

SECTION D

# FINANCIAL STATEMENTS AND AUDIT REPORTS





# HIGHLIGHTS FROM OUR FINANCIAL STATEMENTS



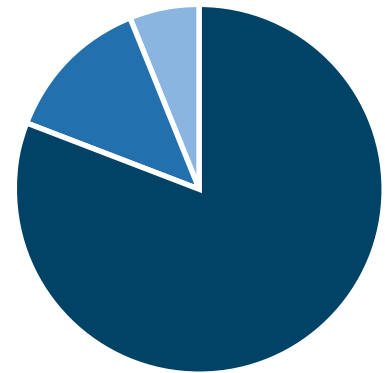
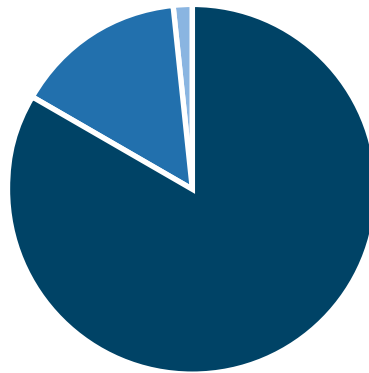
The largest contribution to our income is from the National Land Transport Fund. We also receive revenue from the Crown to support our objectives and for specific projects. This year significant increase in Crown revenue was due to the funding received for the Kaikōura earthquake. Other revenue comes mostly from our licensing and regulatory activities as well some developers contributions received. During the year, total assets with fair value of \$75 million were received from local authorities, which are included under other revenue.

## INCOME BY SOURCE

2015/16

2016/17

- **National Land Transport Fund**  
2015/16 **83.6%**      2016/17 **81.0%**
- **Other revenue**  
2015/16 **14.8%**      2016/17 **12.8%**
- **Crown**  
2015/16 **1.6%**      2016/17 **6.1%**



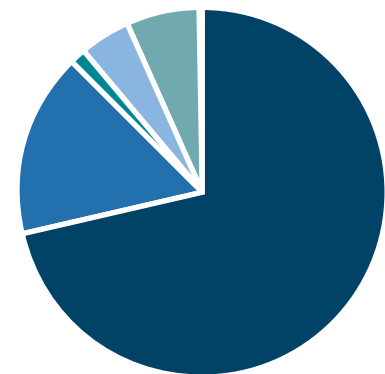
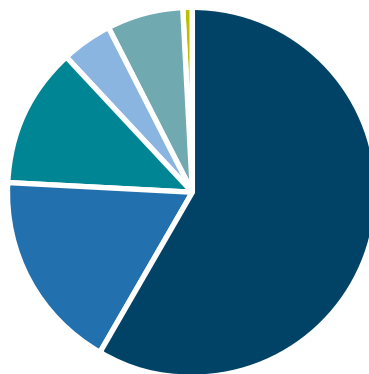
Our expenditure is guided by the Government Policy Statement on Land Transport and the priorities identified in our Statement of intent. The majority of our expenditure was directly related to land transport funding the Transport Agency provides to approved organisations for the delivery of services, associated activities funded from the Crown, and the Transport Agency's maintenance and operation of the state highway network (71 percent). Depreciation and amortisation, reflecting the cost of asset ownership, contributed 16 percent of our annual expenditure while personnel and operating expenses were 11 percent of the total expenses.

## EXPENSE BY TYPE

2015/16

2016/17

- **Land transport funding**  
2015/16 **59.4%**      2016/17 **70.9%**
- **Depreciation and amortisation expense**  
2015/16 **17.3%**      2016/17 **16.1%**
- **Other**  
2015/16 **12.4%**      2016/17 **1.3%**
- **Personnel costs**  
2015/16 **4.2%**      2016/17 **4.4%**
- **Operating expenses**  
2015/16 **5.9%**      2016/17 **6.5%**
- **Transport Agency managed activities**  
2015/16 **0.8%**      2016/17 **0.9%**



NZ Transport Agency managed activities - includes advertising, education and promotion programmes, vehicle impoundments, and sector training and research.

**\$28.4 MILLION**  
NET SURPLUS

Our net surplus reflects the combined operations of the Transport Agency itself, our funding of land transport and specific projects completed on behalf of the Crown.

OPERATIONS		LAND TRANSPORT FUNDING		SPECIFIC PROJECTS BY THE CROWN		TOTAL
<b>Income</b> \$287.3m	+	<b>Income</b> \$1,953.6m	+	<b>Income</b> \$141.5m	=	<b>Total income</b> \$2,382.4m
-		-		-		-
<b>Expenditure</b> \$286.0m	+	<b>Expenditure</b> \$1,927.4m	+	<b>Expenditure</b> \$140.6m	=	<b>Total expenditure</b> \$2,354.0m
=		=		=		=
<b>Net surplus</b> \$1.3m	+	<b>Net surplus</b> \$26.2m	+	<b>Net surplus</b> \$0.9m	=	<b>Total net surplus</b> \$28.4m

### OPERATIONS

**Activities the Transport Agency is accountable for, and delivers in-house or contracts out.**

This surplus predominantly relates to the higher than expected volumes (and fees) for driver licensing, driver testing and tolling.

### LAND TRANSPORT FUNDING

**Funding for the maintenance and operation of the state highway network, and funding provided by the Transport Agency to local authorities and approved organisations for the delivery of services.**

The surplus arises through the recognition of third party contributions for capital projects as revenue rather than capital injection.

### SPECIFIC PROJECTS FUNDED BY THE CROWN

**This includes the SuperGold card public transport concessions and the Urban Cycleways Programme.**

The surplus is primarily due to the Urban Cycleways Programme’s reported net income this year.

Supplementary information for each of these segments is provided on pages 131-135.

**\$34.9 BILLION**  
NET  
ASSETS/EQUITY

The statement of financial position shows what we own (our assets), what we owe (our liabilities) and our overall net worth (represented by our net assets/equity).

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
Total assets	36,385,571	34,959,731	33,395,187
Less total liabilities	1,453,353	1,703,200	1,090,030
<b>NET ASSETS/EQUITY AT END OF YEAR</b>	<b>34,932,218</b>	<b>33,256,531</b>	<b>32,305,157</b>

We continue to maintain a strong balance sheet, with \$36.4 billion of assets and low levels of liabilities.

The state highway network accounts for 94 percent of our overall asset base.

## HOW WE HAVE INVESTED IN OUR ASSETS

We have spent \$1.7 billion on our capital expenditure programme, which has been invested in the following:

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
Investment in state highways	1,691,064	1,803,935	1,686,371
Investment in information technology	6,764	12,990	13,633
Investment in offices and equipment	3,195	8,510	14,932
<b>TOTAL</b>	<b>1,701,023</b>	<b>1,825,435</b>	<b>1,714,936</b>

Investment in state highways is below budget due to substantial savings at the tender box on a number of high construction contracts and some new project starts were slower than planned.

# FINANCIAL STATEMENTS

## STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE FOR THE YEAR ENDED 30 JUNE 2017

	NOTE	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>REVENUE</b>				
Funding from the Crown	2	146,181	76,527	39,757
Funding from the National Land Transport Fund	2	1,930,879	2,136,975	2,052,798
Revenue from other activities	3	230,401	175,432	263,682
Assets vested from local authorities	10	75,013	0	99,399
<b>Total revenue</b>		<b>2,382,474</b>	<b>2,388,934</b>	<b>2,455,636</b>
<b>EXPENSE</b>				
Personnel costs	4	102,728	103,031	102,632
Operating expenses	5	174,491	184,094	162,099
Land transport funding*		1,645,364	1,674,007	1,408,784
Interest and finance costs	6	23,368	10,213	24,973
Depreciation and amortisation expense	7	377,908	536,198	418,363
State highway asset write-off	10	11,762	10,000	12,760
Assets vested to local authorities	10	18,410	0	286,533
<b>Total expense</b>		<b>2,354,031</b>	<b>2,517,543</b>	<b>2,416,144</b>
<b>SURPLUS/(DEFICIT)</b>		<b>28,443</b>	<b>(128,609)</b>	<b>39,492</b>
<b>OTHER COMPREHENSIVE REVENUE AND EXPENSE</b>				
Gain/(loss) state highway network revaluations	10	1,049,112	560,000	640,549
Net movement in cash flow hedges	28	89,761	0	(131,863)
<b>Total other comprehensive revenue and expense</b>		<b>1,138,873</b>	<b>560,000</b>	<b>508,686</b>
<b>TOTAL COMPREHENSIVE REVENUE AND EXPENSE</b>		<b>1,167,316</b>	<b>431,391</b>	<b>548,178</b>

\* Land transport funding refers to National Land Transport Programme funding the NZ Transport Agency provides to approved organisations for the delivery of services, associated activities funded from the Crown, and the NZ Transport Agency's maintenance and operation of the state highway network.

Explanations of major variances against budget are provided in note 31.

The accompanying notes form part of these financial statements.

## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	NOTE	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		65,442	50,022	77,051
Debtor National Land Transport Fund		346,459	420,286	299,302
Debtor Crown		49,745	102,120	13,167
Receivables	8	81,796	67,174	83,796
Property assets held for sale	9	49,611	50,000	42,160
Other current assets		10,398	1,100	1,845
<b>Total current assets</b>		<b>603,451</b>	<b>690,702</b>	<b>517,321</b>
<b>Non-current assets</b>				
Debtor National Land Transport Fund		988,972	0	708,143
Property, plant and equipment		23,828	15,244	25,966
State highway network	10	34,218,838	33,614,428	31,865,926
Public-private partnership assets	11	508,305	594,587	244,969
Intangible assets	12	32,069	43,590	31,404
Loans and advances	13	1,574	1,180	1,458
Derivative financial asset	28	8,534	0	0
<b>Total non-current assets</b>		<b>35,782,120</b>	<b>34,269,029</b>	<b>32,877,866</b>
<b>TOTAL ASSETS</b>		<b>36,385,571</b>	<b>34,959,731</b>	<b>33,395,187</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Payables	14	447,536	536,396	377,611
Tolling funds held in trust		3,588	2,000	3,484
Employee entitlements	15	9,819	12,539	9,712
Borrowing	16	16,913	0	0
<b>Total current liabilities</b>		<b>477,856</b>	<b>550,935</b>	<b>390,807</b>
<b>Non-current liabilities</b>				
Payables	14	0	100	11
Public-private partnership liabilities	11	508,305	594,587	244,969
Employee entitlements	15	4,395	4,000	4,555
Borrowing	16	342,261	553,578	244,156
Derivative financial liability	28	120,536	0	205,532
<b>Total non-current liabilities</b>		<b>975,497</b>	<b>1,152,265</b>	<b>699,223</b>
<b>TOTAL LIABILITIES</b>		<b>1,453,353</b>	<b>1,703,200</b>	<b>1,090,030</b>
<b>NET ASSETS</b>		<b>34,932,218</b>	<b>33,256,531</b>	<b>32,305,157</b>

	NOTE	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>EQUITY</b>				
General funds		5,606	5,606	5,606
Retained funds	17	17,029	(130,465)	22,865
Memorandum account - other fees and charges	18	25,833	3,492	18,952
Equity derived from the state highway network	19	34,925,852	33,377,898	32,389,597
Cash flow hedge reserve	28	(42,102)	0	(131,863)
<b>TOTAL EQUITY</b>		<b>34,932,218</b>	<b>33,256,531</b>	<b>32,305,157</b>

Explanations of major variances against budget are provided in note 31.  
The accompanying notes form part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

	NOTE	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>EQUITY - OPENING BALANCES</b>				
General funds		5,606	5,606	5,606
Retained funds		22,865	(17,740)	39,700
Memorandum account - other fees and charges		18,952	14,340	11,480
Equity derived from the state highway network		32,389,597	31,695,598	30,482,816
Cash flow hedge reserve		(131,863)	0	0
<b>Total equity - opening balance</b>		<b>32,305,157</b>	<b>31,697,804</b>	<b>30,539,602</b>
<b>CHANGES IN EQUITY</b>				
<b>Equity movements</b>				
Retained funds		(1,492,074)	(1,122,300)	(1,267,332)
Memorandum account - other fees and charges	18	4,931	0	1,100
Equity derived from the state highway network	17a	1,487,143	1,122,300	1,266,232
		0	0	0
<b>Total comprehensive revenue and expense for the year</b>				
Retained funds		26,493	(117,761)	33,120
Memorandum account - other fees and charges		1,950	(10,848)	6,372
Surplus/(deficit)		28,443	(128,609)	39,492
State highway network revaluations	10	1,049,112	560,000	640,549
Movement in cash flow hedges		89,761	0	(131,863)
Other comprehensive revenue and expense		1,138,873	560,000	508,686
		1,167,316	431,391	548,178
<b>Capital funding (to retained funds)</b>				
Crown		48,656	62,600	33,310
National Land Transport Programme	20	1,411,089	1,064,736	1,184,267
		1,459,745	1,127,336	1,217,577
Repayment of capital		0	0	(200)
<b>Total changes in equity</b>		<b>2,627,061</b>	<b>1,558,727</b>	<b>1,765,555</b>
<b>EQUITY - CLOSING BALANCES</b>				
General funds		5,606	5,606	5,606
Retained funds		17,029	(130,465)	22,865
Memorandum account - other fees and charges		25,833	3,492	18,952
Equity derived from the state highway network	19	34,925,852	33,377,898	32,389,597
Cash flow hedge reserve		(42,102)	0	(131,863)
<b>TOTAL EQUITY - CLOSING BALANCES</b>		<b>34,932,218</b>	<b>33,256,531</b>	<b>32,305,157</b>

Explanations of major variances against budget are provided in note 31.  
The accompanying notes form part of these financial statements.



## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

	NOTE	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from the Crown		112,949	32,583	42,262
Receipts from the National Land Transport Fund (NLTF)		2,021,692	2,215,609	1,914,544
Receipts from other revenue		201,132	189,245	250,404
Interest received		627	350	1,083
Payments to suppliers		(1,774,222)	(1,840,156)	(1,580,948)
Payments to employees		(102,648)	(103,030)	(102,708)
Goods & services tax (net)		22,526	60,000	21,607
Net cash from operating activities	21	482,056	554,601	546,244
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
NLTF receipts from sale of state highway held properties		56,272	42,534	46,775
Purchase of property, plant and equipment		(3,050)	(3,979)	(15,138)
Purchase of intangible assets		(6,766)	(17,521)	(11,585)
Investment in the state highway network		(1,674,369)	(1,914,834)	(1,770,048)
Loans and advances		(116)	0	(278)
Net cash from investing activities		(1,628,029)	(1,893,800)	(1,750,274)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Capital contribution from the Crown		45,310	62,600	43,000
Capital contribution from the NLTF		967,000	1,059,701	1,063,541
Receipts from borrowing		127,200	274,000	261,999
Repayment of borrowing		0	(50,000)	(125,000)
Interest paid on borrowing		(5,146)	(7,103)	(5,540)
Repayment of capital		0	0	(200)
Net cash from financing activities		1,134,364	1,339,198	1,237,800
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(11,609)</b>	<b>(1)</b>	<b>33,770</b>
Cash and cash equivalents at the beginning of the year		77,051	50,023	43,281
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>65,442</b>	<b>50,022</b>	<b>77,051</b>

Explanations of major variances against budget are provided in note 31.  
The accompanying notes form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 / STATEMENT OF ACCOUNTING POLICIES

### REPORTING ENTITY

The Transport Agency is a Crown entity as defined by the Crown Entities Act 2004 and is domiciled and operates in New Zealand. The relevant legislation governing the Transport Agency's operations includes the Crown Entities Act 2004 and the Land Transport Management Act 2003. The Transport Agency's ultimate parent is the New Zealand Crown.

The Transport Agency's primary objective is to provide services to the New Zealand public. Its purpose is to deliver effective, efficient, safe, responsible and resilient transport solutions that support a thriving New Zealand. The Transport Agency does not operate to make a financial return.

The Transport Agency is designated as a public benefit entity (PBE) for financial reporting purposes.

The financial statements for the Transport Agency are for the year ended 30 June 2017, and were approved by the Transport Agency Board on 28 September 2017.

### BASIS OF PREPARATION

The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the period.

New Zealand Transport Ticketing Limited (NZTTL), a former subsidiary of the Transport Agency, was wound up on 28 June 2017. Assets and liabilities balances (which were immaterial) were all transferred at fair value to the Transport Agency at the date of wind up.

### Statement of compliance

The financial statements of the Transport Agency have been prepared in accordance with the requirements of the Crown Entities Act 2004 and the Financial Reporting Act 2013. They comply with New Zealand generally accepted accounting practice (NZ GAAP).

The financial statements have been prepared in accordance with Tier 1 PBE accounting standards.

### Presentation currency and rounding

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000) unless stated otherwise.

### Standards issued and not yet effective

The Transport Agency has adopted all standards, amendments and interpretations to existing standards that have been published and are mandatory for its accounting periods beginning on 1 July 2016. The Transport Agency did not early adopt standards which were not yet effective as at 1 July 2016.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Revenue

Revenue is measured at the fair value of the consideration received or receivable.

#### *Funding from the Crown and the National Land Transport Fund*

The Transport Agency is primarily funded through revenue received from the Crown and the National Land Transport Fund, which is restricted in its use for the purpose of the Transport Agency meeting its objectives as specified in the statement of performance expectations.

Funding from the Crown and the National Land Transport Fund is recognised as revenue when earned and is reported in the financial period to which it relates.

### *Interest*

Interest revenue is recognised in the surplus or deficit using the effective interest method. Interest revenue on an impaired financial asset is recognised using the original effective interest rate.

### *Rental revenue*

Lease receipts under an operating sublease are recognised as revenue on a straight-line basis over the lease term.

### **Interest and finance costs**

Interest and finance costs are recognised as an expense in the financial year in which they are incurred.

### **Foreign currency transactions**

Foreign currency transactions are translated into New Zealand dollars (the functional currency) using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

### **Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

### **Financial assets**

Financial assets are classified as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. The latter are classified as non-current assets.

### *Cash and cash equivalents*

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

### *Debtors and receivables*

Debtors and receivables are recognised initially at fair value, less any provision for impairment.

A receivable is considered impaired when there is evidence that the Transport Agency will not be able to collect the amount due. The amount of the impairment is the difference between the carrying amount of the receivable and the present value of amounts expected to be collected.

### **Property assets held for sale**

Property assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Property assets held for sale are measured at the lower of their carrying amount or fair value less costs to sell.

Any impairment losses for write-downs of property assets held for sale are recognised in the surplus or deficit.

Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Property assets held for sale are not depreciated while they are classified as held for sale.

## Property, plant and equipment

Property, plant and equipment consist of the following asset classes: leasehold improvements, furniture and fittings, plant and office equipment, and motor vehicles.

Property, plant and equipment are measured at cost, less any accumulated depreciation and impairment losses.

### *Additions and subsequent costs*

An item of property, plant and equipment is recognised at cost as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the Transport Agency and the cost of the item can be measured reliably.

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

Work in progress is recognised at cost less impairment and is not depreciated.

The costs of day-to-day servicing of property, plant and equipment are recognised in the surplus or deficit as they are incurred.

### *Disposals*

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit.

## State highway network

### *Valuation*

State highways are valued at optimised depreciated replacement cost based on the estimated present cost of constructing the existing assets by the most appropriate method of construction, reduced by factors for the age and condition of the asset. Land associated with the state highway is valued using an opportunity cost based on adjacent use, as an approximation to fair value. Borrowing costs are not capitalised.

A cyclical basis for valuation is used so that the land corridor in each region is revalued at an interval not exceeding three and a half years. Those regions that are not subject to full revaluation in a particular year are subject to a valuation update through the use of price indices.

A revaluation surplus is recognised in other comprehensive revenue and expense and credited to the asset revaluation reserve in equity. However, the revaluation increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognised in surplus or deficit.

An allowance is made in the valuation for brownfield costs. Brownfield cost is a generic term for the additional costs of constructing in a particular location because of the increased intensity of surrounding land use compared to the cost of constructing in a vacant greenfield situation. A major component of brownfield costs are one-off costs necessary to make the land freely available to build the state highway, and are not part of the physical construction cost. They include capital works relating to relocation and refurbishment of assets owned by other parties, work to protect the privacy and environment of adjoining properties, and compensation to landowners. Other components of brownfield cost result from the increased constraints or requirements imposed when constructing in an already developed location. Examples include increased traffic management and security, limitations on available contractor areas for storage, parking, buildings and general operations, noise and dust limitations, restricted hours of work etc.

### *Additions and subsequent costs*

The cost of constructing the state highway network is recognised as an asset. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future service potential will flow to the Transport Agency and the cost can be measured reliably. All other repairs and maintenance are charged to the surplus or deficit during the financial period in which they are incurred.

### Disposals

Gains and losses on disposals are determined being the difference between the net proceeds and the carrying amount of the asset. Gains and losses on disposals are included in the surplus or deficit. When revalued assets are sold, the amounts included in the asset revaluation reserve in respect of those assets are transferred to equity.

### Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment and state highway network assets other than land, held properties, formation and the sub-base component of pavement (base), at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives.

The state highway network assets are depreciated based on revalued carrying amount of the asset.

Depreciation expense is recognised in the surplus or deficit.

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

ASSETS	USEFUL LIFE (YEARS)	DEPRECIATION RATE (%)
State highways – pavement (base)	50	2.0
State highways – pavement (surface)	9 - 14	7.1 - 11.1
State highways – drainage	60	1.7
State highways – traffic facilities	15	6.7
State highways – bridges	90 - 100	1.0 - 1.1
State highways – culverts & subways	50 - 75	1.3 - 2.0
State highways – other structures	100	1.0
Bailey bridging	69 - 103	0.97 - 1.4
Motor vehicles	4	25.0
Computer equipment	3 - 4	25 - 33.3
Plant	5 - 10	10.0 - 20.0
Equipment	5 - 8	12.5 - 20.0
Furniture & fittings	5 - 10	10.0 - 20.0
Office equipment	4 - 5	20.0 - 25.0
Leasehold improvements	Life of the lease	7.7 - 33.0

Land, held properties, formation and the sub-base component of pavement (base) are not depreciated as the service potential of these components is considered not to reduce over time.

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



## Intangible assets

### *Software acquisition and development*

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

Costs that are directly associated with the development of software for internal use are recognised as an intangible asset. Direct costs include software development employee costs and an appropriate portion of directly attributable overheads.

Costs associated with development and maintenance of the Transport Agency's website are recognised as an expense when incurred.

### *Amortisation*

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

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

ASSETS	USEFUL LIFE (YEARS)	AMORTISATION RATE (%)
Computer software	3 - 10	10 - 33.3

## Impairment of state highway network assets, property, plant and equipment and intangible assets

Assets are considered cash-generating where their primary objective is to generate a commercial return. The Transport Agency does not hold any cash-generating assets.

### *Non-cash generating assets*

Assets that have an indefinite useful life, such as land, are not subject to amortisation and are tested on a cyclical basis so that each region is reviewed at an interval not exceeding three and a half years for impairment.

State highway network assets, property, plant and equipment and intangible assets held at cost that have a finite useful life, are reviewed for impairment whenever events or changes in circumstances indicate that there may be a reduction in the future service potential that can be expected to be derived from the asset. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable service amount. The recoverable service amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is determined using an approach based on either a depreciated replacement cost approach, restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

If an asset's carrying amount exceeds its recoverable service amount, the asset is regarded as impaired and the carrying amount is written down to the recoverable service amount. An impairment loss is recognised in the surplus or deficit, except to the extent that it offsets an existing surplus on the same asset class recognised in the asset revaluation reserve.

### **Service concession arrangements**

Public-private partnerships for the construction of state highways are treated as service concession arrangements and accounted for in accordance with PBE IPSAS 32 Service Concession Arrangements: Grantor.

During construction the cumulative cost, including financing, is recognised as an asset, with a matching liability representing the Transport Agency's obligations under the arrangement should conditions exist such that the arrangement will not continue through to the service commencement date. Prior to the service commencement date, there are no scheduled payments under the Agreement.

On completion the asset and liability will be remeasured to fair value.

On the service commencement date, the following payments will occur:

- a design and construction payment from the Transport Agency to the contractor; and
- a rental prepayment from the contractor to the Transport Agency.

In practice, these two payments will be set off against each other and there is no cash transaction.

At the time the public-private partnership assets become operational, the Transport Agency will pay the contractor a quarterly unitary payment subject to satisfactory performance against the agreed service levels.

The unitary payments are accounted for according to their substance as a reduction in the liability, a finance charge, and operating costs for the period.

This treatment is consistent with the Treasury's Public Private Partnership Accounting Guidelines.

Once operational, the service concession assets are accounted for in accordance with the policies adopted by the Transport Agency in respect of the rest of the state highway.

### **Payables**

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

### **Borrowing**

Borrowing is initially recognised at its fair value plus transaction costs. After initial recognition, all borrowing is measured at amortised cost using the effective interest method.

### **Derivative financial instruments and hedging**

The Transport Agency uses derivative financial instruments, mainly interest rate swaps, to mitigate risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date at which a derivative contract is entered into and are subsequently re-measured to fair value at balance date.

The hedge relationship is designated as a cash flow hedge and the Transport Agency formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they have been highly effective throughout the financial reporting periods for which they were designated.

The effective portion of derivatives designated in cash flow hedges are recognised in other comprehensive revenue and expense. All other gains and losses are taken directly to surplus or deficit.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Derivative assets and liabilities are classified as non-current when the remaining maturity is more than 12 months or current when the remaining maturity is less than 12 months.

The fair values of interest rate swaps are determined using a valuation technique based on cash flows discounted to present value using current market interest rates.

## Employee entitlements

### *Short-term employee entitlements*

Employee benefits that are due to be settled within 12 months after balance date in which the employee renders the related service are measured based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, and sick leave.

### *Long-term employee entitlements*

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

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual entitlement information; and
- the present value of the estimated future cash flows.

### *Presentation of employee entitlements*

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

## Superannuation schemes

### *Defined contribution schemes*

Obligations for contributions to the Government Superannuation Fund, Kiwisaver, National Superannuation Scheme, and Post Office Pension Fund are accounted for as defined contribution superannuation schemes and are recognised as an expense in the surplus or deficit as incurred.

## Provisions

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that an outflow of future economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

## Jointly controlled operations

The Transport Agency has interests in jointly controlled operations. These include the Auckland Motorway Alliance and Marlborough Roads. It recognises in its financial statements:

- the assets that it controls and the liabilities that it incurs
- the revenue and expenses that it incurs from the operations of the jointly controlled operation.

## Equity

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components:

- general funds
- retained funds
- memorandum account – other fees and charges
- equity derived from the state highway network
- cash flow hedge reserve.

### Goods and services tax

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

### Income tax

The Transport Agency is a public authority and consequently is exempt from the payment of income tax. Accordingly, no provision has been made for income tax.

### Budget figures

The budget figures are derived from the statement of performance expectations as approved by the Transport Agency Board. The budget figures have some differences in accounting policies to those adopted by the Board in preparing these financial statements. This is due to changes in accounting policies in 2015/16 after the budget figures were set.

