TE TAI ŌHANGA
THE TREASURY

Treasury Report: Budget 2021 Bilateral - Transport Portfolio

Date:	11 March 2021	**Report No:**	T2021/510
		File Number:	SH-8-0-2

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Discuss** the contents of this report with the Minister of Transport at your multilateral meeting with the Climate Budget Ministers on Tuesday 16 March 2021.	Tuesday 16 March 2021

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Lauren Holloway	Analyst, National Infrastructure Unit	[39]	[35]	✓
David Taylor	Manager, National Infrastructure Unit			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: **Yes (attached)**

Treasury Report: Budget 2021 Bilateral - Transport Portfolio

Executive Summary

You have a multilateral meeting with the Climate Budget Ministers on Tuesday 16 March 2021. We understand that you intend to also discuss the Transport portfolio Budget 2021 initiatives at this meeting.

This report provides an overview of key strategic priorities and Budget 2021 initiatives in the Transport portfolio for you to discuss with the Minister. These issues, in order of priority, are:

- [33]

- **Investment in KiwiRail and implementation of the Future of Rail Review**, in particular, the extent to which Ministers are still committed to the Resilient and Reliable scenario through the implementation of Future of Rail Review.

- **Addressing emissions reductions from transport through the Transport Climate Package.** Addressing transport emissions reduction will be complex and we recommend taking a strategic, whole-of-system approach to interventions and investment across the Government term. We recommend investment in the Transport climate package through Budget 2021 focus on investment-ready initiatives that are of the least fiscal and economic cost with the greatest short-term impact on emissions reductions.

- **How transport investment interacts with other Government reform on infrastructure**, such as Three Waters, the Urban Growth Agenda (UGA), measures to address housing affordability, and the Resource Management (RMA) reforms, to make best use of investment in land transport.

- **Impact of COVID-19 on the aviation and maritime sectors**, in particular, the impact of the COVID-19 Elimination Strategy on New Zealand's international connectivity and on revenue for Civil Aviation Authority (CAA) and Maritime New Zealand (MNZ).

Talking points for the meeting are set out at Annex One (supplementary to talking points provided on climate generally through T2021/387). Further detail and assessments on individual bids are included in Annex Two.

General advice on the draft CCC report and the Budget 2021 climate package is set out in the accompanying Treasury Report to support the Climate Budget 2021 Multilateral and Climate Ministers meetings on 16 and 23 March 2021 respectively [T2021/387 refers].

Recommended Action

We recommend that you:

a **discuss** the contents of this report with the Minister of Transport at your Climate Budget Multilateral on 16 March 2021.

b **note** you have received additional advice on the draft Climate Change Commission report and the Budget 2021 climate package to support the Climate Budget 2021 Multilateral and Climate Ministers meetings on 16 and 23 March 2021 respectively [T2021/387 refers] and these reports, and talking points, should be read together.

David Taylor
Manager, National Infrastructure Unit

Hon Grant Robertson
Minister of Finance

Treasury Report: Budget 2021 Bilateral - Transport Portfolio

Purpose of Report

1. You have a multilateral meeting with the Climate Budget Ministers on Tuesday 16 March 2021. We understand that you intend to also discuss the Transport portfolio Budget 2021 initiatives at this meeting.

2. This Report provides an overview of key strategic priorities for the Transport portfolio, and advice on the Budget 2021 initiatives submitted by the Minister of Transport.

3. You have received additional advice to support the Climate Budget 2021 Multilateral and Climate Ministers meetings on 16 and 23 March 2021 respectively [T2021/387 refers]. This provides advice on the draft Climate Change Commission report and the Budget 2021 climate package report, and should be read alongside this Report.

4. Talking points for the meeting are set out at Annex One and assessments on individual Budget bids is included at Annex Two.

Strategic Priorities for the Transport Sector

5. The Minister of Transport is requesting [33] and [33] through Budget 2021 across 11 initiatives, [33] We understand there are several key priorities for the Transport sector that are relevant to considering the Budget bids as follows:

   - [33]
   - Investment in KiwiRail and implementation of the Future of Rail Review [33]
   - Addressing emissions reductions from transport through the Transport Climate Package [33]
   - Impact of COVID-19 on the aviation and maritime sectors ($130.600 million total opex and [33]

6. Of this, 7 initiatives totalling [33] and [33] are in the draft package.

7. Advice is set out below on the Budget 2021 initiatives submitted by the Minister of Transport, framed in the broader strategic context. Further detail and assessments on individual bids are provided at Annex Two.

