the service it has provided. Local authorities will set performance targets for each performance measure.

²⁸ See Department of Internal Affairs, *Consultation on local government mandatory performance measures: The provision of roading and footpaths*.

Part 5

Analysing transport-related information in our audits of local authorities' 2012-22 long-term plans

- 5.1 The requirements of the LGA and the Land Transport Management Act 2003 mean that local authorities were required to prepare their 10-year long-term plans ending in 2021/22 before NZTA released its NLTP for 2012-15. Collectively, local authorities expect to receive \$6.5 billion in subsidies and grants during the next 10 years. Because of the different timing of the LTP and NLTP cycles, there are likely to be changes required in local authorities' planned transport expenditure and services.
- 5.2 Using asset management plans to work out capital and operating expenditure, local authorities expect to spend \$11.7 billion during the 10 years to 2021/22 on capital expenditure related to transport, with the largest proportion (\$6.5 billion) on replacing assets.
- 5.3 Local authorities face many challenges planning their transport activities – these challenges include how best to replace ageing infrastructure, responding to changing land use, and managing higher input costs.
- 5.4 There is evidence that local authorities are well placed for long-term sustainability of transport assets because of forecast investment and reinvestment. However, the spending forecast relies on good asset management planning.

Legislative background

- 5.5 Local authorities were required to prepare and have audited a 10-year plan covering 2012/13 to 2021/22. We discussed the results of the long-term plans in our December 2012 report *Matters arising from the 2012-22 local authority long-term plans*.
- 5.6 The LGA requires local authorities to separately disclose how they will provide for roads and footpaths in their long-term plan.²⁹
- 5.7 All territorial and unitary local authorities are responsible for managing local roads.³⁰ Regional councils provide public transport services.
- 5.8 For each group of activities, local authorities were required to disclose:
- the rationale for delivery, including the community outcomes to which the group of activities primarily contributes;
 - any significant effects that any activity may have on the social, economic, environmental, or cultural well-being of the local community;

²⁹ See Department of Internal Affairs, *Consultation on local government mandatory performance measures: The provision of roading and footpaths*.

³⁰ A territorial local authority is a city council or district council named in Part 2 of Schedule 2 of the Local Government Act.

- information in detail for the first three years and an outline for each of the subsequent years of the long-term plan;
- the capital budgeted to:
 - meet additional demand;
 - improve service; and
 - replace assets.
- the intended service, the performance measures, and performance targets;
- any intended changes in service before the first year of the long-term plan and the reasons for those changes;
- the reason for any material change to the cost of the service; and
- a funding impact statement that sets out funding expected from all sources and how the funds are to be used.

5.9 Local authorities set performance measures and targets for activities and report achievements against these in their annual reports. From 2014/15, local authorities must use a standard set of performance measures when reporting on the delivery of five groups of activities (see paragraph 4.24). CCOs that provide a group of activities will also have to use the same performance measures.

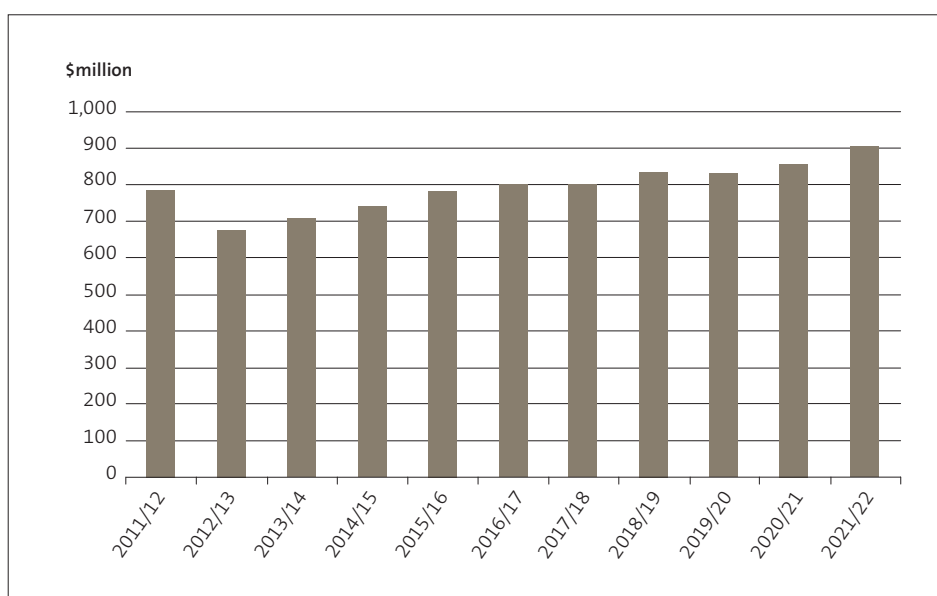
Transport funding in the 2012-22 long-term plans

5.10 Our financial analysis in this report covers 77 local authorities because Christchurch City Council did not prepare and adopt a 2012-22 long-term plan (legislation gave Christchurch City Council that option).