### Critical accounting estimates and assumptions

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

#### *State highway network useful lives and residual value*

At each balance date, the useful lives and residual values of state highway network assets are reviewed. Assessing the appropriateness of useful life and residual value estimates of property, plant, and equipment requires a number of factors to be considered such as the physical condition of the asset, expected period of use of the asset by the Transport Agency, and expected disposal proceeds from the future sale of the asset.

An incorrect estimate of the useful life or residual value will impact the depreciation expense recognised in the surplus or deficit, and carrying amount of the asset in the statement of financial position. The Transport Agency minimises the risk of this estimation uncertainty by:

- physical inspection and condition monitoring of assets
- asset management planning
- asset replacement programmes.

The Transport Agency has not made significant changes to past assumptions concerning useful lives and residual values.

### Critical judgements in applying accounting policies

Management has exercised the following critical judgements in applying accounting policies for the state highway network assets.

Critical judgements relate to:

- estimating the replacement cost of existing assets, including the impact of cost allocation and whether a cost should be capitalised or expensed. The Transport Agency incurs expenditure on maintaining state highways and state highway infrastructure improvements. Professional judgement and engineering assessments are used to determine whether costs incurred on state highways should be capitalised or expensed
- the age, condition and remaining economic life of existing assets, including the impact of maintenance thereon.

The brownfield construction costs represent a significant proportion of the capitalised cost of the state highway. Brownfield costs are not recorded in the state highway asset management system, but are accounted for generically with the value derived from costs in the financial records.

## 2 / FUNDING FROM THE CROWN AND NATIONAL LAND TRANSPORT FUND

The Transport Agency has been provided with funding from the Crown and the National Land Transport Fund for the specific purposes of the Transport Agency as set out in its founding legislation and the scope of the relevant government appropriations. Apart from these general restrictions, there are no unfulfilled conditions or contingencies attached to Crown or National Land Transport Fund funding.

During the year, the total funding received from the Crown was \$146.181 million (2016: \$39.757 million) while funding received from the National Land Transport Fund was \$1.931 billion (2016: \$2.053 billion).

## 3 / REVENUE FROM OTHER ACTIVITIES

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
Border inspection fees	1,044	885
Certification review fees	12,065	11,645
Driver licensing fees	35,256	35,101
Driver testing fees	24,834	24,370
Motor vehicle licensing fees	54,713	58,340
Overdimension and overweight permits	1,153	1,007
Rail licensing fees	1,117	1,212
Road user charges (RUC) collections	12,296	11,816
Standards development fee and certification levies	6,556	6,899
Transport licensing fees	10,666	10,593
<b>Total fees and charges</b>	<b>159,700</b>	<b>161,868</b>
Administration fee from Accident Compensation Corporation	834	864
Business units	1,167	1,292
Levy on personalised plates for community road safety initiatives	3,110	1,456
Tolling fees and contributions	13,987	11,769
Interest and finance income	20,386	14,144
Recoveries from National Land Transport Programme activities	28,173	60,862
Miscellaneous revenue	3,044	11,427
<b>TOTAL REVENUE FROM OTHER ACTIVITIES</b>	<b>230,401</b>	<b>263,682</b>



**4 / PERSONNEL COSTS**

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
Salaries and wages	98,027	96,862
Defined contribution plan employer contributions	3,240	3,018
Other personnel costs	1,461	2,752
<b>TOTAL PERSONNEL COSTS*</b>	<b>102,728</b>	<b>102,632</b>

\* An additional \$39.220 million (2016: \$35.138 million) was incurred for staff who are employed to manage our state highway network (including capital projects).

**5 / SIGNIFICANT OPERATING EXPENSES**

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
Fees to principal auditors:		
- for audit of financial statements	418	491
- for other services*	396	115
Operating lease expense	19,747	19,895
Impairment of receivables	1,327	1,073
Commissions and transaction costs	72,499	73,688
Professional services	35,585	22,601
Road user safety advertising	14,666	13,387
Information technology	14,554	11,869
Meetings and conferences	710	878
Staff travel	4,892	4,922
Office and building management	4,358	4,246

\* Other services paid to KPMG this year related to Value for Money Programmes, review of Scrutiny Principle, Agile Framework and assurance services for the Driver Licensing Experience project.

**6 / INTEREST AND FINANCE COSTS**

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
Interest on borrowings	6,411	6,243
Fair value loss on receivables	17,540	11,877
Ineffective portion of cash flow hedge	(3,768)	6,853
Amortisation of discount on borrowings	3,185	0
<b>TOTAL INTEREST AND FINANCE COSTS</b>	<b>23,368</b>	<b>24,973</b>

## 7 / DEPRECIATION AND AMORTISATION EXPENSE

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
Depreciation of property, plant and equipment	5,511	4,957
Depreciation of state highway network	366,297	407,483
Amortisation of intangible assets	6,100	5,923
<b>TOTAL DEPRECIATION AND AMORTISATION EXPENSE</b>	<b>377,908</b>	<b>418,363</b>

## 8 / RECEIVABLES

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
Receivables (gross)	83,214	86,937
Less : Provision for impairment	1,418	3,141
<b>TOTAL RECEIVABLES</b>	<b>81,796</b>	<b>83,796</b>

### Fair value

The carrying value of receivables approximates their fair value.

### Impairment

The ageing profile of receivables at year end is detailed below:

	2016/17			2015/16		
	GROSS \$000	IMPAIRMENT \$000	NET \$000	GROSS \$000	IMPAIRMENT \$000	NET \$000
Not past due date	76,417	0	76,417	81,829	0	81,829
Past due 1-30 days	416	0	416	287	0	287
Past due 31-60 days	883	(22)	861	846	(250)	596
Past due 61-90 days	383	(207)	176	852	(616)	236
Past due over 90 days	5,115	(1,189)	3,926	3,123	(2,275)	848
<b>TOTAL</b>	<b>83,214</b>	<b>(1,418)</b>	<b>81,796</b>	<b>86,937</b>	<b>(3,141)</b>	<b>83,796</b>

Movements in the provision for impairment of receivables are as follows:

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
Balance at 1 July	3,141	3,116
Operating provisions made during the year	1,327	1,073
Provisions reversed during the year	(1,736)	(626)
Receivables written-off during the year	(1,314)	(422)
<b>BALANCE AS AT 30 JUNE</b>	<b>1,418</b>	<b>3,141</b>

## 9 / PROPERTY ASSETS HELD FOR SALE

The Transport Agency owns 139 properties valued at \$49.611 million (2016: 125 properties valued at \$42.160 million) which have been classified as held for sale. It is expected that these properties will be sold by 30 June 2018.

## 10 / STATE HIGHWAY NETWORK

Movements for the state highway network are as follows:

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
<b>COST OR VALUATION</b>		
Balance at 1 July	31,865,926	30,179,446
Additions - capital expenditure	1,691,064	1,686,371
Assets vested from local authorities	75,013	99,399
Revaluation gains/(losses)	1,049,112	640,549
Depreciation expense	(366,297)	(407,483)
Assets vested to local authorities	(18,410)	(286,533)
Disposals	(58,357)	(46,775)
Asset write off	(11,762)	(12,760)
Change in assets held for sale	(7,451)	13,990
Tolling system assets	0	(278)
<b>BALANCE AS AT 30 JUNE</b>	<b>34,218,838</b>	<b>31,865,926</b>

The most recent valuation of the state highway network and bailey bridging was performed by a registered independent valuer, J Vessey, BE (Civil), BA (Economics), FIPENZ (Civil), CPEng, of Opus International Consultants Ltd.

The total fair value amounted to \$34.219 billion (2016: \$31.866 billion) and this valuation is effective as at 30 June 2017.

Optimised Depreciated Replacement Cost is used to value these assets. Optimisation involves adjustments to eliminate the effect of any excess capacity, over design, technological obsolescence and inefficient layout. The value is calculated by deducting an allowance for accumulated depreciation from the replacement cost, using a number of significant assumptions. These significant assumptions include:

- the valuation methodology detailed in significant accounting policies
- the useful life of assets is estimated
- straight-line depreciation has been applied in determining the depreciated replacement cost value of the asset.

	REPLACEMENT COST \$000	ACCUMULATED DEPRECIATION \$000	VALUATION 2016/17 \$000	REPLACEMENT COST \$000	ACCUMULATED DEPRECIATION \$000	VALUATION 2015/16 \$000
State highway corridor land	9,542,262	0	9,542,262	8,758,203	0	8,758,203
Held properties	1,349,751	0	1,349,751	957,107	0	957,107
Formation	8,601,818	0	8,601,818	8,308,253	0	8,308,253
Pavement (other)	5,316,807	1,080,705	4,236,102	4,950,678	1,025,156	3,925,522
Pavement (surface)	1,425,555	683,078	742,477	1,368,514	638,093	730,421
Drainage	1,529,946	627,358	902,588	1,440,225	582,508	857,717
Traffic facilities	2,168,408	838,317	1,330,091	2,093,973	811,631	1,282,342
Bridges	8,157,469	2,752,469	5,405,000	7,662,452	2,574,295	5,088,157
Culverts & subways	751,457	260,920	490,537	671,827	236,209	435,618
Other structures*	2,112,914	494,702	1,618,212	2,017,221	494,635	1,522,586
<b>TOTAL</b>	<b>40,956,387</b>	<b>6,737,549</b>	<b>34,218,838</b>	<b>38,228,453</b>	<b>6,362,527</b>	<b>31,865,926</b>

\* Other structures include retaining walls, minor structures, sea and river protection, tunnels, and rock fall netting.

There are some uncertainties about the values assigned to different components (land, formation, bridges, etc) of the state highway network. These uncertainties include whether the Transport Agency's databases have accurate quantities and lives and whether there is complete capture for some cost components. Some uncertainties are inherent, but those arising from both the quantity and costs of components can be reduced by improvements in the accuracy of the underlying databases.

Additional 'brownfield' costs associated with road construction in urban areas are assessed as being the most significant part of the potential undervaluation, with the remaining due to incomplete records. An allowance to recognise these costs has been included for the current and the previous three years. However, historical brownfield costs cannot be reliably measured and are currently excluded from the valuation.

The Transport Agency is continuously improving the accuracy of the asset databases and identify all costs able to be capitalised. This is reducing the understatement inherent in the current value of the state highway network.

### November 2016 Kaikōura earthquake

The November 2016 earthquake in the South Island was a magnitude of 7.8 earthquake with an epicentre about 15 kilometres northeast of Culverden and 60 kilometres southwest of the tourist town of Kaikōura. The Transport Agency has estimated the impact of the earthquake on its state highway network assets by determining the recoverable service amount of the assets on affected areas using a restoration cost approach. The assets affected were substantially impaired at the end of the year as the total restoration cost exceeded the total carrying amount.

An impairment expense of \$23.8 million was recognised against the asset revaluation reserve and the total carrying amount of \$4.6 million, for roads which will be realigned, was derecognised and charged against net surplus or deficit.

### Manawatū Gorge

The Manawatū Gorge (State Highway 3) has been closed since slips caused damage on 24 April 2017. Due to continued instability at the slip sites, a full assessment of the condition and future viability of the road has yet to be made. No adjustment to the carrying value of the relevant state highway assets was made at 30 June 2017.

### Work in progress (included in the assets components and balance)

The total amount of the state highway network in the course of construction is \$4.829 billion (2016: \$3.715 billion).

## 11 / PUBLIC-PRIVATE PARTNERSHIP ASSETS AND LIABILITIES

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
Transmission Gully	395,598	244,969
Pūhoi to Warkworth	112,707	0
<b>TOTAL PUBLIC-PRIVATE PARTNERSHIP ASSETS AND LIABILITIES</b>	<b>508,305</b>	<b>244,969</b>

The Transport Agency has entered into public-private partnership agreements with the following contractors:

- the Wellington Gateway Partnership for the delivery of a stretch of state highway through Transmission Gully
- the Northern Express Group for the delivery of the Pūhoi to Warkworth project.

Under the agreements, the contractors will finance, design, build, operate and maintain the section of state highways. The Transport Agency has provided land it owns to the contractors on which to build the state highways.

The operational agreements run for a period of 25 years each from the service completion date, after which the responsibility for ongoing operation and maintenance of the road will revert to the Transport Agency.

Under the operating agreements, the Transport Agency pays a unitary charge to the contractors from the time the section of state highways becomes operational. The unitary charge includes:

1. A reduction in the service concession liability
2. Finance costs – under the terms of the agreement, the operators have provision to re-price the finance costs at intervals during the 25 year period. The Transport Agency has entered into interest rate swaps with the NZ Debt Management Office as a hedge against any fluctuating interest rates
3. Service costs – these cover the operational costs of running, maintaining, insuring and ensuring the availability of the highway to the service level agreed with the Transport Agency. A number of these costs are indexed to the consumers' price index or to other relevant indices and can be varied from time to time.

Finance and service costs will be recognised as an expense in the period incurred. The total estimated capital and operating expenditure to be paid throughout the 25 year period is \$2.7 billion for Transmission Gully and \$2.3 billion for Pūhoi to Warkworth.

The Crown has issued an indemnity to the Consortiums for all Indemnified Amounts (as defined in the Deed of Indemnity). In general terms, the Indemnified Amount consists of sums payable by the Transport Agency in the operational phase of the project and defined compensation sums payable in the event of default on payment by the Transport Agency. If the Crown makes a payment for indemnity, this is to be reimbursed under the Reimbursement and Management Agreement (the RAMA).

As both state highways are currently under construction, no depreciation on the assets has been incurred to date.