8. Finally, this report notes the need to consider how transport investment interacts with other Government reform on infrastructure, such as Three Waters, the Urban Growth Agenda (UGA), measures to address housing affordability, and the Resource Management (RMA) reforms, to make best use of investment in land transport.

[33]

[33]

12. [33]

13.

14.

15.

Implementation of the Future of Rail Review

Implementation of the Future of Rail Review continues to require significant Crown investment

16. In May 2019, Cabinet agreed in-principle to the Resilient and Reliable scenario outlined in the Future of Rail Review. This required investment through Budgets to replace life-expired Above Rail assets for KiwiRail's ferry and freight businesses, and means that the planning and funding framework for Below Rail assets would be integrated with existing road infrastructure investment in the NLTF [DEV-19-MIN-0123; DEV -19-MIN-0225 refer]. The first two instalments of funding for this was provided through Budgets 2019 and 2020.

17. Further detail is provided below on how investment requested through Budget 2021 aligns with the implementation of the Future of Rail Review. Noting that the requests for Crown funding to implement the Review are significant, Ministers can consider trade-offs regarding:

    - Sequencing and phasing of the third tranche of rail investment to replace life-expired Above Rail assets to mitigate the impact on Budget allowances.
    - Funding for rail investment through the NLTF.
    - Providing further Government investment to meet growth scenarios.

18. Ministers should also note the risk of reliance by KiwiRail on Crown funding. This will depend on KiwiRail's revenue model, pathway to profit, and asset management strategies, as well as ensuring KiwiRail is operating under the right incentives to perform as a commercial entity.

Additional investment in KiwiRail is being sought through Budget 2021

19. Four bids were submitted by the Ministry of Transport, on behalf of KiwiRail, to support the Future of Rail approach as agreed by Cabinet [33] Given the rail network works as a system and investment must be planned and managed accordingly, it can be challenging to identify the priority investments beyond capital to address critical cost pressures.

20. Three of the bids relate to Above Rail asset management and procurement:

- **Future of Rail – Rolling Stock and Mechanical Facilities** [33] This funding is sought for the final tranche of KiwiRail's rolling stock and mechanical maintenance programme to replace life-expired assets. We support scaled funding suggested by KiwiRail at $722.700m capex [33]

- **Future of Rail – Core Asset Management** [33] This funding is sought for working capital to ensure existing assets can be maintained until new assets are online. We support scaled funding suggested by KiwiRail at $87.300m capex which focuses on essential maintenance of core assets to maintain current levels of service.

- **Future of Rail – Interislander Ferries and Terminals (iReX)** ($565 million capex) for the iReX programme, reflecting cost escalations for the preferred ship option and landside infrastructure as well as a reduction in the level of expected debt financing. This funding request is in addition to the $400.100m capex provided at Budget 20 on the basis that KiwiRail would debt-finance the remainder of the investment. We do not support this bid and recommend decisions on further funding for iReX be deferred until shareholding Ministers and/or Cabinet can consider a detailed business case.

21. The Treasury continues to have concerns about KiwiRail's ability and capacity to manage such an increase in procurement and network investment activity, given the significant increase of funding to KiwiRail for both Above and Below Rail capital expenditure provided through the last two Budgets. We recommend additional assurance over implementation plans to manage this level of procurement activity to ensure it is delivered on time and to budget.

22. **Future of Rail – Rail Network Investment Programme** [33] requests funding for Below Rail to establish the baseline Crown top-up for the NLTF rail activity class, [33] We support funding up until the 2023/24 financial year to provide for investment under GPS21 and RNIP ($449.900 million opex total). [33]

23. Further information from KiwiRail on what the Resilient and Reliable scenario requires in terms of core Crown involvement would help to understand what is feasible and ensure that further Crown investment represents value-for-money, to support Ministerial consideration of baseline funding for the RNIP.