5.11 Local authorities have forecast that they will receive \$6.5 billion in subsidies and grants (for operational and capital purposes), largely from NZTA, to fund local roads during the 10 years. Figure 6 shows subsidies and grants revenue increases during the 10 years. The drop from 2011/12 to 2012/13 is because Greater Wellington Regional Council received \$96 million of central government funding for trains in 2011/12.³¹

³¹ The 2011/12 amounts are forecast estimates from the 2012-22 long-term plan. Local authorities were required to include their best estimate of the 2011/12 financial information at the time of preparing the 2012-22 long-term plan.

Figure 6
Forecast transport subsidies and grants in the 2012-22 long-term plans



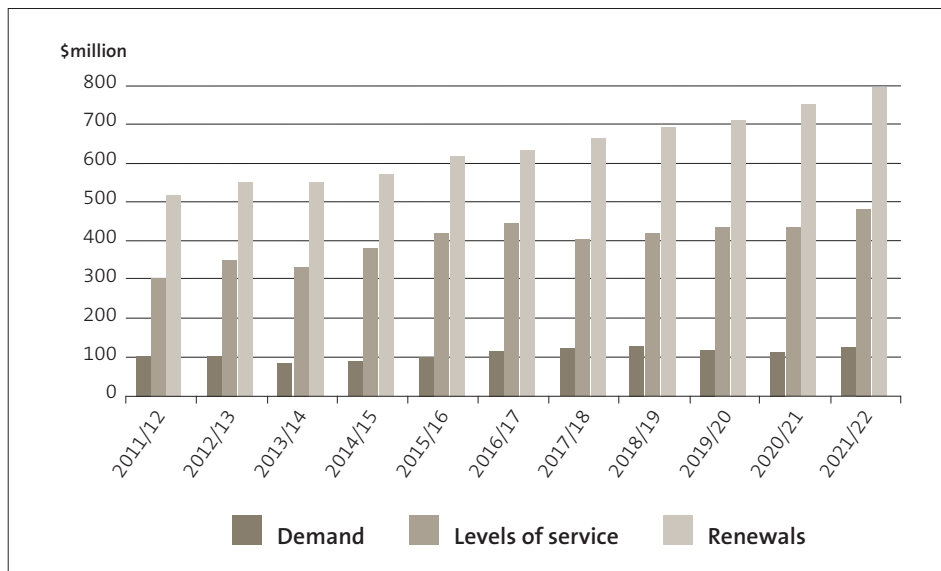
- 5.12 As NZTA developed the 2012-15 NLTP, it sent signals to local authorities about likely funding levels. Because these funding levels were not confirmed until after local authorities had adopted their 2012-22 long-term plans, local authorities made assumptions about the level of NLTF funding they expected to receive. Most local authorities assumed that NZTA subsidies would not change. Some local authorities said that funding for the first three years of the long-term plan would be constant or that there would be no increase in NZTA funding. This means that the funding amount in real terms is less.
- 5.13 NZTA announced the NLTP for 2012/13 to 2014/15 after local authorities adopted their long-term plans, so the funding forecasts in the long-term plans are likely to be different to what local authorities will realistically receive from NZTA.
- 5.14 This likely change in funding will affect local authorities' planned transport capital expenditure and services. Many local authorities said that, if funding is reduced, they may need to increase rates, adopt alternative funding sources such as fees and charges, cut projects that NZTA does not fund, or reduce services. Not carrying out renewals or improvements to services may lead to an increase in road roughness, the number of potholes, cycleway faults, and trip hazards on footpaths.
- 5.15 To work out what, when, and how many transport projects are required, local authorities need good asset management plans. Asset management plans are

important for working out the NZTA subsidies that local authorities will apply for and whether work meets funding criteria.