### Transmission Gully

Good progress continues to be made on the Transmission Gully project, with completion expected by mid-2020. The project is a complex one, with challenging terrain and a detailed set of environmental and planning conditions to be met by the Transport Agency's contractors. The project is being delivered by Wellington Gateway Partnership, which has contracted a joint venture made up of CPB Contractors and HEB Construction to undertake the design and construction works. Over the course of the project there has been constant dialogue between the Transport Agency, Wellington Gateway Partnership and the joint venture, which has included a number of technical and commercial matters that may result in dispute between the parties. The Transport Agency does not consider that any matters raised to date are likely to materially impact on the timing of delivery of the project or on the Transport Agency's costs of the project, but it will continue to closely monitor the project and the risks associated with it.



## 12 / INTANGIBLE ASSETS

Movements for intangible assets are as follows:

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
<b>CARRYING AMOUNT</b>		
Balance at 1 July	31,404	39,742
Additions	1,116	14,936
Work in progress movements	5,649	(1,303)
Amortisation expense	(6,100)	(5,923)
Intangible asset written off	0	(2,048)
Write-off of the National Integrated Ticketing System	0	(14,000)
<b>BALANCE AS AT 30 JUNE</b>	<b>32,069</b>	<b>31,404</b>

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

### Work in progress (including in the cost and carrying amounts)

The total value of intangible assets in the course of development is \$9.929 million (2016: \$4.281 million).

## 13 / LOANS AND ADVANCES

### Statutory advances

Under the Public Works Act, the Transport Agency has provided statutory advances of \$1.574 million (2016: \$1.458 million).

## 14 / PAYABLES

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
<b>CURRENT PORTION</b>		
Creditors	426,279	364,120
Income in advance	21,156	13,491
Onerous contracts*	101	0
Total current portion	447,536	377,611
<b>NON-CURRENT PORTION</b>		
Onerous contracts*	0	11
Total non-current portion	0	11
<b>TOTAL PAYABLES</b>	<b>447,536</b>	<b>377,622</b>

\* The Transport Agency has non-cancellable leases for office space that is no longer used by the Transport Agency. A provision has been recognised for the future rental payments.

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms. Therefore, the carrying value of creditors and other payables approximates their fair value.

**15 / EMPLOYEE ENTITLEMENTS**

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
<b>CURRENT PORTION</b>		
Accrued salaries and wages	1,009	502
Annual leave	7,954	8,292
Sick leave	385	433
Retirement and long service leave	471	485
Total current portion	9,819	9,712
<b>NON-CURRENT PORTION</b>		
Retirement and long service leave	4,395	4,555
Total non-current portion	4,395	4,555
<b>TOTAL EMPLOYEE ENTITLEMENTS</b>	<b>14,214</b>	<b>14,267</b>

The actuarial valuation as at 30 June 2017 was conducted in-house using prescribed guidance from the Treasury.

The sick, long service, and retirement leave valuations involve making future service projections for each employee. The probability of an employee leaving has been determined with reference to current public service leaving statistics. Additional economic assumptions were taken from the Treasury's guidance.

Sensitivity analysis has been performed to assess the financial impact of changes in the assumptions to the retirement and long service leave liabilities.

Using 50 percent of the assumed resignation rate, with all other factors held constant, the amount of expected liability would be \$794,000 higher (2016: \$620,000). If the resignation rate is at 150 percent of the assumed rate, then the expected liability would be \$287,000 lower (2016: \$461,000).

**16 / BORROWING**

	BORROWING FACILITY \$000	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
<b>CURRENT PORTION</b>			
Short term advances	250,000	0	0
Reinstatement of earthquake damaged roads in Christchurch	(included below)	16,913	0
Total current portion	250,000	16,913	0
<b>NON-CURRENT PORTION</b>			
Accelerated Auckland Transport Programme	375,000	211,691	108,938
Reinstatement of earthquake damaged roads in Christchurch	183,420	23,570	28,218
Tauranga Eastern Link toll road	107,000	107,000	107,000
Total non-current portion	665,420	342,261	244,156
<b>TOTAL BORROWING</b>	<b>915,420</b>	<b>359,174</b>	<b>244,156</b>

The Transport Agency has a \$250 million borrowing facility for short term advances from the Crown to cover seasonal variations in cash flows. Under this facility, the Transport Agency has no current borrowings as at 30 June 2017 (2016: nil).

A \$375 million facility is available for the Accelerated Auckland Transport Programme of which \$238.200 million has been drawn down as at 30 June 2017 (2016: \$122 million). The amount is a series of interest-free loans with terms ranging from four to seven years. As at 30 June 2017, the carrying amount of the borrowings was discounted using government bond yields of 2.14 percent to 2.48 percent. This gave rise to a fair value gain of \$26.508 million.

A \$183.420 million facility is available to assist with the Christchurch earthquake recovery. \$38 million has been drawn down as at 30 June 2017 (2016: \$27 million). The borrowing has incurred interest of \$2.482 million (2016: \$1.218 million), which has been capitalised against the borrowing balance.

The Transport Agency also has a borrowing facility of \$107 million as a contribution towards the Tauranga Eastern Link toll road, which was fully drawn down on the 30 June 2015. During the year, the borrowing has incurred interest of \$5.146 million (2016: \$5.125 million) which has been paid throughout the financial year.

## 17 / RETAINED FUNDS

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
<b>RETAINED FUNDS - NZ TRANSPORT AGENCY OPERATIONS</b>		
Balance at 1 July	19,338	22,275
Surplus/(deficit) from operations	(600)	(1,837)
Rail licensing /RUC retained funds to memorandum account	(4,931)	(1,100)
Balance at 30 June	13,807	19,338
<b>RETAINED FUNDS - NATIONAL LAND TRANSPORT PROGRAMME</b>		
Balance at 1 July	2,241	0
Capital contribution from the National Land Transport Fund	1,411,089	1,184,267
Surplus/(deficit) from Land transport funding	26,192	37,361
Transfer to state highway investment*	(1,438,487)	(1,233,383)
Funds provided for public transport automated fare collection system	0	13,996
Balance at 30 June	1,035	2,241
<b>RETAINED FUNDS - SPECIFIC PROJECTS FUNDED BY THE CROWN</b>		
Balance at 1 July	1,286	3,429
Capital contribution from the Crown	48,656	33,310
Surplus/(deficit)	901	(2,404)
Transfer to state highway investment*	(48,656)	(32,849)
Repayment of capital for SuperGold card administration	0	(200)
Balance at 30 June	2,187	1,286
<b>FUNDS PROVIDED FOR PUBLIC TRANSPORT AUTOMATED FARE COLLECTION SYSTEM</b>		
Balance at 1 July	0	13,996
Funds from the National Land Transport Programme	0	(13,996)
Balance at 30 June	0	0
<b>TOTAL RETAINED FUNDS</b>	<b>17,029</b>	<b>22,865</b>

\* Below is a breakdown of the movement of the National Land Transport Programme funds to state highways.

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
Capitalised expenditure - National Land Transport Programme	1,642,641	1,672,602
Non-operating expenditure (public-private partnerships)	173,574	214,933
State highway depreciation and asset write-off	(378,059)	(420,243)
State highway disposals to the National Land Transport Programme	(56,272)	(46,775)
Net impact of assets vested (to)/from local authorities	56,603	(187,134)
Retained funds - National Land Transport Programme	1,438,487	1,233,383
Capitalised expenditure - Crown	48,656	32,849
<b>TRANSFER TO STATE HIGHWAY INVESTMENT</b>	<b>1,487,143</b>	<b>1,266,232</b>

## 18 / MEMORANDUM ACCOUNT - OTHER FEES AND CHARGES

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
Balance at 1 July	18,952	11,480
Surplus from operations	1,950	6,372
Rail licensing deficit to retained funds	4,931	0
RUC retained funds to memorandum account	0	1,100
<b>TOTAL MEMORANDUM ACCOUNT - OTHER FEES AND CHARGES</b>	<b>25,833</b>	<b>18,952</b>

Below are the closing balances of the memorandum accounts by funding activities.

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
Customer licensing activities*	13,737	8,934
Road user charges collections	4,097	3,025
Vehicle standards compliance activities†	7,999	6,993
<b>TOTAL MEMORANDUM ACCOUNT - OTHER FEES AND CHARGES</b>	<b>25,833</b>	<b>18,952</b>

\* Customer licensing activities include driver licensing and testing, and rail and transport operator licensing.

† Vehicle standards compliance activities include border inspections, certification reviews, motor vehicle licensing, over-dimension permits, and standards development and certification.

**19 / EQUITY DERIVED FROM THE STATE HIGHWAY NETWORK**

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
<b>STATE HIGHWAY INVESTMENT</b>		
Balance at 1 July	21,820,750	20,554,518
Transfer from the National Land Transport Programme	1,487,143	1,266,232
Balance at 30 June	23,307,893	21,820,750
<b>STATE HIGHWAY REVALUATION RESERVE</b>		
Balance at 1 July	10,568,847	9,928,298
Revaluations - State highway network	1,049,112	640,549
Balance at 30 June	11,617,959	10,568,847
<b>TOTAL EQUITY DERIVED FROM THE STATE HIGHWAY NETWORK</b>	<b>34,925,852</b>	<b>32,389,597</b>

**20 / CAPITAL FUNDING - NATIONAL LAND TRANSPORT PROGRAMME**

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
State highway improvements	886,943	694,492
State highway renewals	141,273	122,243
Walking and cycling	7,890	18,761
Regional improvements	68,517	13,121
Investment management (transport planning)	8,028	7,826
Road safety promotion	1,125	852
Accelerated Auckland Transport Programme	123,739	112,039
Public-private partnerships	173,574	214,933
<b>TOTAL CAPITAL CONTRIBUTION - NATIONAL LAND TRANSPORT PROGRAMME</b>	<b>1,411,089</b>	<b>1,184,267</b>

**21 / RECONCILIATION OF NET SURPLUS TO NET CASH FROM OPERATING ACTIVITIES**

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
<b>SURPLUS/(DEFICIT)</b>	28,443	39,492
<b>ADD/(DEDUCT) NON-CASH/NON-OPERATING ITEMS:</b>		
Depreciation and amortisation expense	377,908	418,363
State highway asset write-off	11,762	12,760
(Gains)/losses on disposal of non-financial assets	2,091	188
Write off/(recovery) of impairment of intangible asset	(330)	14,330
Net impact of assets vested to/(from) local authorities	(56,603)	187,134
Fair value loss and amortisation of loss on receivables	14,413	11,877
Interest on borrowings	6,411	6,243
Discount and amortisation of discount on borrowings	(13,447)	(13,061)
Ineffective portion of cash flow hedge	(3,768)	6,853
Total non-cash/non-operating items	338,437	644,687
<b>ADD/(DEDUCT) MOVEMENTS IN WORKING CAPITAL:</b>		
(Increase)/decrease in debtor National Land Transport Fund and Crown	68,460	(147,960)
(Increase)/decrease in other receivables	2,000	35,784
(Increase)/decrease in other current assets	(8,553)	(616)
Increase/(decrease) in creditors and other payables	53,218	(22,521)
Increase/(decrease) in tolling funds held in trust for Ministry of Transport	104	959
Increase/(decrease) in employee entitlements	(53)	(3,581)
Net movements in working capital	115,176	(137,935)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>482,056</b>	<b>546,244</b>

## 22 / CAPITAL COMMITMENTS AND OPERATING LEASES

### Capital commitments

The future aggregate construction contract commitments for the state highway network are as follows:

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
Not later than one year	2,117,042	1,788,484
Later than one year and not later than five years	1,647,311	2,341,294
Later than five years	2,366,004	1,268,661
<b>TOTAL CAPITAL COMMITMENTS</b>	<b>6,130,357</b>	<b>5,398,439</b>

Construction of the state highway network is a component of the National Land Transport Programme. These capital commitments are also included under the National Land Transport Programme funding commitments.

### Operating leases as lessee

The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
Not later than one year	19,684	19,496
Later than one year and not later than five years	33,935	43,612
Later than five years	12,624	15,688
<b>TOTAL NON-CANCELLABLE OPERATING LEASES</b>	<b>66,243</b>	<b>78,796</b>

Significant operating leases are limited to buildings for office accommodation and provision of registry systems.

## 23 / CONTINGENCIES

### Contingent liabilities

#### *Contract and land settlements*

There are claims of \$4.6 million (2016: \$15.3 million) relating to a range of roading and other contract disputes.

### Contingent assets

The Transport Agency does not have material contingent assets as at 30 June 2017 (2016: nil).

## 24 / RELATED PARTY TRANSACTIONS

### The Transport Agency is a wholly owned entity of the crown

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect the Transport Agency would have adopted in dealing with the party at arm's length in the same circumstances. Further, transactions with other government agencies (for example, government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the nominal terms and conditions for such transactions.



## Key management personnel compensation

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
<b>BOARD MEMBERS</b>		
Remuneration	372	295
Full-time equivalent members	8	8
<b>LEADERSHIP TEAM</b>		
Remuneration	4,982	4,450
Full-time equivalent members	19	13
<b>TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION</b>	<b>5,354</b>	<b>4,745</b>
<b>TOTAL FULL TIME EQUIVALENT PERSONNEL</b>	<b>27</b>	<b>21</b>

Key management personnel increased in 2016/17 as the Transport Agency's new operating model was being established. The new model introduces a flatter structure to the organisation, with a larger senior leadership team.