24. **Domestic Rail Workshop** in Hillside for local wagon assembly. We do not support this initiative and further advice is set out at Annex Two.

Addressing emissions reductions from transport

Addressing transport emissions requires a strategic, whole-of-system approach

25. Responding to climate change is a key priority across the Government's manifesto commitments and the Government has indicated its interest in initiatives to address transport emissions.

26. General advice on the draft CCC report and the Budget 2021 climate package is set out in the accompanying Treasury Report to support the Climate Budget 2021 Multilateral and Climate Ministers meetings on 16 and 23 March 2021 respectively [T2021/387 refers].

27. From a Transport lens, addressing emissions reductions will be complex and requires a more nuanced approach towards achieving the Government's broader climate goals. Drivers for this include:

- Emissions in the transport sector are characterised by **multiple market failures**, such as weak pricing of greenhouse gas emissions as externalities, network effects of electric vehicles and enabling infrastructure, and poor incentives for innovation.

- There is a **lack of clarity on the strategic context** in which sector-specific interventions should be framed. The Transport Emissions Action Plan (TEAP), the Climate Change Commission's (CCC's) final report, and Emissions Reduction Plans (ERP) are all expected mid-to-late 2021 and will be critical for informing the outcomes sought, prioritisation, and sequencing of Transport interventions to address emissions.

- Consideration also needs to be given to the **interaction with the Emissions Trading Scheme** (ETS), specifically what justifications there may be for sector-specific interventions where a sector is already covered by the ETS. Transport emissions are included in the ETS but, [33] and [37]

- Where sector-specific strategies are pursued, the rationale for intervention should be clear. The Government should target sectors where the costs and benefits of specific interventions are well-understood.

28. Ministers have options and discretion in regards to how initiatives to address transport emissions are funded and when that funding should be provided. The key decisions and trade-offs are:

- How quickly do Ministers want to move on transport emissions, noting concerns raised that emissions are rising in this sector, given knowledge gaps on abatement costs (including hidden costs) and value-for-money of specific Transport interventions?

- How do Ministers want this programme of work to move with other reform work?

The Transport Climate Package submitted through Budget 2021 requires additional policy analysis to be implementation-ready

29. The Minister of Transport submitted a **Transport Climate package** [33]

- Clean Car Standard [33] and $16.220 million capex)

- Clean Car Discount ($36.600 million capex)

- [33]

- Biofuels mandate ($6.000 million total opex)

- [33]

- [33]

- Enhanced Clean Car Discount ($265.000 million total opex)

- [33]

30. The draft CCC report signals that the immediate priority in the Transport sector will be to decarbonise the light vehicle fleet. The CCC targets are ambitious and would lead to the quickest uptake of electric vehicles (EVs) across the world.

31. The Transport Climate package submitted by the Minister of Transport therefore concentrates on the light vehicle fleet, taking a system-approach to consider stock and flow and associated emissions and whole-of-life costs. We support this approach, which aligns with the direction of the draft CCC report.

32. **We recommend investment through Budget 2021 focus on investment-ready initiatives that are of the least fiscal and economic cost with the greatest short-term impact on emissions reductions.** Some parts of the package submitted by the Minister of Transport are more developed than others, with strong evidence, well-understood international best practise, and consideration of an NZ-context. Other parts reflect the identification of a problem and early workings on potential policy responses to these problems.

33. As such, the Vote team supports a scaled version of the Transport Climate package, recommending that a scaled version of the Clean Car Standard component be funded while the remaining components [33] be deferred across the Government term to enable further policy work to be completed and decisions on transport investment to be made in the strategic context noted above. Additional funding beyond this may not necessarily decrease emissions in the short to medium term.

34. We recommend that all the remaining initiatives are deferred across the Government term with decisions to be made through Budgets 2022 and 2023, building on foundational investment in Budget 2021, and in the strategic context of the TEAP, the CCC's final report, and ERP. This will enable further policy work on interventions to be completed, including analysis on the interaction with the ETS and distributional impacts.

35. We note that the Ministry for the Environment has prioritised Transport related initiatives highly in its advice. However, its analysis focused more on emission reduction rather than implementation readiness, and hence the discrepancy with the Vote team recommendation.