Capital expenditure and asset management plans

- 5.16 Asset management plans inform expenditure forecasts. An asset management plan is a plan for managing a local authority's infrastructure and other assets to deliver an agreed service.
- 5.17 Each local authority's road and transport needs are different because each local authority area has different infrastructure and service needs. Rural local authorities typically have relatively large roading networks. For example, Southland District Council looks after 4981 kilometres of roads, but Wellington City Council looks after only 684 kilometres of roads. Auckland has greater public transport needs than those of the sparsely populated West Coast of the South Island.
- 5.18 Local authorities work out the priorities and the investment that their communities require. They saw affordability and sustainability as the main drivers in preparing their 2012-22 long-term plans. In the 10 years to 2021/22, local authorities plan to incur \$11.7 billion in capital expenditure on transport projects. This amount is split into:
- \$6.5 billion (57%) to replace assets (renewals);
 - \$4.1 billion (34%) for improvements to services; and
 - \$1.1 billion (9%) to meet additional demand.
- 5.19 Figure 7 shows forecast capital expenditure in the 10 years from 2012/13 to 2021/22 and estimate actual expenditure for 2011/12. The expenditure for additional demand usually results from growth. Local authorities may collect growth charges such as development contributions or financial contributions for network infrastructure because of additional assets or assets of increased capacity.

Figure 7
Forecast transport capital expenditure in the 2012-22 long-term plans



- 5.20 We expect expenditure on meeting additional demand to be small compared to expenditure on services and renewals.
- 5.21 An asset's quality and condition has a significant bearing on how best to manage it. For example, Southland District Council's long-term plan stated that Southland has an ageing network of sealed roads. Many of the roads were built during the 1960s and 1970s, so are nearing the end of their lives, including a significant proportion just outside the 10-year long-term plan time frame. Therefore, Southland District Council requires significant investment to maintain the same service. If the NZTA subsidy is less than expected, then Southland District Council will need to change services or reduce asset configuration, such as by extending the life of roads.
- 5.22 Some rural local authorities' long-term plans consider how land use in their district is changing. Stratford District's roads have low traffic volumes. However, harvesting of forestry will lead to significant volumes of heavy loads using roads not designed to take heavy loads. As a result, Stratford District Council has had or will need to upgrade these roads to handle the increased loading. This will affect the road roughness/smoothness standard that Stratford District Council is striving for.
- 5.23 With the move to dairy farming, Gore District is experiencing intensified land use, which may further stress roads. Large lignite projects, such as a planned lignite

urea plant,³² repeatedly stress parts of Gore District's network. As part of the Gore District Growth Strategy, Gore District Council has prepared models to assess the effect of different scenarios on the roading network.

- 5.24 Some local authorities face pressure to seal more roads, particularly with more rural developments on unsealed roads. This type of work leads to an improvement in service. Maintaining this service comes at a cost, particularly when asset condition starts deteriorating. Figure 7 shows that most capital expenditure is for replacing or renewing the assets.
- 5.25 On average, renewals expenditure grows 4% a year. The main cost drivers in road maintenance are the price of oil and bitumen used in the building materials (see paragraphs 2.29-2.32). The cost of good road aggregate has increased. Some local authorities are turning to alternative ways to renew assets. Tauranga City Council plans to reseal city roads on a fit-for-purpose basis from 2012/13, with an engineering assessment to decide the type of reseal. Until 2012/13, the level of service was "like for like". This meant that roads were resealed using the same material as the current surface, except that all roads carrying more than 10,000 vehicles a day were resealed with hot mix.³³
- 5.26 The availability of contracting resources affects the timing and costs of road projects. The Canterbury rebuild could take up much of the contracting market, which might limit resources in other parts of the country.