## 25 / TRANSPORT AGENCY BOARD MEMBER REMUNERATION

The total value of remuneration paid or payable to each Transport Agency Board member during the year was:

		ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
Chris Moller (Chair)		83	71
Fran Wilde	Appointed May 2016	52	7
Mark Darrow	Appointed May 2017	6	0
Chris Ellis	Appointed May 2016	41	6
Leo Lonergan	Appointed May 2016	33	6
Nick Rogers		40	36
Vanessa van Uden	Appointed May 2017	6	0
Adrienne Young-Cooper		40	36
Gill Cox	Stepped down in April 2017	39	36
Mark Oldfield	Stepped down in April 2017	32	36
Dame Patsy Reddy	Stepped down in April 2016	0	37
Tony Lanigan	Stepped down in October 2015	0	12
Jerry Rickman	Stepped down in October 2015	0	12
<b>TOTAL BOARD MEMBER REMUNERATION</b>		<b>372</b>	<b>295</b>

There have been no payments made to committee members appointed by the Board who were not Board members during the financial year.

The Transport Agency has effected Directors and Officers Liability and Professional Indemnity Insurance cover during the financial year in respect of the liability or costs of Board members and employees. The Board has also taken insurance cover covering personal accident and travel risk for Board members and employees where injury or loss occurs whilst on Transport Agency business.

No Board members received compensation or other benefits in relation to cessation (2016: nil).

**26 / EMPLOYEE REMUNERATION**

TOTAL REMUNERATION PAID OR PAYABLE	NO. OF STAFF 2016/17	NO. OF STAFF 2015/16
100,000 - 109,999	124	126
110,000 - 119,999	104	98
120,000 - 129,999	99	103
130,000 - 139,999	49	44
140,000 - 149,999	46	38
150,000 - 159,999	30	31
160,000 - 169,999	21	24
170,000 - 179,999	20	*21
180,000 - 189,999	14	12
190,000 - 199,999	9	14
200,000 - 209,999	11	6
210,000 - 219,999	4	8
220,000 - 229,999	8	8
230,000 - 239,999	2	2
240,000 - 249,999	4	2
250,000 - 259,999	1	2
260,000 - 269,999	3	2
270,000 - 279,999	2	3
280,000 - 289,999	0	1
290,000 - 299,000	1	0
310,000 - 319,999	2	2
340,000 - 349,999	2	2
350,000 - 359,999	0	1
360,000 - 369,999	1	0
370,000 - 379,999	2	0
380,000 - 389,999	1	2
390,000 - 399,999	1	1
430,000 - 439,999	0	1
570,000 - 579,999	*1	0
710,000 - 719,999	0	**1
<b>TOTAL EMPLOYEES REMUNERATION</b>	<b>562</b>	<b>555</b>

\* Chief Executive Officer

\*\* Former Chief Executive Officer

During the year ended 30 June 2017, two (2016: 18) Transport Agency employees were paid, or due to be paid, compensation and other benefits in relation to cessation totalling \$0.092 million (2016: \$1.185 million).

In addition, four (2016: nil) NZ Transport Ticketing Limited employees were paid compensation and other benefits in relation to cessation when the company was wound up during 2017 totalling \$0.187 million (2016: nil).

## 27 / EVENTS AFTER THE BALANCE DATE

There were no significant events after the balance date.

## 28 / FINANCIAL INSTRUMENTS

The carrying amounts of financial assets and liabilities are categorised as follows:

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
<b>LOANS AND RECEIVABLES</b>		
Cash and cash equivalents	65,442	77,051
Debtors National Land Transport Fund and Crown	1,385,176	1,020,612
Receivables	73,005	80,549
Loans and advances	1,574	1,458
<b>TOTAL LOANS AND RECEIVABLES</b>	<b>1,525,197</b>	<b>1,179,670</b>
<b>FINANCIAL LIABILITIES MEASURED AT AMORTISED COST</b>		
Payables (current and non-current)	447,536	377,622
Borrowing	359,174	244,156
Service concession liability	508,305	244,969
<b>TOTAL FINANCIAL LIABILITIES MEASURED AT AMORTISED COST</b>	<b>1,315,015</b>	<b>866,747</b>
<b>FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE REVENUE AND EXPENSE</b>		
Derivative financial asset	8,534	0
<b>TOTAL FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE REVENUE AND EXPENSE</b>	<b>8,534</b>	<b>0</b>
<b>FINANCIAL LIABILITY AT FAIR VALUE THROUGH OTHER COMPREHENSIVE REVENUE AND EXPENSE</b>		
Derivative financial liability	120,536	205,532
<b>TOTAL FINANCIAL LIABILITY AT FAIR VALUE THROUGH OTHER COMPREHENSIVE REVENUE AND EXPENSE</b>	<b>120,536</b>	<b>205,532</b>

### Fair value hierarchy

The Transport Agency uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 - the fair value is calculated using quoted prices in active markets.

Level 2 - the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices). Inputs on the valuation were derived from Bloomberg.

Level 3 - the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The following provides the fair value measurement hierarchy of the Transport Agency's financial asset and liability measured at fair value:

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
<b>LEVEL TWO</b>		
Derivative financial asset	8,534	0
Derivative financial liability	120,536	205,532

Below shows the movement of cash flow hedge reserve as at 30 June 2017:

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
Balance as at 1 July	(131,863)	0
Effective cash flow hedge	89,761	(131,863)
<b>CASH FLOW HEDGE RESERVE</b>	<b>(42,102)</b>	<b>(131,863)</b>

The cash flows are expected to eventuate and impact the surplus or deficit from financial year 2021.

During the year, the total ineffective portion of the cash flow hedge reserve charged to surplus or deficit was \$3.768 million surplus (2016: \$6.853 million deficit).

## 29 / FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Transport Agency's activities expose it to a variety of risks, including market risk, credit risk and liquidity risk.

The Transport Agency has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from these risks. These policies do not allow any transactions that are speculative in nature to be entered into.

### Market risk

#### *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Transport Agency's exposure to the risk of changes in market rates relates primarily to interest rates on the Transport Agency's long-term debt obligations. This is managed by ensuring loans are at fixed interest rates. As at 30 June 2017, approximately 91 percent of loans are on a fixed interest rate.

The Transport Agency also hedges exposure to highly probable forecast transactions. As discussed in note 11, the Transport Agency has entered into public-private partnership agreements for the construction of Transmission Gully and Pūhoi to Warkworth. The arrangements require that a unitary charge is paid to the contractors from the time the section of state highways becomes operational. The unitary charge includes payment for finance costs in which the operators have provision to re-price during the 25 year period. The Transport Agency has entered into an interest rate swap contracts to hedge the re-pricing of interest costs. The total amount of forecast payments exposed to interest rate risk is fully hedged with a fixed interest rate of 5.58 percent for Transmission Gully and 4.16 percent for Pūhoi to Warkworth. The total notional amounts of the interest rate swap contracts are \$857.789 million and \$765.022 million for Transmission Gully and Pūhoi to Warkworth respectively.

#### *Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Transport Agency purchases goods and services overseas which require it to enter into transactions denominated in foreign currencies. The Transport Agency's foreign currency denominated transactions are not material therefore the impact of exposure to currency risk is minimal.

### Credit risk

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

Due to the timing of its cash inflows and outflows, the Transport Agency invests surplus cash with registered banks.

In the normal course of business, the Transport Agency is exposed to credit risk from cash and term deposits with banks, debtors and other receivables. For each of these, the maximum credit exposure is best represented by the carrying amount in the statement of financial position.

The Transport Agency invests funds only with registered banks that have a Standard and Poor's credit rating of at least A-. The Transport Agency has experienced no defaults of interest or principal payments for term deposits.

The Transport Agency holds no collateral or other credit enhancements for financial instruments that give rise to credit risk.

#### Maximum exposure to credit risk

The Transport Agency's maximum credit risk exposure for each class of financial instrument is as follows:

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
Cash and cash equivalents	65,442	77,051
Debtors National Land Transport Fund and Crown	1,385,176	1,020,612
Receivables	73,005	80,549
Loans and advances	1,574	1,458
Derivative financial assets	8,534	0
<b>TOTAL CREDIT RISK</b>	<b>1,533,731</b>	<b>1,179,670</b>

#### Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard and Poor's credit ratings.

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
<b>CASH AND CASH EQUIVALENTS</b>		
AA-	65,442	77,051
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>65,442</b>	<b>77,051</b>

## Liquidity risk

### Management of liquidity risk

Liquidity risk is the risk that the Transport Agency will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash.

The Transport Agency mostly manages liquidity risk by continuously monitoring forecast and actual cash flow requirements.

### Contractual maturity analysis of financial liabilities

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts below are contractual cash flows which in some instances will differ from the carrying amounts of the relevant liability in the statement of financial position.

	2016/17				2015/16			
	0-1 YEAR \$000	1-2 YEARS \$000	2-5 YEARS \$000	OVER 5 YEARS \$000	0-1 YEAR \$000	1-2 YEARS \$000	2-5 YEARS \$000	OVER 5 YEARS \$000
Payables	447,536	0	0	0	377,611	11	0	0
Borrowing	20,301	44,199	142,123	297,485	0	21,038	109,167	249,693
Derivative financial liability	0	0	22,784	148,778	0	0	6,470	286,973
Service concession liability	0	0	202,630	651,005	0	0	53,288	312,313

## Sensitivity analyses

### Interest rate risk

The table below illustrates the potential effect on the surplus or deficit and other comprehensive revenue and expense for reasonably possible market movements, with all other variables held constant, based on the Transport Agency's financial instrument exposure at balance date.

	2016/17		2015/16	
	+1% \$000	-1% \$000	+1% \$000	-1% \$000
<b>EFFECT ON SURPLUS OR DEFICIT</b>				
Cash and cash equivalents	667	(667)	694	(694)

	2016/17		2015/16	
	+1% \$000	-1% \$000	+1% \$000	-1% \$000
<b>EFFECT ON OTHER COMPREHENSIVE REVENUE AND EXPENSE</b>				
Derivative financial asset	54,277	(70,978)	0	0
Derivative financial liability	81,019	(100,951)	95,463	(111,744)

The interest rate sensitivity is based on a reasonable possible movement in interest rates, with all other variables held constant, measured as a 1 percent change in interest rates.

	2016/17		2015/16	
	+0.5% \$000	-0.5% \$000	+0.5% \$000	-0.5% \$000
<b>EFFECT ON SURPLUS OR DEFICIT</b>				
Borrowing	(559)	879	(784)	784

The interest rate sensitivity is based on a reasonable possible movement in interest rates, with all other variables held constant, measured as a 0.5 percent change in the Treasury determined coupon rate.

### 30 / CAPITAL MANAGEMENT

The Transport Agency's capital is its equity, which comprises general funds, accumulated funds, revaluation reserves, and cash flow hedge reserve. Equity is represented by net assets.

The Transport Agency is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which impose restrictions in relation to borrowing, acquisition of securities, issuing guarantees and indemnities, and the use of derivatives.

The Transport Agency manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments, and general financial dealings to ensure the Transport Agency effectively achieves its objectives and purpose, while remaining a going concern.

### 31 / EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

Explanations for major variances from the Transport Agency's budgeted figures in the statement of performance expectations are as follows:

#### STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

##### Revenue

**Funding from the Crown** was \$70 million (91 percent) above budget. This is mainly due to unbudgeted funding of \$93 million for the Kaikōura Earthquake Response, which is offset by lower spending by approved organisations in the Urban Cycleways Programme. The Urban Cycleways Programme is expected to accelerate in the next two years.

**Funding from the National Land Transport Fund** was \$206 million (10 percent) below budget. Funding reflects the delivery of in the National Land Transport Programme in the current year.

**Revenue from other activities** was \$55 million (31 percent) above budget. This was due to:

- Contributions to state highway project income which was not budgeted
- Volume-driven licensing and testing revenue being above budget due to higher numbers of new drivers and higher volume of driver tests
- Discount on the non-interest bearing Accelerated Auckland Transport Programme borrowing.

Also, during the year, the Transport Agency has recognised assets with fair a value of \$75 million, vested from local authorities. This has been recognised as revenue during the year.

##### Expenditure

**Land transport funding** was \$29 million (2 percent) below budget as a result of the net impact of the following:

- *Walking and cycling* was \$15 million below budget due to several key projects not moving into the delivery phase as a result of unexpected consenting requirements, the need to align with other projects and complications with business cases.
- *Local roads maintenance* was \$103 million below budget due to only \$2 million of the \$114 million reinstatement of local roads in Christchurch debt facility being utilised during the financial year.
- *State highways maintenance* was \$84 million above budget due to the unbudgeted expenditure of \$93 million on the Kaikōura Earthquake Response.

**Interest and finance costs** were \$13 million (129 percent) above budget. This was mainly due to the discount recognised in non-interest bearing long-term receivable.

**Depreciation and amortisation expense** was \$158 million (30 percent) below budget. This predominately relates to the state highway depreciation budget being established before the revaluation at the end of last year.

**Assets vested to local authorities** were \$18 million compared to a nil budget. The Transport Agency has vested assets to local authorities with a total carrying value of \$18 million. This was recognised as an expense in net surplus/(deficit).



## STATEMENT OF FINANCIAL POSITION

### Current assets

**Receivables including Debtor National Land Transport Fund and Debtor Crown** were \$112 million (19 percent) below budget. This is mainly a result of prudently managing the levels of receivable and payable at the end of the year. This has resulted in drawing down more from the National Land Transport Fund to fund creditors' payments.

### Non-current assets

**Debtor National Land Transport Fund** was \$989 million compared to nil budget. The balance in this account relates to expenditure on Accelerated Auckland Transport Programme and Tauranga Eastern Link, repair of damaged roads in Christchurch and spending on public-private partnership agreements. A receivable was recognised for these activities as the Transport Agency has fulfilled the conditions attached to the expenditures incurred.

**Public-private partnership assets** was below budget by \$86 million (15 percent) mainly due to slower project delivery than expected.