Impact of COVID-19 on the aviation and maritime sectors

Border settings will continue to have an impact on the viability of the aviation and maritime sectors

36. The border controls put in place as part of New Zealand's COVID-19 Elimination Strategy have been a key pillar in our successful management of the pandemic. While these border controls have protected New Zealand, however, they have had significant impacts on international connectivity:

    - The drastic reduction in people flows into New Zealand has led to reduced demand for some goods and services, including those provided Civil Aviation Authority (CAA, including the Aviation Security Service (AvSec)) and Maritime NZ. Initiatives have been submitted through Budget 2021 for these two entities, discussed further below.

    - Supply chain disruptions and the increased cost of air freight are also affecting business activity, profitability and sustainability in some sectors.

37. Some of these impacts on domestic and international connectivity, such as movement of passengers and freight, are being mitigated through the International Airfreight Capacity (IAFC) and Maintaining International Aviation Connectivity (MIAC) schemes [DEV-21-MIN-0028 refers] and the Essential Transport Connectivity (ETC) scheme.

38. Additionally, ongoing sea freight disruption globally affecting shipping schedules and causing heavy congestion at ports, including in New Zealand, with flow-on effects to supply chains domestically. The varying reasons behind the disruptions mean that a single government intervention is unlikely to resolve the issues and cautiousness about further intervention in the market and officials have taken a 'watching brief' approach.

39. We have recently provided you with advice on the economic impacts of New Zealand's border policy settings, which includes international air connectivity [T2021/519 refers]. We will continue to work with the All of Government COVID-19 response group providing advice on border policy settings and any evolution of New Zealand's elimination strategy. We will also work with the Ministry of Transport on work we understand it will undertake on the recovery of the aviation sector.

Funding is being sought through Budget 2021 to address revenue shortfalls for CAA and MNZ

40. The Minister of Transport is seeking a total of $114.300 million opex funding for CAA and $14.800 million opex funding for MNZ to respond to revenue shortfalls due to COVID-19 in the 2021/22 financial year.

41. We support the request in full, but note that underspends available in the existing MYA can be rolled forward and redistributed between the two Crown entities such that the impact on the COVID-19 Response and Recovery Fund will only be $20.700 million opex funding.

42. In line with your Budget bid invitation on 21 December 2020, funding is sought for the 2021/22 financial year only. This approach aligns with the Budget 2021 initiatives from the other border and transport agencies (Ministry of Business, Innovation, and Employment, Ministry for Primary Industries, and Customs).

43. [33]

44. We consider that the report back to Cabinet by the Minister of Transport in mid-to-late 2021 will be the most appropriate mechanism to consider ongoing Crown support for the Crown entities, including through future Budgets [DEV-21-MIN-0011 refers]. A key consideration here will be to strike a balance between the recovery of the sector and its ability to pay, implications of reduced service delivery or workforce considerations, and the resulting fiscal burden on the Crown.

45. [33] was also sought for CAA to replace Crown loans to continue with Cabinet-approved investments. We support scaled funding and further advice on this is set out at Annex Two.

Other strategic considerations for the Transport portfolio include interaction with other reform programmes and alignment with local government

46. There is an opportunity to align various reform and work programmes across Government to make best use of investment in land transport to achieve broader government outcomes. These include Three Waters, the Urban Growth Agenda (UGA), measures to address housing affordability, and the Resource Management (RMA) reforms.

47. Although transport investment has some direct benefits (such as increased safety and resilience), most of the benefits are driven by exogenous factors linked to broader outcomes. For example, transport investment is a key lever to unlock housing supply.

48. Consideration should be given to how transport investment interacts with other Government reform on infrastructure to enable an integrated approach, best leverage central government investment and regulatory levers in land transport, and seek reciprocal investment and regulatory changes from local government (such as funding provided through Regional Land Transport Plans and other complementary investment and activity).