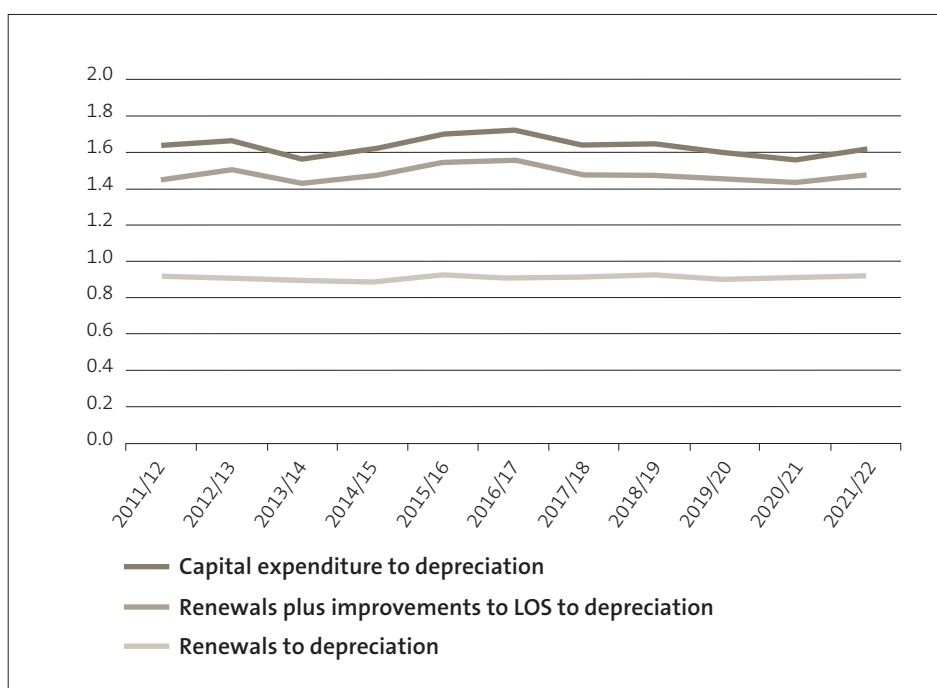
Investment and reinvestment

- 5.27 In our report about the 2012-22 long-term plans, we looked at investment/reinvestment for local government as a whole – that is, capital expenditure for all activities compared to depreciation. In the same way, we have looked at the amount of investment/reinvestment of particular transport activities. By "sustainability", we mean how prepared the local authority is for longer-term uncertainties.
- 5.28 Figure 8 shows three indicators that compare capital investment to depreciation:
- all capital expenditure (demand, improvements to services, and renewals) to depreciation;
 - renewals plus improvements to levels of service and renewals to depreciation; and
 - renewals to depreciation.

32 Lignite is a type of fuel.

33 Tauranga City Council, *Long-Term Plan 2012-22*, page 87.

Figure 8
Local authorities' capital expenditure to depreciation, 2011/12 to 2021/22



- 5.29 In Figure 8, a value of higher than 1.0 means that reinvestment is higher than depreciation. All three values are higher than total local government capital to depreciation. Overall, local authorities are well placed in terms of sustaining their intended transport activities in the long term. In general, this means that, if local authorities invest or reinvest as forecast in their long-term plans, then asset condition and capacity and services will be maintained. Local authorities assume that they will receive the NZTA subsidies that they have forecast in their long-term plans. Paragraph 5.14 discusses what happens when funding drops although sometimes, local authorities receive more NZTA funding than they expected.

Public transport

- 5.30 Territorial local authorities (including unitary authorities) are responsible for maintaining local roads. Unitary and regional local authorities are responsible for public transport planning for their region.
- 5.31 Each district has unique public transport needs. Planning for public transport needs to take into account local authorities' population growth and transport demand assumptions. Paragraphs 5.32-5.34 discuss parts of the long-term plans of Greater Wellington Regional Council and Waikato Regional Council. The

examples show the challenges that these local authorities face in planning for public transport services in their regions. NZTA funding is a common issue for these local authorities because it is a significant source of revenue for funding public transport activities.

- 5.32 Greater Wellington Regional Council:
- is responsible for running and funding the Metlink public transport network;
 - owns and maintains parts of the transport network, including trains and railway stations; and
 - has contracts with companies that run train, bus, and harbour ferry services.
- 5.33 In 2011/12 and 2012/13, Greater Wellington Regional Council planned to spend \$236 million on buying new trains, and between \$79 million and \$142 million refurbishing or replacing fleet.³⁴ In the long term, Greater Wellington Regional Council seeks to provide a modern, effective, and efficient integrated public transport network that contributes to sustainable economic growth and increased productivity, while providing for social needs. This requires Greater Wellington Regional Council to continue to invest in and improve the public transport network so that it increasingly provides a viable alternative to travelling by car. Greater Wellington Regional Council has to balance the cost of providing services with demand and patronage and people being able to pay.³⁵
- 5.34 Waikato Regional Council has the fourth-largest contracted public transport bus service in New Zealand.³⁶ The Waikato region's population is expected to grow by 16% by 2031. As the population grows, public transport within Hamilton and between Hamilton and satellite towns will become more important in reducing congestion. Waikato Regional Council's long-term plan states that, in the short to medium term, there will be no further NZTA funding for public transport services outside Wellington and Auckland. The same amount of NZTA funding received in 2011/12 will be received during the first three years of the long-term plan, and there will be no inflation adjustments. Waikato Regional Council states that this is a significant change for the region because the cost of maintaining and expanding the public transport network will be met by increasing efficiencies or fares. Despite these challenges, Waikato Regional Council plans to increase patronage to offset the attrition expected after fare increases.