**Derivative financial asset** was \$9 million compared to nil budget. This represents the fair value as at 30 June 2017 of the interest rate swap contracts entered into for the Pūhoi to Warkworth public-private partnership agreement which was not budgeted.

### Current liabilities

**Payables** were \$89 million (17 percent) below budget as a result of actively managing payables to suppliers.

### Non-current liabilities

**Public-private partnership liabilities** was below budget by \$86 million (15 percent). The liability matches the public-private partnership asset position (as explained above).

**Borrowing** was \$211 million (38 percent) below budget due mainly to lower spending in the reinstatement of Christchurch earthquake-damaged roads.

**Derivative financial liability** was \$121 million compared to nil budget. This represents the fair value as at 30 June 2017 of the interest rate swap contracts entered into for the Transmission Gully public-private partnership agreement which was not budgeted.

# SUPPLEMENTARY INFORMATION

This supplementary information section contains additional disclosure and guidance material to the financial statements and has been provided to give a better understanding of the Transport Agency's business.

In this section you will find the following:

- detailed performance by segment of the business
- summary of the National Land Transport Programme funding
- details of land transport management (road tolling scheme).

This information is consistent with and should be read in conjunction with, the financial highlights on pages 94-96 and the audited financial statements on pages 97-130.

## DETAILED PERFORMANCE BY SEGMENT OF THE BUSINESS

The following tables further detailed financial performance information for each of these segments.

### OPERATIONS

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>REVENUE</b>			
<b>Funding from the Crown</b>			
Licensing and regulatory compliance	3,789	3,898	3,966
Investment management	775	775	775
SuperGold card administration and public transport concessions	95	95	295
	4,659	4,768	5,036
<b>Funding from the National Land Transport Fund</b>			
Road user charges collection, investigation and enforcement	4,229	4,229	4,229
Refund of fuel excise duty	1,034	803	545
Investment management	47,333	47,801	45,255
Public transport	3,497	10,767	3,447
Walking and cycling	1,536	1,131	954
Road safety promotion	21,400	24,204	18,597
Local road maintenance	0	200	137
State highway maintenance	27,228	24,414	16,968
	106,257	113,549	90,132
<b>Revenue from other activities</b>			
Licensing and regulatory compliance	93,389	87,140	91,566
Road tolling	14,036	11,664	11,785
Motor vehicle registry	55,808	55,398	59,672
Road user charges collection, investigation and enforcement	12,410	10,645	11,818
Refund of fuel excise duty	127	115	114
Road safety promotion	3,111	924	1,456
State highway maintenance	1,166	2,212	1,293
	180,047	168,098	177,704
Revenue relating to the delivery of outputs	290,963	286,415	272,872
Other revenue	0	1,125	7,102
<b>Total revenue</b>	<b>290,963</b>	<b>287,540</b>	<b>279,974</b>

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>EXPENDITURE</b>			
<b>Operating activities</b>			
Licensing and regulatory compliance	94,449	94,423	90,281
Road tolling	13,091	11,938	10,798
Motor vehicle registry	58,119	61,566	58,888
Road user charges collection, investigation and enforcement	15,948	17,038	16,234
Refund of fuel excise duty	1,161	918	659
Investment management	1,855	775	3,356
SuperGold card administration and public transport concessions	95	95	297
Road safety promotion	1,326	1,545	891
State highway maintenance	967	2,212	953
	187,011	190,510	182,357
<b>Operating activities (National Land Transport Programme)</b>			
Investment management	47,333	47,801	45,255
Public transport	3,497	10,767	3,447
Walking and cycling	1,536	1,131	954
Road safety promotion	21,400	24,204	18,597
Local road maintenance	0	200	137
State highway improvements	39,364	34,925	34,436
State highway maintenance	28,676	25,696	24,330
	141,806	144,724	127,156
Expenses relating to the delivery of outputs	328,817	335,234	309,513
Other expenses	1,608	406	7,723
Total expenditure	330,425	335,640	317,236
<b>State highway network</b>			
Less capitalised expenditure	(40,812)	(36,207)	(41,797)
Total expenditure	289,613	299,433	275,439
<b>SURPLUS/(DEFICIT)</b>	<b>1,350</b>	<b>(11,893)</b>	<b>4,535</b>

### MOVEMENT OF OPERATIONS NET SURPLUS TO EQUITY

This table shows the net result of the Transport Agency's operations. The surplus/(deficit) is separated into three retained funds based on the source of funding:

- **Retained funds - NZ Transport Agency operations** refers to Crown funded (excluding the driver test subsidy), contracted services and non-third party fees and charges activities.
- **Retained funds - National Land Transport Programme** refers to activities that are funded from the National Land Transport Fund.
- **Memorandum account - other fees and charges** refers to activities funded from fees and charges.

#### Movement of operations net surplus to equity

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>REVENUE</b>			
Retained funds - NZ Transport Agency Operations	27,017	24,746	30,114
Retained funds - National Land Transport Programme	100,994	108,517	85,359
Memorandum account - Other fees and charges	162,951	154,277	164,501
	290,962	287,540	279,974
<b>EXPENDITURE</b>			
Retained funds - NZ Transport Agency Operations	27,617	25,791	31,951
Retained funds - National Land Transport Programme	100,994	108,517	85,359
Memorandum account - Other fees and charges	161,001	165,125	158,129
	289,612	299,433	275,439
<b>NET SURPLUS</b>			
Retained funds - NZ Transport Agency Operations	(600)	(1,045)	(1,837)
Retained funds - National Land Transport Programme	0	0	0
Memorandum account - Other fees and charges	1,950	(10,848)	6,372
<b>SURPLUS/(DEFICIT)</b>	<b>1,350</b>	<b>(11,893)</b>	<b>4,535</b>

## LAND TRANSPORT FUNDING

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>INFLOWS</b>			
Investment management	5,417	6,079	8,425
Public transport	332,623	321,233	303,998
Walking and cycling	32,135	24,900	22,776
Road safety promotion	10,990	10,896	10,700
Local road improvements	140,911	142,000	104,112
Local road maintenance	597,046	584,800	576,534
State highway improvements	350,411	540,213	662,749
State highway maintenance	389,316	398,340	339,157
Assets vested from local authorities	75,013	0	99,399
Interest and finance income	19,759	0	13,061
<b>Total inflows</b>	<b>1,953,621</b>	<b>2,028,461</b>	<b>2,140,911</b>
<b>OUTFLOWS</b>			
Investment management	12,365	11,199	13,669
Public transport	332,623	321,233	317,998
Walking and cycling	40,025	34,869	41,537
Road safety promotion	12,114	11,796	11,553
Local road improvements	140,911	142,000	104,112
Local road maintenance	593,500	584,800	552,366
Reinstatement of earthquake-damaged roads in Christchurch	2,282	0	23,466
Regional improvements	68,517	98,000	13,121
State highway improvements	1,254,003	1,340,075	1,358,366
Accelerated Auckland Transport Programme	123,739	0	112,039
Public-private partnerships	173,574	0	221,786
State highway maintenance	529,342	540,304	454,378
Interest and finance costs	23,368	10,213	18,120
	<b>3,306,363</b>	<b>3,094,489</b>	<b>3,242,511</b>
<b>State highway network</b>			
State highway depreciation	366,297	520,000	407,483
State highway asset write-off	11,762	10,000	12,760
Assets vested to local authorities	18,410	0	286,533
Less non-operating expenditure	(1,775,403)	(1,596,028)	(1,845,737)
	<b>(1,378,934)</b>	<b>(1,066,028)</b>	<b>(1,138,961)</b>
<b>Total outflows</b>	<b>1,927,429</b>	<b>2,028,461</b>	<b>2,103,550</b>
<b>SURPLUS/(DEFICIT)</b>	<b>26,192</b>	<b>0</b>	<b>37,361</b>

**Future National Land Transport Programme funding commitments**

	ACTUAL 2016/17 \$000	ACTUAL 2015/16 \$000
Not later than one year	5,381,923	3,958,349
Later than one year and not later than five years	2,770,861	4,803,278
Later than five years	6,051,455	3,956,139
<b>TOTAL FUNDING COMMITMENTS</b>	<b>14,204,239</b>	<b>12,717,766</b>

**SPECIFIC PROJECTS FUNDED BY THE CROWN**

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>REVENUE</b>			
<b>Funding from the Crown</b>			
SuperGold card administration and public transport concessions	26,386	28,129	28,264
Urban Cycleways Programme	22,000	43,630	6,457
Kaikōura Earthquake Response	93,137	0	0
Total revenue	141,523	71,759	34,721
<b>EXPENDITURE</b>			
SuperGold card administration and public transport concessions	26,386	28,129	28,264
Urban Cycleways Programme	21,099	43,630	8,860
Urban Cycleways Programme capital expenditure	3,247	7,600	1,538
Kaikōura Earthquake Response	93,137	0	0
Reinstatement of earthquake-damaged roads in Christchurch	0	114,000	0
Accelerated Regional Roding Programme	45,409	55,000	31,310
Accelerated Auckland Transport Programme	0	110,000	0
	189,278	358,359	69,972
<b>State highway network</b>			
Less capitalised expenditure	(48,656)	(172,600)	(32,847)
Total expenditure	140,622	185,759	37,125
<b>SURPLUS/(DEFICIT)</b>	<b>901</b>	<b>(114,000)</b>	<b>(2,404)</b>

This supplementary information does not form part of the Transport Agency's audited financial statements.

## NATIONAL LAND TRANSPORT PROGRAMME

The National Land Transport Programme outlines a three year programme of funding for land transport infrastructure and services throughout the country. The Transport Agency develops the National Land Transport Programme based on the policy direction in the Land Transport Management Act and the Government Policy Statement on Land Transport (and regional priorities).

The following table shows the movements in the National Land Transport Programme balance for the second year of the programme.

### NATIONAL LAND TRANSPORT PROGRAMME

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>INFLOWS</b>			
Capital contribution from the National Land Transport Fund (NLTF)	1,237,514	1,059,701	969,334
Capital contribution from the NLTF - public-private partnerships	173,574	0	214,933
Funding from the National Land Transport Fund	1,901,268	2,121,893	2,024,203
Funding from the NLTF (rental and interest income)	24,347	15,085	23,821
Funding from state highway disposals	56,272	42,534	46,775
Funding from other activities	53,988	0	78,845
<b>Total inflows for the National Land Transport Fund</b>	<b>3,446,963</b>	<b>3,239,213</b>	<b>3,357,911</b>
<b>OUTFLOWS</b>			
State highway improvements	1,293,367	1,352,000	1,392,802
Accelerated Auckland Transport Programme	123,739	0	112,039
Public-private partnerships	173,574	0	221,786
State highway maintenance	558,017	561,000	478,708
Local road improvements	140,911	153,000	104,112
Local road maintenance	593,500	567,000	552,502
Public transport	336,120	340,000	321,445
Walking and cycling	41,561	34,000	42,490
Regional improvements	68,517	75,000	13,121
Road safety promotion	33,515	34,000	30,150
Investment management	59,698	58,000	58,925
Reinstatement of earthquake-damaged roads in Christchurch	2,282	0	23,466
Interest and finance costs	23,368	10,213	18,120
<b>Total outflows</b>	<b>3,448,169</b>	<b>3,184,213</b>	<b>3,369,666</b>
<b>CARRY OVER INTO NEXT YEAR</b>	<b>(1,206)</b>	<b>55,000</b>	<b>(11,755)</b>
Public transport infrastructure - automated fare collection system	0	0	13,996
Opening balance	2,241	(3,137)	0
<b>CLOSING BALANCE AT THE END OF THE YEAR</b>	<b>1,035</b>	<b>51,863</b>	<b>2,241</b>

This supplementary information does not form part of the Transport Agency's audited financial statements.



## LAND TRANSPORT MANAGEMENT (ROAD TOLLING SCHEME)

This supplementary information has been provided to fulfil the disclosure requirements for the North Gateway, Tauranga Eastern Link, and Takitimu Drive toll roads.

### NORTHERN GATEWAY TOLL ROAD FOR THE YEAR ENDED 30 JUNE 2017

	ACTUAL 2016/17 000	BUDGET 2016/17 000	FORECAST 2017/18 000	ACTUAL 2015/16 000
<b>TRAFFIC VOLUMES (NUMBER OF VEHICLES)</b>				
Light vehicle	6,504	6,254	6,850	6,119
Heavy vehicle	512	504	528	469
Exempt	22	24	25	22
Unidentifiable	3	10	21	19
Technical loss	13	4	7	6
<b>TOTAL</b>	<b>7,054</b>	<b>6,796</b>	<b>7,431</b>	<b>6,635</b>

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	FORECAST 2017/18 \$000	ACTUAL 2015/16 \$000
<b>TOLL REVENUE (PORTION DESIGNATED FOR REPAYMENT OF DEBT)</b>				
Light vehicle	8,470	8,149	8,719	7,754
Heavy vehicle	1,739	1,684	1,776	1,545
Interest	50	54	30	61
<b>TOTAL</b>	<b>10,259</b>	<b>9,887</b>	<b>10,525</b>	<b>9,360</b>

A feasible, untolled, alternative route remains available to road users on State Highway 17 via Orewa.