49. Development of a whole-of-government integrated approach to transport investment and broader Government reform work is particularly critical to Auckland decisions because of the size and scale of investment and the importance of Auckland to New Zealand's economy. Projects and funding of this nature include:

    - ATAP 2021.
    - The forthcoming NZUP re-baselining process with significant investments in the Drury corridor.
    - The Auckland Housing Programme budget bid.
    - Any financial incentives provided to Councils as part of the Three Waters Reform Programme, in so far as they could apply to Auckland Council, which could include up to $98m set aside for Auckland on top of general financial incentives.
    - The Housing Acceleration Fund being considered, in so far as it could apply to Auckland Council infrastructure.

50. We understand that Urban Development (UD) Ministers are meeting on Wednesday 17 March. We recommend this UD Ministerial group and the Auckland Urban Growth Partnership are the best vehicles for you to provide direction to achieve central government objectives and alignment with Auckland Council priorities and activity. Given the significant financial impacts involved and the economic importance of infrastructure, your Infrastructure and Finance portfolios mean you are well-placed to contribute to strategic conversations. We can provide you with ongoing advice on your roles here.

Annex One: Talking Points

General

- What is the expected impact of the proposed Budget 2021 Transport bids on overall outcomes in the sector?
- How are you considering phasing and sequencing priority investment in the Transport portfolio across the Government term?
- I note that you will need to work closely with your colleagues to ensure alignment between Transport investment and the various reform and work programmes across Government, including Three Waters, the Urban Growth Agenda, measures to address housing affordability, and the Resource Management reforms.

[33]

Implementation of the Future of Rail Review

- To what extent are we committed to the Resilient and Reliable scenario in the Future of Rail review?
- Sequencing is a key trade-off to be considered for Above Rail asset replacement. What options do we have to phase this investment across this Government term?
- The Crown has committed a significant amount of funding to KiwiRail for Above and Below Rail through previous Budgets. Do we have sufficient confidence in how KiwiRail is managing this investment?
- Now that the new planning and funding framework is in place, what is your view on the information needed to ensure that further Crown investment represents value-for-money?

Addressing emissions reductions from transport

- Noting that some components of the Transport Climate Package need further policy design to be implementation-ready, how are you thinking about sequencing of interventions to address transport emissions across the Government term?
- Within the package submitted, what are your priority bids for Budget 2021?
- What are the distributional impacts of the package?

Impact of COVID-19 on the aviation and maritime sectors

- I note the going concern issue raised by the Transport Crown entities regarding the provision of only one year of funding to address revenue shortfalls. I consider that your report back to Cabinet in mid-to-late 2021 will be the most appropriate channel to consider the role of ongoing Crown support for these entities.

Submitted by the Minister of Transport				Vote Team Assessment			Treasury Draft Package	
Initiative title	**Description**	**Total opex ($m)**	**Total capex ($m)**	**Overall comment**	**Total opex ($m)**	**Total capex ($m)**	**Total opex ($m)**	**Total capex ($m)**
[33]								
Future of Rail – Core Asset Management	This initiative provides the final instalment of working capital into KiwiRail, ensuring core freight, tourism, property and ICT assets can be maintained until and positioned for the commissioning of the new replacement assets.	[33]		**Support scaled.** We support the scaled option as provided by KiwiRail. The scaled option focuses on essential maintenance of core assets to maintain current levels of service (i.e., the cost pressure component) [33] . A compelling case supported by sufficient evidence is made that additional funding is needed to	-	87.300	-	87.300

