

# FINANCIAL STATEMENTS AND AUDIT REPORTS

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# STATEMENT OF RESPONSIBILITY

The Transport Agency Board is responsible for the preparation of the Transport Agency's financial statements and statement of performance and for the judgements made in them.

The board is responsible for any end-of-year performance information provided by the Transport Agency under section 19A of the Public Finance Act 1989.

The board is responsible for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the board's opinion, these financial statements and statement of performance fairly reflect the financial position and operations of the Transport Agency for the year ended 30 June 2018.

## Signed on behalf of the board:



**MICHAEL STIASSNY**

Chair  
28 September 2018



**MARK DARROW**


Chair of the Audit, Risk  
and Assurance Board  
Committee  
28 September 2018

## Countersigned by:



**FERGUS GAMMIE**

Chief Executive  
28 September 2018



**HOWARD  
CATTERMOLE**

General Manager  
Investment and Finance  
28 September 2018



**JENNY CHETWYND**

General Manager  
Strategy, Policy and  
Planning  
28 September 2018

# HIGHLIGHTS FROM OUR FINANCIAL STATEMENTS

**\$2.66 BILLION**  
TOTAL REVENUE  
(2016/17: \$2.38 BILLION)

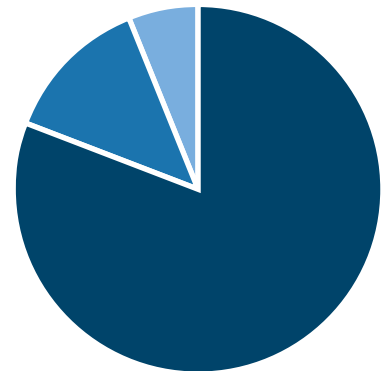
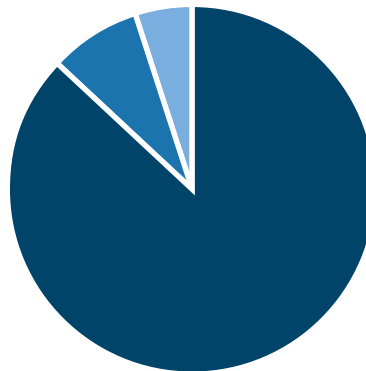
Most of the Transport Agency's income is from the National Land Transport Fund. We also receive revenue from the Crown to support our objectives and for specific projects. Most of the Crown revenue funding was to reinstate State Highway 1 after the Kaikōura earthquake. Other revenue comes mostly from licensing and regulatory activities.

## REVENUE BY SOURCE

2017/18

2016/17

- National Land Transport Fund**  
2017/18 **87.1%**      2016/17 **81.1%**
- Other revenue**  
2017/18 **8.0%**      2016/17 **12.8%**
- Crown**  
2017/18 **4.9%**      2016/17 **6.1%**



**\$2.65 BILLION**  
TOTAL EXPENSE  
(2016/17: \$2.35 BILLION)

Our expenditure is guided by the Government Policy Statement on Land Transport Funding and the priorities identified in our statement of intent. Last year, almost three-quarters (73 percent) of our expenditure directly related to land transport funding (which we provide to approved organisations for the delivery of services), associated activities funded from the Crown, and our maintenance and operation of the state highway network. Depreciation and amortisation comprised 15 percent of our annual expenses, and personnel and operating expenses 10 percent.

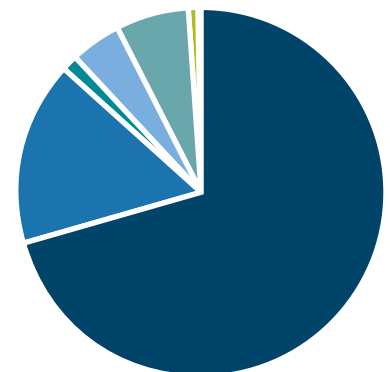
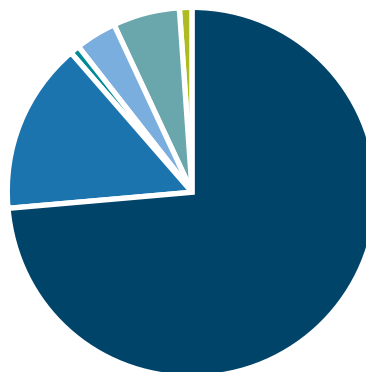
## EXPENSE BY TYPE

2017/18

2016/17

- Land transport funding**  
2017/18 **72.8%**      2016/17 **69.9%**
- Depreciation and amortisation expense**  
2017/18 **14.9%**      2016/17 **16.1%**
- Other**  
2017/18 **1.8%**      2016/17 **2.2%**
- Personnel costs**  
2017/18 **3.7%**      2016/17 **4.4%**
- Operating expenses**  
2017/18 **6.0%**      2016/17 **6.5%**
- Transport Agency managed activities**  
2017/18 **0.8%**      2016/17 **0.9%**

NZ Transport Agency managed activities include advertising, education and promotion programmes, vehicle impoundment, and sector training and research.