### TAURANGA EASTERN LINK TOLL ROAD FOR THE YEAR ENDED 30 JUNE 2017

	ACTUAL 2016/17 000	BUDGET 2016/17 000	FORECAST 2017/18 000	ACTUAL 2015/16 000
<b>TRAFFIC VOLUMES (NUMBER OF VEHICLES)</b>				
Light vehicle	2,938	2,305	2,904	2,260
Heavy vehicle	418	351	450	350
Exempt	12	9	13	10
Unidentifiable	2	4	8	6
Technical loss	16	2	13	12
<b>TOTAL</b>	<b>3,386</b>	<b>2,671</b>	<b>3,388</b>	<b>2,638</b>

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	FORECAST 2017/18 \$000	ACTUAL 2015/16 \$000
<b>TOLL REVENUE (PORTION DESIGNATED FOR REPAYMENT OF DEBT)</b>				
Light vehicle	3,035	2,299	2,957	2,309
Heavy vehicle	1,522	1,144	1,630	1,271
Interest	12	30	30	15
<b>TOTAL</b>	<b>4,569</b>	<b>3,473</b>	<b>4,617</b>	<b>3,595</b>
<b>DEBT AND OTHER FINANCIAL OBLIGATIONS</b>				
Borrowing	107,000	107,000	107,000	107,000
<b>TOTAL</b>	<b>107,000</b>	<b>107,000</b>	<b>107,000</b>	<b>107,000</b>

A feasible, untolled, alternative route remains available to road users on the Te Puke Highway, through Te Puke.

#### TAKITIMU DRIVE TOLL ROAD FOR THE YEAR ENDED 30 JUNE 2017

	ACTUAL 2016/17 000	BUDGET 2016/17 000	FORECAST 2017/18 000	ACTUAL 2015/16 000
<b>TRAFFIC VOLUMES (NUMBER OF VEHICLES)</b>				
Light vehicle	2,776	2,150	2,818	2,040
Heavy vehicle	585	416	622	452
Exempt	12	9	14	11
Unidentifiable	4	4	12	8
Technical loss	43	2	29	18
<b>TOTAL</b>	<b>3,420</b>	<b>2,581</b>	<b>3,495</b>	<b>2,529</b>

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	FORECAST 2017/18 \$000	ACTUAL 2015/16 \$000
<b>TOLL REVENUE (PORTION DESIGNATED FOR REPAYMENT OF DEBT)</b>				
Light vehicle	2,399	1,885	2,410	1,745
Heavy vehicle	2,027	1,357	2,129	1,563
Interest	12	30	30	14
<b>TOTAL</b>	<b>4,438</b>	<b>3,272</b>	<b>4,569</b>	<b>3,322</b>
<b>TOLL REVENUE INFLOW TO THE NATIONAL LAND TRANSPORT FUND</b>				
Takitimu Drive	4,394	3,303	4,569	3,322
<b>TOTAL</b>	<b>4,394</b>	<b>3,303</b>	<b>4,569</b>	<b>3,322</b>

A feasible, untolled, alternative route remains available to road users via Cameron Road or Cambridge/Moffat Roads.

## FINANCIAL STATEMENTS FOR ROAD TOLLING OPERATIONS

### STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE FOR THE YEAR ENDED 30 JUNE 2017

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>Revenue</b>			
Toll fees	14,036	11,664	11,785
<b>Total revenue</b>	<b>14,036</b>	<b>11,664</b>	<b>11,785</b>
Expenditure	13,091	11,938	10,798
<b>NET SURPLUS/(DEFICIT)</b>	<b>945</b>	<b>(274)</b>	<b>987</b>

### STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>ASSETS</b>			
Current assets	20,551	17,938	17,127
Non-current assets	15,816	15,378	18,371
<b>TOTAL ASSETS</b>	<b>36,367</b>	<b>33,316</b>	<b>35,498</b>
Liabilities	10,680	9,797	9,649
<b>NET ASSETS/EQUITY</b>	<b>25,687</b>	<b>23,519</b>	<b>25,849</b>

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
Net cash from operating activities	19,835	17,261	18,460
Net cash from investing activities	0	0	0
Net cash from financing activities	(18,721)	(16,711)	(16,180)
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,114</b>	<b>550</b>	<b>2,280</b>
Cash and cash equivalents at the beginning of the year	8,329	8,329	6,049
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>9,443</b>	<b>8,879</b>	<b>8,329</b>

This supplementary information does not form part of the Transport Agency's audited financial statements.

# OUTPUT CLASS INCOME AND EXPENDITURE

## OUTPUT CLASSES THAT SUPPORT OUR ONE NETWORK GOAL

### INVESTMENT MANAGEMENT

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>OPERATING REVENUE</b>			
Crown (crash analysis system)	775	775	775
National Land Transport Fund	52,227	53,880	51,849
Other	523	0	1,831
Total operating revenue	53,525	54,655	54,455
<b>OPERATING EXPENSES</b>			
Transport Agency (crash analysis system)	1,855	2,893	3,356
Transport Agency operating activities	47,333	45,683	45,255
Funding to approved organisations	4,337	6,079	4,294
Total operating expenses	53,525	54,655	52,905
Surplus	0	0	1,550
<b>CAPITAL FUNDING AND CAPITAL EXPENDITURE</b>			
National Land Transport Fund capital contribution	8,028	5,120	7,826
Capital investment	(8,028)	(5,120)	(9,376)
Net capital movement	0	0	(1,550)
<b>TOTAL MOVEMENT</b>	<b>0</b>	<b>0</b>	<b>0</b>

## OUTPUT CLASSES THAT SUPPORT OUR SMART CHOICES GOAL

### LICENSING AND REGULATORY COMPLIANCE

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>OPERATING REVENUE</b>			
Crown (ministerial advice and official correspondence)	548	548	548
Crown (rules development)	903	800	899
Crown (drug and alcohol assessments)	817	1,030	999
Crown (driver licensing stop orders)	75	75	75
Crown (driver test subsidy)	1,445	1,445	1,445
Fees and charges	93,373	86,789	91,566
Other	16	351	0
Total operating revenue	97,177	91,038	95,532
<b>OPERATING EXPENSES</b>			
Ministerial advice and official correspondence	944	908	962
Rules development	825	1,055	731
Drug and alcohol assessments	1,023	1,407	1,135
Fees and charges funded activities	91,631	91,019	87,453
Other (including driver licensing stop orders)	27	34	0
Total operating expenses	94,450	94,423	90,281
<b>SURPLUS/(DEFICIT)</b>	<b>2,727</b>	<b>(3,385)</b>	<b>5,251</b>

### ROAD TOLLING

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>OPERATING REVENUE</b>			
Fees and charges	14,036	11,664	11,785
Total operating revenue	14,036	11,664	11,785
<b>OPERATING EXPENSES</b>			
Transport Agency operating activities	13,091	11,938	10,798
Total operating expenses	13,091	11,938	10,798
<b>SURPLUS/(DEFICIT)</b>	<b>945</b>	<b>(274)</b>	<b>987</b>

**MOTOR VEHICLE REGISTRY**

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>OPERATING REVENUE</b>			
Fees and charges	55,808	55,398	59,672
Total operating revenue	55,808	55,398	59,672
<b>OPERATING EXPENSES</b>			
Transport Agency operating activities	58,119	61,566	58,888
Total operating expenses	58,119	61,566	58,888
<b>SURPLUS/(DEFICIT)</b>	<b>(2,311)</b>	<b>(6,168)</b>	<b>784</b>

**ROAD USER CHARGES (RUC) COLLECTION, INVESTIGATION AND ENFORCEMENT**

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>OPERATING REVENUE</b>			
National Land Transport Fund (RUC investigation and enforcement)	3,779	3,779	3,779
National Land Transport Fund (RUC refund)	450	450	450
Fees and charges	12,410	10,645	11,818
Total operating revenue	16,639	14,874	16,047
<b>OPERATING EXPENSES</b>			
Transport Agency (RUC investigation and enforcement)	4,010	3,876	3,763
Transport Agency (RUC refund)	687	622	683
Transport Agency (RUC collection)	11,251	12,540	11,787
Total operating expenses	15,948	17,038	16,233
<b>SURPLUS/(DEFICIT)</b>	<b>691</b>	<b>(2,164)</b>	<b>(186)</b>

**ROAD SAFETY PROMOTION**

	<b>ACTUAL 2016/17 \$000</b>	<b>BUDGET 2016/17 \$000</b>	<b>ACTUAL 2015/16 \$000</b>
<b>OPERATING REVENUE</b>			
National Land Transport Fund	32,365	35,100	29,199
Community road safety programme	3,111	924	1,456
Other	25	0	99
<b>Total operating revenue</b>	<b>35,501</b>	<b>36,024</b>	<b>30,754</b>
<b>OPERATING EXPENSES</b>			
Transport Agency (community road safety programme)	1,326	1,545	891
Transport Agency (vehicle impoundment)	243	204	216
Transport Agency operating activities	21,157	24,001	18,381
Funding to approved organisations	10,990	10,896	10,678
<b>Total operating expenses</b>	<b>33,716</b>	<b>36,646</b>	<b>30,166</b>
Surplus/(deficit)	1,785	(622)	588
<b>CAPITAL FUNDING AND CAPITAL EXPENDITURE</b>			
National Land Transport Fund capital contribution	1,125	900	852
Capital investment	(1,125)	(900)	(874)
Net capital movement	0	0	(22)
<b>TOTAL MOVEMENT</b>	<b>1,785</b>	<b>(622)</b>	<b>566</b>



## OUTPUT CLASSES THAT SUPPORT OUR HIGHWAY SOLUTIONS GOAL

### STATE HIGHWAY IMPROVEMENTS

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>OPERATING REVENUE</b>			
National Land Transport Fund (NLTF)	315,772	540,213	611,667
NLTF (tolling)	9,008	0	6,917
Developers contributions	24,525	0	31,159
Assets vested from local authorities	75,013	0	99,399
Interest and finance income	19,759	0	13,061
Other income	1,106	0	13,005
<b>Total operating revenue</b>	<b>445,183</b>	<b>540,213</b>	<b>775,208</b>
<b>OPERATING EXPENSES</b>			
Depreciation and state highway write-offs	378,059	530,000	420,243
Assets vested to local authorities	18,410	0	286,533
Interest on Tauranga Eastern Link borrowings	5,146	10,213	5,541
Other interest and finance costs	16,957	0	18,730
Other expenses	2,086	0	13,003
<b>Total operating expenses</b>	<b>420,658</b>	<b>540,213</b>	<b>744,050</b>
Surplus	24,525	0	31,158
<b>CAPITAL FUNDING</b>			
Crown (Accelerated Regional Roding Programme)	45,409	55,000	31,310
National Land Transport Fund capital contribution	886,943	802,466	694,491
NLTF (Accelerated Auckland Transport Programme)	123,739	110,000	112,039
NLTF (public-private partnerships)	173,574	0	214,933
NLTF (state highway disposals)	56,272	42,534	46,775
Depreciation funding utilised for investment in the state highway network	378,059	530,000	420,243
Net non-cash funding for losses/(income) utilised for investment in state highway network	(54,517)	0	187,134
<b>Total capital funding</b>	<b>1,609,479</b>	<b>1,540,000</b>	<b>1,706,925</b>
<b>CAPITAL EXPENDITURE</b>			
Crown investment (Accelerated Regional Roding Programme)	45,409	55,000	31,310
Accelerated Auckland Transport Programme	123,739	110,000	112,039
Public-private partnerships*	173,574	0	214,933
Transport Agency capitalised expenditure	39,364	34,925	34,436
Transport Agency investment in the state highway network	1,251,918	1,340,075	1,345,365
<b>Total capital expenditure</b>	<b>1,634,004</b>	<b>1,540,000</b>	<b>1,738,083</b>
Net capital movement	(24,525)	0	(31,158)
<b>TOTAL MOVEMENT</b>	<b>0</b>	<b>0</b>	<b>0</b>

\* During the year the total public-private partnership construction costs was \$263.336 million (2016 :\$83.070 million). This capital expenditure item included the cash flow hedge reserve movement during the year of \$89.761 million surplus (2016: \$131.863 million deficit).

## STATE HIGHWAY MAINTENANCE

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>OPERATING REVENUE</b>			
Crown (Kaikōura Earthquake Response)	93,137	0	0
National Land Transport Fund	395,216	407,669	322,233
National Land Transport Fund (rental and interest income)	15,340	15,085	16,904
Other (contributions)	7,155	2,212	18,280
Total operating revenue	510,848	424,966	357,417
<b>OPERATING EXPENSES</b>			
Investment in the state highway network (Kaikōura Earthquake Response)	93,137	0	0
Transport Agency operating activities	28,195	26,626	17,921
Investment in the state highway network	388,729	398,340	325,562
Total operating expenses	510,061	424,966	343,483
Surplus	787	0	13,934
<b>CAPITAL FUNDING</b>			
National Land Transport Fund capital contribution	141,273	143,246	122,243
Total capital funding	141,273	143,246	122,243
<b>CAPITAL EXPENDITURE</b>			
Transport Agency capitalised expenditure	1,447	1,282	7,361
Transport Agency investment in the state highway network	140,613	141,964	128,816
Total capital expenditure	142,060	143,246	136,177
Net capital movement	(787)	0	(13,934)
<b>TOTAL MOVEMENT</b>	<b>0</b>	<b>0</b>	<b>0</b>

## OUTPUT CLASSES THAT SUPPORT OUR MAXIMISE RETURNS GOAL

### PUBLIC TRANSPORT

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>OPERATING REVENUE</b>			
National Land Transport Fund	334,061	332,000	307,196
Other	2,059	0	249
Total operating revenue	336,120	332,000	307,445
<b>OPERATING EXPENSES</b>			
Transport Agency (NZTTL)	1,626	10,000	2,967
Transport Agency operating activities	1,871	767	480
Funding to approved organisations	332,623	321,233	317,998
Total operating expenses	336,120	332,000	321,445
<b>SURPLUS/(DEFICIT)</b>	<b>0</b>	<b>0</b>	<b>(14,000)</b>