34 Greater Wellington Regional Council *Long-term Plan 2012-22*, page 57, "the range represents the difference in the projected cost of refurbishing or replacing the Ganz Mavag fleet".

35 Greater Wellington Regional Council *Long-term Plan 2012-22*, page 57.

36 Waikato Regional Council *Long-term Plan 2012-22*, page 129.

Integrated transport planning

- 5.35 The transport needs for Auckland and Western Bay of Plenty show the importance of integrated transport planning. Integrated transport planning should result in an effective and efficient long-term programme that sets out the transport needs for local roads and other transport modes, including rail, air, and sea.
- 5.36 Paragraphs 5.37 and 5.38 outline Auckland Council and Tauranga City Council's approaches towards integrated transport planning. The two examples show that a strategic approach needs to be taken to support or stimulate both the local and national economy.
- 5.37 Managing Auckland's transport network is one of Auckland Council's most significant activities. Auckland Transport – a subsidiary of the Council – carries out all transport functions and operations for Auckland apart from building and managing state highways and railway tracks. Auckland's population is expected to grow to about 2.1 million people by 2041 – this is 75% of the total population growth expected in New Zealand. Demand for travel is expected to increase by 50% (in person trips each day) while the number of freight and commercial trips is expected to double. "This improved connectedness will provide the environment needed to create an economic engine that can deliver increased wealth-generating opportunities for Auckland and New Zealand."³⁷ Auckland Transport and NZTA have formed the Joint Traffic Operations Centre to make journeys easier by co-ordinating the management and operation of local roads and state highways in Auckland.³⁸
- 5.38 In response to specific demands, Tauranga City Council prepared a SmartGrowth Strategy 2051 for sustainable growth in the Western Bay of Plenty.³⁹ Tauranga City Council's main partners are Western Bay of Plenty District Council and NZTA. The strategy focuses on integrating land use and transport planning, and working collaboratively on strategic projects and funding plans. Tauranga City Council updated and refreshed its Integrated Transport Strategy and has consulted on a 2012-2042 strategy. This strategy considers the transport needs over a 30-year time frame and focuses on six objectives:
- economic growth and prosperity;
 - safety and personal security;
 - environmental sustainability;
 - land use and transport integration;
 - access and mobility; and
 - public health.