**\$44.3 BILLION**  
NET ASSETS/EQUITY  
(2016/17: \$34.9 BILLION)

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

	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
Total assets	46,351,330	38,602,875	36,385,571
Less total liabilities	2,085,865	1,939,046	1,453,353
<b>NET ASSETS/EQUITY AT END OF YEAR</b>	<b>44,265,465</b>	<b>36,663,829</b>	<b>34,932,218</b>

Our statement of financial position reflects the significant value held in the state highway network, with \$46.4 billion of assets and low levels of liabilities. The state highway network accounts for 94 percent of our asset base. During the year, we updated some of the estimates used in our valuation, based on recent project information. This has led to a significant uplift in the valuation for 2018.

# FINANCIAL STATEMENTS

## STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE FOR THE YEAR ENDED 30 JUNE 2018

	NOTE	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
<b>REVENUE</b>				
Funding from the National Land Transport Fund	2	2,313,829	2,209,822	1,930,879
Funding from the Crown	2	129,869	181,734	146,181
Revenue from other activities	4	212,176	205,623	230,401
Assets vested from local authorities	6	0	0	75,013
<b>Total revenue</b>		<b>2,655,874</b>	<b>2,597,179</b>	<b>2,382,474</b>
<b>EXPENSE</b>				
Land transport funding	2	1,927,246	1,730,313	1,645,364
Personnel costs	9	98,163	104,202	102,728
Operating expenses	10	179,009	180,674	174,491
Interest and finance costs	11	36,995	33,779	23,368
Depreciation, amortisation and state highway write-off	6	405,490	458,460	389,670
Assets vested to local authorities	6	0	88,800	18,410
<b>Total expense</b>		<b>2,646,903</b>	<b>2,596,228</b>	<b>2,354,031</b>
<b>SURPLUS/(DEFICIT)</b>		<b>8,971</b>	<b>951</b>	<b>28,443</b>
<b>OTHER COMPREHENSIVE REVENUE AND EXPENSE</b>				
Gain/(loss) state highway network revaluations	6	7,345,659	560,000	1,049,112
Net movement in cash flow hedges	11	(86,125)	5,416	89,761
<b>Total other comprehensive revenue and expense</b>		<b>7,259,534</b>	<b>565,416</b>	<b>1,138,873</b>
<b>TOTAL COMPREHENSIVE REVENUE AND EXPENSE</b>		<b>7,268,505</b>	<b>566,367</b>	<b>1,167,316</b>

## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	NOTE	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
<b>ASSETS</b>				
Cash and cash equivalents		120,349	50,000	65,442
Debtor Crown	5	58,633	27,400	49,745
Receivables and other assets	5	103,720	95,950	93,768
Derivative financial asset	11	0	11,554	8,534
Debtor National Land Transport Fund	5	351,739	356,287	331,459
Debtor National Land Transport Fund - debt related	5	1,547,307	1,475,544	1,003,972
Property assets held for sale	6	50,041	70,000	49,611
Public-private partnership assets	7	855,480	1,014,250	508,305
Property, plant, equipment and intangible assets		59,743	57,408	55,897
State highway network	6	43,204,318	35,444,482	34,218,838
<b>TOTAL ASSETS</b>		<b>46,351,330</b>	<b>38,602,875</b>	<b>36,385,571</b>
<b>LIABILITIES</b>				
Payables	10	575,202	399,178	447,536
Employee entitlements	9	14,738	13,000	14,214
Derivative financial liability	11	203,763	106,158	120,536
Borrowing and other liabilities	11	436,682	406,460	362,762
Public-private partnership liabilities	7	855,480	1,014,250	508,305
<b>TOTAL LIABILITIES</b>		<b>2,085,865</b>	<b>1,939,046</b>	<b>1,453,353</b>
<b>NET ASSETS</b>		<b>44,265,465</b>	<b>36,663,829</b>	<b>34,932,218</b>
<b>EQUITY</b>				
Contributed capital		5,606	5,606	5,606
Retained funds		43,318	24,813	42,862
Equity derived from the state highway network	12	44,344,768	36,659,314	34,925,852
Cash flow hedge reserve	11	(128,227)	(25,904)	(42,102)
<b>TOTAL EQUITY</b>		<b>44,265,465</b>	<b>36,663,829</b>	<b>34,932,218</b>