				maintain current service levels, given the age of KiwiRail's assets. We have confidence that KiwiRail can effectively implement this initiative through normal governance channels.				
Future of Rail – Rolling Stock and Mechanical Depots	This initiative is the final tranche of KiwiRail's rolling stock and mechanical maintenance facilities investment programme to replace life expired assets. The funding supports the procurement [33] , and the final tranche of investment in associated mechanical maintenance facilities.	[33]		**Support scaled.** We support the scaled option provided by KiwiRail [33] This option will still enable KiwiRail to hedge currency risk by 30 June 2021 to reduce the overall cost of the assets. Given the significant increase of funding to KiwiRail for both Above and Below Rail capital expenditure provided through the last two Budgets, we have concerns about the ability of KiwiRail to manage such an increase in procurement activity. We recommend additional assurance over implementation plans to manage this level of procurement activity to ensure it is delivered on time and to budget.	-	722.700	-	722.700
Future of Rail – Rail Network Investment Programme	This initiative establishes the baseline Crown top-up to the National Land Transport Fund to meet the ongoing infrastructure requirements to restore a resilient and reliable rail transport network, as part of the new planning and funding model for rail supported by a detailed Rail Network Investment Plan.	[33]		**Support scaled.** This initiative provides a Crown top up for the NLTF to provide for the rail activity class, as agreed through the new planning and funding model in the Future of Rail. We recommend that final funding amounts be contingent on Cabinet consideration of the TUC (expected in March 2021) and the final RNIP (expected to be confirmed by the Minister of Transport by July 2021). We only support two years of additional funding to provide for GPS21. [33]	449.900	-	449.900	-
Future of Rail – Interislander Ferries and Terminals	This initiative supports procurement of two new Interislander ferries and provides the Crown's contribution to replace and upgrade the Wellington and Picton ferry terminals. This investment builds on the funding provided in Budget 2019 and 2020 and largely reflects updated cost estimates for the terminals (primarily Wellington), a higher estimate for the preferred Korean ship option, and a reduction in the level of expected debt financing.	-	565.000	**Do not support.** This initiative seeks further funding for KiwiRail's iReX project due to cost escalations since the IBC regarding KiwiRail's preferred ship option and landside infrastructure [37] , particularly at Kaiwharawhara, and a reduction in KiwiRail's expected level of debt financing [37] This is in addition to the $400.1m provided through Budget 20, provided on the basis that KiwiRail would debt-finance the remainder of the investment. Due to uncertainty around costings and timeframes, we recommend decisions on further funding for iReX be deferred until shareholding Ministers and/or Cabinet can consider a DBC in the first half of 2021. This should provide Ministers with the opportunity to confirm ship design, landside infrastructure, and funding and financing options as well as more certainty on costs and timelines. Should funding be provided and KiwiRail continue with the RfP process for the ship build with its preferred contractor (expected June 2021) to the point where the ship design option is locked in, Ministers will have limited choices regarding landside infrastructure and associated costs/risks.	-	-	-	-
KiwiRail - Domestic Rail Workshops	This initiative provides funding to establish a local wagon assembly plant at Hillside, Dunedin, to increase employment and youth opportunities and rebuild industry capability.	85.000	-	**Do not support.** This initiative seeks funding to construct facilities at Hillside to then run a wagon assembly factory for 3-5 years to assembly 1520 wagons. [37]	-	-	-	-

				Assuming an expected volume of 1520 wagons, this is a whole-of-life cost of $60m more than procuring assembled wagons. The business case identifies only short-term employment benefits, with 150 construction jobs in 2021 to 2023 and 45 jobs and training opportunities during the 3-5 years operation of the facilities (noting that assembly facilities and skills are not needed beyond this).				
Reducing emissions through the Transport Climate Package	This initiative aims to accelerate the reduction of transport emissions in New Zealand's vehicle fleet, to support New Zealand in meeting its emissions objectives and goals. The Transport Climate Package is made up of different schemes that aim to support the uptake of low-emission vehicles, while ensuring that older, high-emission vehicles are retired from the fleet as early as possible.	[33]		**Support scaled.** Addressing transport emissions reduction is complex and requires a strategic approach with multiple levers. Ministers have options and discretion as to how initiatives are funded and when funding should be provided, noting that the ETS provides a weak signal. The key decision is how quickly Ministers want to move on transport emissions, given emissions are rising in this sector, and how Ministers want to signal their intentions in regards to future budgets and the TEAP, ERP and Climate Change Commission's final report, which will all be critical for informing the outcomes sought, prioritisation, and sequencing (all expected mid-to-late 2021). The CCC targets to decarbonise the light vehicle fleet are ambitious and would lead to the quickest uptake of EVs across the world. As such, the transport climate package concentrates on the light vehicle fleet, taking a system-approach to consider stock and flow and associated emissions and whole-of-life costs. Some parts of the package are more developed than others, with strong evidence, well-understood international best practise, and consideration of an NZ-context. Other parts reflect the identification of a problem and early workings on potential policy responses to these problems. We support the Clean Car Standard component and recommend that the remaining components are deferred across the Government term to enable further policy work to be completed and decisions on transport investment to be made in the strategic context noted above.	40.511	16.220	40.511	16.220
Maritime NZ Liquidity Funding July 2021-June 2022	This initiative seeks approval to carry forward Cabinet approved liquidity funding from 1 July 2021 to 30 June 2022, to meet immediate cost pressures related to forecasted revenue shortfall, as a result of border restrictions relating to COVID-19. MNZ is forecasting a balance of $34.8m in the existing appropriation at 30 June 2021 and seeks to carry forward $16.3m to 2021/22. Ideally a further retention of $10m from the existing appropriation will be available for revenue shortfalls in 2022/23. The funding will ensure maintenance of MNZ's core regulatory, compliance and response capability and performance. It will also provide funding for seafarer welfare services as agreed by the Minister of Transport through the Regulatory Systems Transport Amendment Bill, currently before the House.	-	-	**Support.** This is a critical cost pressure that requires funding within this financial year. Maritime NZ is seeking to roll-forward $14.8m in the existing MYA so there is no impact on Budget allowances. We note that Cabinet has already agreed that seafarer welfare services be funded so do not support this aspect. We also recommend that $18.5m of MNZ's component of the MYA be reprioritised to address CAA's cost pressure. Scaling or not replacing this shortfall in the short term could lead to significant redundancies across all areas of MNZ's business (along with social and monetary costs) impacting on its ability to protect New Zealand's border, support travel bubbles, effectively perform its regulatory functions, and support the COVID-19 recovery.	-	-	-	-