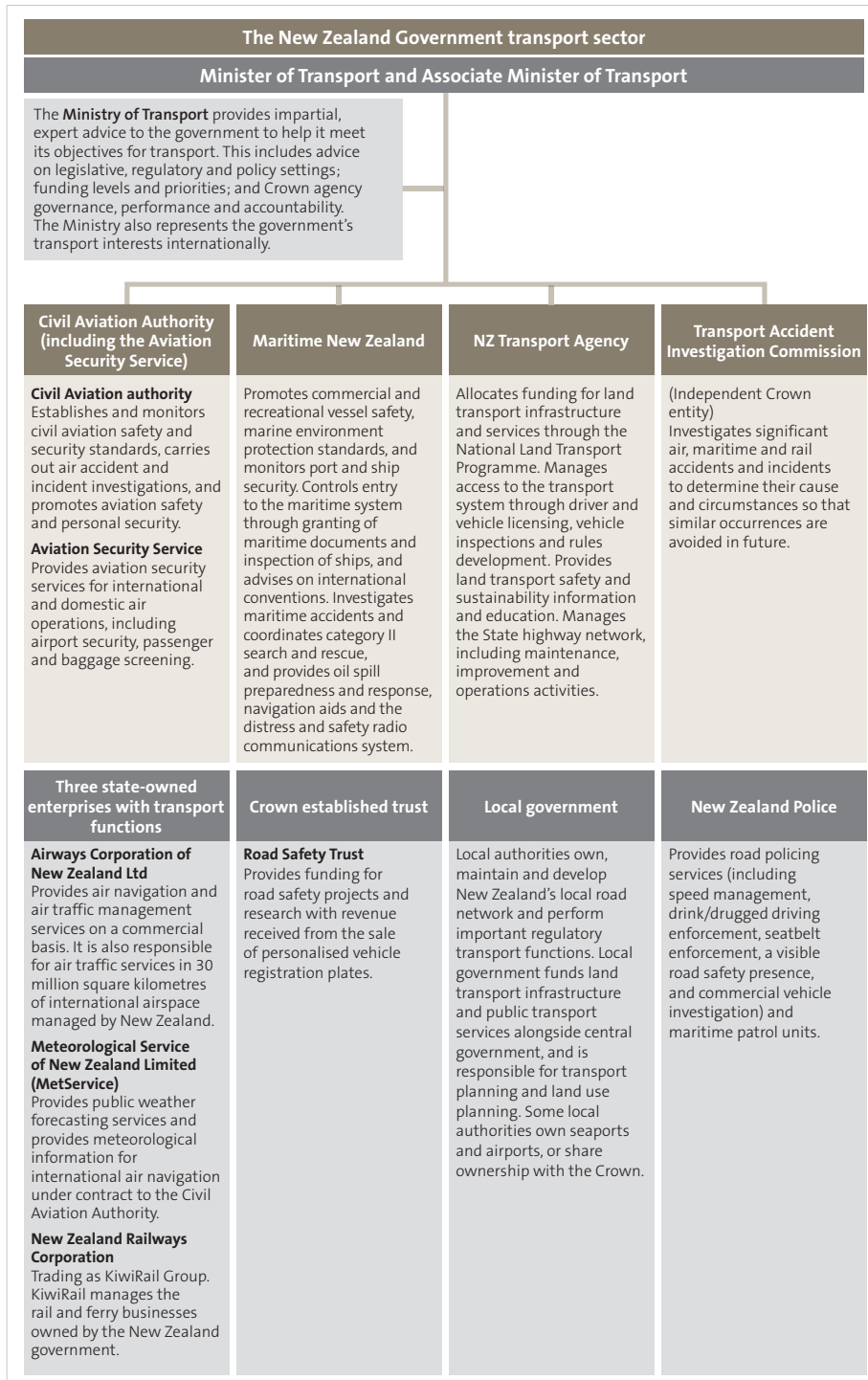
37 Auckland Council, *Long-term Plan 2012-22, Volume two: Our services and activities*, page 96.

38 See NZTA's website, www.nzta.govt.nz.

39 Tauranga City Council, *Ten Year Plan 2012-22*, page 28.

Appendix 1

Public entities that fund, regulate, or manage transport



Appendix 2

Central government transport entities and subsidiaries

Entity	Subsidiary/Subsidiaries
Airways Corporation of New Zealand Limited	Airways International Limited Airways Equipment Limited Airways Training Limited
Civil Aviation Authority	None
Maritime New Zealand	None
Ministry of Transport	None
New Zealand Railways Corporation (trading as KiwiRail)	KiwiRail Holdings Limited • KiwiRail Limited - Tranz Rail Limited - Clifford Bay Limited ONTRACK Infrastructure Limited (disestablished)
New Zealand Transport Agency	NZ Transport Ticketing Limited
Transport Accident Investigation Commission	None

Appendix 3

The scope and grades of environment, systems, and controls for measuring financial and service performance

Management Control Environment	<p>This is the foundation of the control environment and may include consideration of the following:</p> <ul style="list-style-type: none"> • clarity of strategic planning/the way the entity manages and reports performance; • communication and enforcement of integrity and ethical values; • commitment to competence; • participation by those charged with governance – for example, the involvement and influence of Audit Committee and Board (or equivalent); • management philosophy and operating style; • organisational structure; • assignment of authority and responsibility; • human resources policies and practices; • risk assessment and risk management; • key entity-level control policies and procedures; • information systems and communication (including information technology planning and decision-making); • monitoring; and • legislative compliance arrangements.
Financial Information Systems and Controls	<p>These are the systems and controls (including application-level computer controls) over financial performance and financial reporting and include the following:</p> <ul style="list-style-type: none"> • appropriateness of information provided; • presentation of financial information; • reliability of systems; • control activity (including process-level policies and procedures); and • monitoring.
Service Performance Information and Associated Systems and Controls	<p>This concerns the quality of the main measures of outcomes or impacts and service performance measures selected for reporting against, as well as the systems and controls (including application-level computer controls) over service performance reporting, and includes the following:</p> <ul style="list-style-type: none"> • appropriateness of information provided and reported; • review of the 2012/15 SOI; • the audit of the actual 2011/12 SSP and main measures of outcomes/impacts in the annual report; • reliability of systems; • control activity (including process-level policies and procedures); and • monitoring. <p>Comments and grades are based on conclusions drawn from the 2012/15 SOI and the 2011/12 SSP and annual report</p>