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018

	NOTE	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
<b>BALANCE AT 1 JULY</b>		34,932,218	34,311,589	32,305,157
Surplus/(deficit)		8,971	951	28,443
State highway network revaluations		7,345,659	560,000	1,049,112
Movement in cash flow hedges		(86,125)	5,416	89,761
Capital contribution	3	2,064,742	1,785,873	1,459,745
<b>BALANCE AT 30 JUNE</b>	<b>12</b>	<b>44,265,465</b>	<b>36,663,829</b>	<b>34,932,218</b>

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from the National Land Transport Fund	2,136,709	2,131,212	2,021,692
Receipts from the Crown	146,856	174,416	112,949
Receipts from other revenue	202,492	179,004	201,759
Payments to employees	(97,507)	(104,202)	(102,648)
Payments to suppliers	(1,985,112)	(1,884,666)	(1,774,222)
Goods and services tax (net)	(3,925)	(10,000)	22,526
Net cash from operating activities	399,513	485,764	482,056
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
National Land Transport Fund receipts from sale of state highway-held properties	37,137	51,530	56,272
Purchase of property, plant, equipment and intangible assets	(16,034)	(12,610)	(9,816)
Investment in the state highway network	(2,058,961)	(1,913,373)	(1,674,485)
Net cash from investing activities	(2,037,858)	(1,874,453)	(1,628,029)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Capital contribution from the National Land Transport Fund	1,222,999	1,083,543	967,000
Capital contribution from the Crown	392,642	257,800	45,310
Receipts from borrowing	100,000	70,000	127,200
Repayment of borrowing	(15,000)	(15,000)	0
Interest paid on borrowing	(7,389)	(7,654)	(5,146)
Net cash from financing activities	1,693,252	1,388,689	1,134,364
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>54,907</b>	<b>0</b>	<b>(11,609)</b>
Cash and cash equivalents at the beginning of the year	65,442	50,000	77,051
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>120,349</b>	<b>50,000</b>	<b>65,442</b>

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

	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
<b>SURPLUS/(DEFICIT)</b>	8,971	951	28,443
<b>ADD/(DEDUCT) NON-CASH/NON-OPERATING ITEMS:</b>			
Depreciation, amortisation and state highway write-off	405,490	458,460	389,670
(Gains)/losses on disposal of disposal of non-financial assets	4,708	0	2,091
Write off/(recovery) of impairment of intangible asset	0	0	(330)
Net impact of assets vested to/(from) local authorities	0	0	(56,603)
Fair value loss and amortisation of losses on receivables	13,925	0	14,413
Interest on borrowings	6,114	8,652	6,411
Fair value gain and amortisation of gains on borrowings	(9,985)	0	(13,447)
Ineffective portion of cash flow hedge	5,635	0	(3,768)
Total non-cash/non-operating items	425,887	467,112	338,437
<b>ADD/(DEDUCT) MOVEMENTS IN WORKING CAPITAL:</b>			
(Increase)/decrease in debtor National Land Transport Fund and Crown	(137,323)	3,201	68,460
(Increase)/decrease in receivables and other assets	(10,067)	(1,820)	(6,553)
Increase/(decrease) in creditors and other payables	111,521	16,320	53,322
Increase/(decrease) in employee entitlements	524	0	(53)
Net movements in working capital items	35,345	17,701	115,176
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>399,513</b>	<b>485,764</b>	<b>482,056</b>



# NOTES TO THE FINANCIAL STATEMENTS

## 1 / ENTITY INFORMATION

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 Land Transport Management Act 2003.

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

The financial statements for the Transport Agency are for the year ended 30 June 2018 and were approved by the Transport Agency Board on 28 September 2018.

### BASIS OF PREPARATION

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 generally accepted accounting practice in New Zealand (NZ GAAP).

The Transport Agency is designated as a public benefit entity (PBE) for financial reporting purposes. The financial statements have been prepared in accordance with Tier 1 PBE accounting standards.

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

The accompanying notes form part of these financial statements. Where an accounting policy is specific to a note, the policy is described in the note to which it relates.

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

### Budget figures

The budget figures are derived from the *Statement of performance expectations 2017/18* as approved by the Board on 9 June 2017. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are materially consistent with those adopted by the Board in preparing these financial statements. The budget figures are not audited.

### Taxes

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

The Transport Agency is a public authority, so is exempt from the payment of income tax.

### Accounting standards issued and not yet effective

The Transport Agency has adopted all accounting standards, amendments and interpretations to existing standards that have been published and are mandatory for its accounting periods beginning on 1 July 2017.

### Financial instruments

In January 2017, the External Reporting Board issued PBE IFRS 9 *Financial Instruments*. This replaces PBE IPSAS 29 *Financial instruments: Recognition and measurement*. PBE IFRS 9 is effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.