Resourcing minimum aviation regulator and aviation security provider capability	This initiative carries forward un-used funds of around $75.1m as at 30 June 2021 to continue delivering activities to improve the safety and security of civil aviation. The funding will ensure CAA can continue to fulfil its core statutory and regulatory functions over the 2021/22 period, in order to be an effective aviation regulator and aviation security service provider. The initiative also seeks an additional $39.2m for 2021/22 on top a carry-forward of $51.6m of un-used funds to ensure that the Aviation Security Service (Avsec) has sufficient funds to meet an increase in demand for on-airport operational staff, to meet new regulatory requirements that strengthen New Zealand's aviation security and support the COVID-19 recovery.	39.200	-	**Support**. This is a critical cost pressure that requires funding within this financial year. We support a rollover of $93.6m in the MYA from FY20/21 to FY22/23, reprioritisation of $18.5m from Maritime NZ's component of the MYA, and new funding of $20.7m ($114.3m total). Funding is sought to address a third-party revenue shortfall directly resulting from the closure of New Zealand's borders due to COVID-19. Passenger and goods numbers are suppressed at present, yet Civil Aviation Authority and AvSec need to maintain core border and aviation regulatory functions with little capacity to cut costs.	20.700	-	20.700	-
Capital to fund Cabinet-agreed investment in Aviation Security Infrastructure and Regulatory Systems	This Initiative provides a capital injection to replace Crown loans to continue with Cabinet-approved investments, including planned upgrades to Aviation Security Infrastructure ($88.8m), a replacement and upgrade of CAA's regulatory technology platform ($16.4m) and other critical infrastructure [33] . The impact of COVID-19 on CAA's revenue means it is unable to meet the conditions of the Crown loans established to fund most of the investment programme. The investment in core Government infrastructure will protect New Zealand's international and domestic aviation connections and enable CAA to carry out its statutory functions in an effective and efficient way, and to the standard expected of it by Government, the international and domestic aviation sectors, and the New Zealand public.	[33]		**Support scaled.** We support the AvSec infrastructure ($88.8m) and EMPIC regulatory ($16.4m) components of this initiative in full. Both of these investments were intended to be funded through CAA/AvSec's cash reserves, since depleted due to conditions to access the liquidity facility, and Crown loans [DEV-18-MIN-0152; CAB-20-MIN-0155.34 refer], which cannot be accessed due to CAA/AvSec's inability to meet loan conditions due to COVID-19 revenue shortfalls. Both of these investments are time-critical and need to meet international obligations and mitigate the risk of regulatory failure. Deferrals will increase labour costs as well as costs on airlines who will then have to provide additional screening to meet international obligations.	-	113.219	-	113.219