Grade	Explanation of grade
Very good	No improvements are necessary.
Good	Improvements would be beneficial and we recommend that the entity address these.
Needs improvement	Improvements are necessary and we recommend that the entity address these at the earliest reasonable opportunity.
Poor	Major improvements are required and we recommend that the entity urgently address these.

1. The reporting under Environment, Systems, and Controls for Measuring Financial and Service Performance is a by-product of the underlying audit work carried out to form an opinion on the financial and service performance statements. Its scope is limited to those areas of the management control environment, information systems, and controls that the auditor has given attention to during the course of the audit.
2. Recommendations for improvement are generally limited to those findings that the auditor considers are the more notable weaknesses in the design or operation of the management control environment, information systems, or controls. The recommended improvements determine the grade assigned. A single, serious deficiency drawing a recommendation for improvement may, of itself, determine the grade. Similarly, the most serious deficiency among several will draw a stronger recommendation and affect the grade accordingly.
3. Deficiencies in the management control environment, information systems, or controls are the gaps between what auditors observe and what auditors consider, in their professional judgement, constitutes best practice. Auditors' professional judgement is informed by many factors, including national and international standards, knowledge of best practice, and standards and expectations for the public sector in New Zealand.
4. To help ensure the relevance to all entities of the auditor's recommendations and grading, the auditor's recommendations are made with reference to what is considered best practice given the size, nature, and complexity of the entity. Thus, notions of best practice will vary among entities because what is considered necessary, enough, or beneficial for some entities may not be so for others. There is therefore not a "one size fits all" standard in the public sector. Rather, recommendations for improvement are based on the auditor's assessment of how far short the entity is from a standard that is appropriate for the entity's size, nature, and complexity of its business.

5. Further, notions of best practice may vary over time in response to change – for example, changes in the operating environment, changes to standards, and changes in general expectations. Grades assigned to entities may therefore fluctuate from year to year according to how entities respond to changes in the environment and in best-practice expectations. Grades may also be affected from year to year because of changes in emphases, in accordance with the auditor’s risk-based approach to testing systems and controls.
6. Improvements are recommended only when it is considered, in the auditor’s judgement, that the benefits of the improvements would justify the costs.
7. Recommendations for improvement are based on the auditor’s conclusions about the state of the entity’s management control environment, information systems, and controls as at the end of the financial year.

Publications by the Auditor-General

Other publications issued by the Auditor-General recently have been:

- Local government: Results of the 2011/12 audits
- Draft statement of intent 2013–2016
- Crown Research Institutes: Results of the 2011/12 audits
- Inquiry into decision by Hon Shane Jones to grant citizenship to Mr Yang Liu
- Ministry for Primary Industries: Preparing for and responding to biosecurity incursions
- Inquiry into the Government's decision to negotiate with SkyCity Entertainment Group Limited for an international convention centre
- New Zealand Police: Enforcing drink-driving laws
- New Zealand Defence Force: The civilianisation project
- Effectiveness and efficiency: Stories from the public sector
- Department of Conservation: Prioritising and partnering to manage biodiversity
- Auckland Council: Transition and emerging challenges
- Matters arising from the 2012-22 local authority long-term plans
- Education sector: Results of the 2011 audits
- Response of the New Zealand Police to the Commission of Inquiry into Police Conduct: Third monitoring report
- Annual Report 2011/12
- Roles, responsibilities, and funding of public entities after the Canterbury earthquakes
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Office of the Auditor-General
PO Box 3928, Wellington 6140

Telephone: (04) 917 1500
Facsimile: (04) 917 1549

Email: reports@oag.govt.nz
Website: www.oag.govt.nz