## SUPERGOLD CARD ADMINISTRATION AND PUBLIC TRANSPORT CONCESSIONS

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>OPERATING REVENUE</b>			
Crown	26,481	28,224	28,559
Total operating revenue	26,481	28,224	28,559
<b>OPERATING EXPENSES</b>			
Transport Agency operating activities	95	95	297
Funding to approved organisations	26,386	28,129	28,262
Total operating expenses	26,481	28,224	28,559
<b>SURPLUS</b>	<b>0</b>	<b>0</b>	<b>0</b>

## WALKING AND CYCLING

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>OPERATING REVENUE</b>			
Crown (Urban Cycleways Programme)	22,000	43,630	6,457
National Land Transport Fund	33,670	26,031	21,276
Other	1	0	2,454
Total operating revenue	55,671	69,661	30,187
<b>OPERATING EXPENSES</b>			
Crown funding to approved organisations (Urban Cycleways Programme)	21,099	43,630	8,860
Transport Agency operating activities	1,536	1,131	954
Funding to approved organisations	32,135	24,900	20,322
Total operating expenses	54,770	69,661	30,136
Surplus	901	0	51
<b>CAPITAL FUNDING</b>			
Crown capital contribution (Urban Cycleways Programme)	3,247	7,600	2,000
National Land Transport Fund capital contribution	7,890	9,969	18,761
Total capital funding	11,137	17,569	20,761
<b>CAPITAL EXPENDITURE</b>			
Crown investment in the state highway network (Urban Cycleways Programme)	3,247	7,600	1,538
Capital investment in walking and cycling	7,890	9,969	21,215
Total capital expenditure	11,137	17,569	22,753
Net capital movement	0	0	(1,992)
<b>TOTAL MOVEMENT</b>	<b>901</b>	<b>0</b>	<b>(1,941)</b>

**LOCAL ROAD IMPROVEMENTS**

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>OPERATING REVENUE</b>			
National Land Transport Fund	140,911	142,000	104,112
Total operating revenue	140,911	142,000	104,112
<b>OPERATING EXPENSES</b>			
Funding to approved organisations	140,911	142,000	104,112
Total operating expenses	140,911	142,000	104,112
<b>SURPLUS</b>	<b>0</b>	<b>0</b>	<b>0</b>

**LOCAL ROAD MAINTENANCE**

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>OPERATING REVENUE</b>			
National Land Transport Fund	594,764	585,000	553,204
National Land Transport Fund (reinstatement of local roads in Christchurch)	2,282	0	23,466
Total operating revenue	597,046	585,000	576,670
<b>OPERATING EXPENSES</b>			
National Land Transport Programme (reinstatement of roads in Christchurch)	2,282	114,000	23,466
Transport Agency operating activities	0	200	137
Funding to approved organisations	593,499	584,800	552,365
Interest and finance costs	1,265	0	702
Total operating expenses	597,046	699,000	576,670
<b>SURPLUS/(DEFICIT)</b>	<b>0</b>	<b>(114,000)</b>	<b>0</b>

**REGIONAL IMPROVEMENTS**

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>CAPITAL FUNDING</b>			
National Land Transport Fund capital contribution	68,517	98,000	13,121
Total capital funding	68,517	98,000	13,121
<b>CAPITAL EXPENDITURE</b>			
Transport Agency investment in the state highway network	68,517	98,000	13,121
Total capital expenditure	68,517	98,000	13,121
<b>NET CAPITAL MOVEMENT</b>	<b>0</b>	<b>0</b>	<b>0</b>

**REFUND OF FUEL EXCISE DUTY**

	ACTUAL 2016/17 \$000	BUDGET 2016/17 \$000	ACTUAL 2015/16 \$000
<b>OPERATING REVENUE</b>			
National Land Transport Fund	1,034	803	545
Other	127	115	114
Total operating revenue	1,161	918	659
<b>OPERATING EXPENSES</b>			
Transport Agency operating activities	1,161	918	659
Total operating expenses	1,161	918	659
<b>SURPLUS</b>	<b>0</b>	<b>0</b>	<b>0</b>

# INDEPENDENT AUDITOR'S REPORT



## TO THE READERS OF NZ TRANSPORT AGENCY'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2017

The Auditor-General is the auditor of NZ Transport Agency (the "Transport Agency"). The Auditor-General has appointed me, Brent Manning, using the staff and resources of KPMG, to carry out the audit of the financial statements and the performance information, of the Transport Agency, on his behalf.

### Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Transport Agency on pages 97 to 130, that comprise the statement of financial position as at 30 June 2017, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of performance on pages 65 to 92, and the goal success indicators on pages 14 to 44.

In our opinion:

- the financial statements of the Transport Agency on pages 97 to 130:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2017; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity International Public Sector Accounting Standards.
- the statement of performance information on pages 65 to 92, and the goal success indicators on pages 14 to 44:
  - presents fairly, in all material respects, the Transport Agency's performance for the year ended 30 June 2017, including:
    - for each class of reportable outputs:
      - its standards of performance achieved as compared with forecasts included in the statement of performance expectations for the financial year;
      - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year;
    - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 28 September 2017. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

### Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of the Board

The Board are responsible on behalf of the Transport Agency for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Board are responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board is responsible on behalf of the Transport Agency for assessing the Transport Agency's ability to continue as a going concern. The Board is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Transport Agency, or there is no realistic alternative but to do so.

The Board's responsibilities arise from the Crown Entities Act 2004 and the Public Finance Act 1989.

### Responsibilities of the Auditor

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Transport Agency's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.



As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Transport Agency's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board
- We evaluate the appropriateness of the reported performance information within the Transport Agency's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Transport Agency's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Transport Agency to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Transport Agency to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible for the direction, supervision and performance of the Transport Agency audit. We remain solely responsible for our audit opinion.

We communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. Our responsibilities arise from the Public Audit Act 2001.

#### **Other information**

The Board are responsible for the other information. The other information comprises the information included on pages 3 to 186, but does not include the financial statements, the statement of performance, the goal success indicators, and our auditor's report thereon.

Our opinion on the financial statements, the statement of performance and the goal success indicators does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, the statement of performance and goal success indicators, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements, the statement of performance, and the goal success indicators, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **Independence**

We are independent of the Transport Agency in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit we have performed independent review services in relation to the scrutiny principle, value for money programmes, Agile framework and driver's license regulatory framework. Further non-assurance services in relation to value for money framework have also been provided. These assignments are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interest in the Transport Agency.

#### **BRENT MANNING**

KPMG

On behalf of the Auditor-General  
Wellington, New Zealand

# PUTTING THE SCRUTINY PRINCIPLE INTO PRACTICE

Report on the implementation of systems and procedures to give effect to the scrutiny principle for the period 1 July 2016 to 30 June 2017.

## BACKGROUND

The Land Transport Management Act 2003 provides for an operating principle for the NZ Transport Agency, namely, that it must:

*...ensure that... it gives, when making decisions in respect of planning and funding under subpart 1 of Part 2, the same level of scrutiny to its own proposed activities and combinations of activities as it would to those proposed by approved organisations (section 96(1) d).*

The Transport Agency is required to do a number of things in relation to this principle including developing systems and procedures to enable it to give effect to the scrutiny principle, and including a report on its implementation of the systems and procedures in its annual report.

## SYSTEMS AND PROCEDURES

The Transport Agency has set up a number of systems and procedures to give effect to the scrutiny principle. Three sets of procedures have been developed to ensure compliance: operational procedures, to ensure individual decisions apply the appropriate level of scrutiny; managerial procedures, to oversee the application of the scrutiny principle; and monitoring and reporting procedures, to confirm the operational procedures are followed and the scrutiny principle has been properly applied.

The operational procedures enable employees and board members of the Transport Agency to know when and how to comply with the principle in relation to individual decisions, including:

- following the same procedure for similar types of activities
- applying equivalent evaluation criteria
- requiring an equivalent level of information
- applying the same level of rigour to the analysis
- applying the same level of tolerance to cost estimate rigour
- staff with equivalent seniority and experience involved with equivalent decisions.

## IMPLEMENTATION

The Transport Agency has published its approach to giving effect to the scrutiny principle on its website.<sup>5</sup> This page also lists the systems and procedures it has in place to apply the scrutiny principle and provides links to documentation – the procurement manuals and the Planning and Investment Knowledge Base – where the systems and procedures are set out in detail. Monitoring of the webpage during 2017 indicates the page was accessed on average 20 times a month (2016: 25).

A further link on this page links to a webpage that lists all the funding decisions the Transport Agency has made since August 2008 (the prescribed date in the Land Transport Management Act 2003 is 1 October 2008).<sup>6</sup> The page is updated monthly once the previous month's decisions have been confirmed. Monitoring of the webpage during 2017 indicates the page was accessed on average 95 times a month (2016: 73).

The key system used by the Transport Agency is the web-based Transport Investment Online (TIO) system, which is used to manage the National Land Transport Programme. It contains all the activities proposed for funding and sets out for all applicants, both approved organisations and the Transport Agency for its own activities, the information required for assessing and evaluating the activities for funding. The system also records the decisions made by the Transport Agency including any conditions applied to the funding. The system is transparent. Approved organisations can see the details of their proposals and the Transport Agency's recommendations and decisions.

<sup>5</sup> [www.nzta.govt.nz/planning-and-investment/our-investments/investment-decisions/how-decisions-are-made/](http://www.nzta.govt.nz/planning-and-investment/our-investments/investment-decisions/how-decisions-are-made/)

<sup>6</sup> [www.nzta.govt.nz/planning/what-funding/board-decisions/index.html](http://www.nzta.govt.nz/planning/what-funding/board-decisions/index.html)



A number of different monitoring procedures are in place to provide quality assurance to the Transport Agency Board that employees and members are complying with the scrutiny principle. These include:

- management reviews and checking of assessments and decisions
- audits conducted on both Transport Agency and approved organisation projects by the investment monitoring team
- the Audit, Risk and Assurance Committee receives assurance over procedures from periodic risk-based reviews
- external audit review as required to verify this report.

# INDEPENDENT LIMITED ASSURANCE REPORT



## INDEPENDENT LIMITED ASSURANCE REPORT TO THE READERS OF THE NEW ZEALAND TRANSPORT AGENCY'S REPORT ON PUTTING THE SCRUTINY PRINCIPLE INTO PRACTICE FOR THE YEAR ENDED 30 JUNE 2017

We have carried out work to provide limited assurance on whether any matter has come to our attention that would lead us to believe that the report prepared by the New Zealand Transport Agency (the "Transport Agency") on Putting the Scrutiny Principle into Practice (the "Report") on pages 151 and 152 of the annual report does not fairly reflect the implementation of systems and procedures that are required to give the same level of scrutiny to its own proposed activities and combinations of activities, when making decisions in respect of land transport planning and funding under subpart 1 of Part 2 of the Land Transport Management Act 2003 (the Act), as it would give to those proposed by approved organisations.

The Auditor-General is the auditor of the Transport Agency. The Auditor-General has appointed me, Brent Manning, using the staff and resources of KPMG, to carry out this work on his behalf.

### Responsibilities of the Directors

The Directors of the Transport Agency are responsible for preparing a report on the implementation of the systems and procedures that are required to give the same level of scrutiny to its own proposed activities and combinations of activities, when making decisions in respect of land transport planning and funding under subpart 1 of Part 2 of the Act, as it would give to those proposed by approved organisations. We refer to this as the "scrutiny principle". The Transport Agency's Report is required to be included in its annual report, and to be fairly stated. Fairly stated, in the context of the Transport Agency's Report, requires that the report is complete, correct and understandable.

### Responsibility of the Auditor

Section 96(3) of the Act requires the Auditor-General to conclude whether the Report fairly states the Transport Agency's implementation of the systems and procedures to give effect to the "scrutiny principle" in accordance with section 96(1)(d)(ii) of the Act.

We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements (New Zealand) 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* ((ISAE (NZ) 3000 (Revised)) in order to state whether anything has come to our attention that would indicate that the systems and procedures, as described in the Report, have not, in all material respects, been consistently applied in order to give effect to the "scrutiny principle" for the year ended 30 June 2017.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for implementing the systems and procedures associated with implementing the "scrutiny principle", and applying analytical and other limited assurance procedures. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement or an audit conducted in accordance with the Auditor-General's Auditing Standards. Consequently we do not seek to obtain evidence that allows us to provide the higher level of assurance afforded by an audit. Accordingly, we do not express a reasonable assurance or audit opinion.

### Inherent limitations

Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. Our engagement is not designed to detect all weaknesses in the implementation of the systems and procedures required to give effect to the "scrutiny" principle, as the engagement has not been performed continuously throughout the period and the testing performed was undertaken on a sample basis.

The limited assurance conclusion expressed in this report has been formed on the above basis.



### **Independence**

When carrying out the limited assurance engagement we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board. Our firm has also provided audit services to the Transport Agency. Subject to certain restrictions, partners and employees of our firm may also deal with the Transport Agency on normal terms within the ordinary course of trading activities of the business of the Transport Agency. These matters have not impaired our independence as assurance providers of the Transport Agency for this engagement. We have no other relationship with, or interests in, the Transport Agency.

### **Conclusion**

Based on our limited assurance engagement, which is not a reasonable assurance engagement or an audit, we have not become aware of any material matter that would lead us to believe that the Report prepared by the Transport Agency on the implementation of systems and procedures to give effect to the "scrutiny principle", on pages 151 and 152, for the year ended 30 June 2017 is not fairly stated.

Our limited assurance engagement was completed in 28 September 2017 and our opinion expressed as at that date.

A handwritten signature in black ink, appearing to read 'Brent Manning', is located below the conclusion text. The signature is stylized and includes a long horizontal stroke extending to the right.

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### **BRENT MANNING**

KPMG

On behalf of the Auditor-General  
Wellington, New Zealand