The Transport Agency will adopt PBE IFRS 9 in 2018/19. This is consistent with the Treasury's decision to adopt PBE IFRS 9 for the financial statements of the government of New Zealand in 2018/19. The Transport Agency does not expect any material measurement changes from adopting the standard.

### Critical accounting judgements, estimates and assumptions

In preparing the financial statements, the Transport Agency has applied judgements, estimates and assumptions concerning the future that may differ from the subsequent actual results. These judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors. The most significant judgement, estimates and assumptions applied on the financial statements are disclosed in note 6 and relate to the valuation of the state highway network.

## 2/ OPERATING FUNDING REVENUE AND LAND TRANSPORT FUNDING EXPENSE

Revenue and expense from the Crown and National Land Transport Fund is as follows.

	LAND TRANSPORT FUNDING		LAND TRANSPORT FUNDING	
	REVENUE ACTUAL 2017/18 \$000	EXPENDITURE ACTUAL 2017/18 \$000	REVENUE ACTUAL 2016/17 \$000	EXPENDITURE ACTUAL 2016/17 \$000
<b>NATIONAL LAND TRANSPORT FUND</b>				
Local road maintenance	609,680	609,680	594,764	594,764
State highway maintenance	525,557	531,381	410,556	416,924
State highway improvements	411,621	412,694	324,780	382,490
Public transport	382,396	382,616	334,061	336,120
Local road improvements	246,242	246,242	140,911	140,911
Investment management	55,927	57,492	52,227	51,670
Walking and cycling	43,347	43,347	33,670	33,670
Road safety promotion	34,192	34,717	32,365	32,390
Road user charges collection, investigation and enforcement	4,229	4,296	4,229	4,697
Refund of fuel excise duty	638	785	1,034	1,161
Reinstatement of local roads in Christchurch	0	0	2,282	2,282
Other	0	1,191	0	(763)
<b>TOTAL NATIONAL LAND TRANSPORT FUNDING AND EXPENSE</b>	<b>2,313,829</b>	<b>2,324,441</b>	<b>1,930,879</b>	<b>1,996,316</b>
<b>CROWN</b>				
Kaikōura Earthquake Response	62,228	62,228	93,137	93,137
Urban Cycleways Programme	33,253	34,154	22,000	21,099
SuperGold card administration and public transport concessions	28,266	28,266	26,481	26,481
Licensing and regulatory compliance	3,503	3,503	3,789	3,789
Investment management (crash analysis system)	775	316	774	1,855
Other	1,844	0	0	0
<b>TOTAL CROWN FUNDING AND EXPENSE</b>	<b>129,869</b>	<b>128,467</b>	<b>146,181</b>	<b>146,361</b>
<b>TOTAL</b>	<b>2,443,698</b>	<b>2,452,908</b>	<b>2,077,060</b>	<b>2,142,677</b>
<b>TOTAL FUNDING FROM FEES, CHARGES AND OTHER REVENUE</b>	<b>212,176</b>	<b>203,571</b>	<b>305,414</b>	<b>211,354</b>
<b>TOTAL REVENUE AND EXPENSE</b>	<b>2,655,874</b>	<b>2,646,903</b>	<b>2,382,474</b>	<b>2,354,031</b>

Included in the above revenue is funding for broadcasting of \$111,796 (2017: \$360,983).

The table above represents funding from the National Land Transport Fund and the Crown as well as relevant expenses for operating transport infrastructure and other services throughout New Zealand.

In 2017/18, the total paid from the National Land Transport Fund to approved organisations was \$1,927 million (2016/17: \$1,645 million).

The total for the Transport Agency's own investment in state highways, maintenance of state highways and operating activities is \$720 million (2016/17: \$709 million).

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

The Transport Agency is primarily funded through revenue received from the National Land Transport Fund and the Crown.

Funding from the Crown and the National Land Transport Fund are for specific purposes set out in the Transport Agency's founding legislation and the scope of the relevant government appropriations. Apart from these general restrictions, there are no unfulfilled conditions or contingencies attached to this funding.

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.

#### *Land transport funding*

The Transport Agency receives land transport funding and then provides it to approved organisations for the delivery of services and uses it to maintain and operate the state highway network.

### **EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET**

**Land transport funding expenditure was \$197 million (11 percent) above budget.** This was due to higher than expected spending on state highway maintenance, public transport and local road improvements. A significant number of claims were received by local councils and other approved organisations as the three-year National Land Transport Programme was concluded. Public transport spend was driven by increased expenditure on infrastructure, including new electric train units in Auckland and improvements in public transport services.

**Funding from the National Land Transport Fund was \$104 million (5 percent) above budget.** Additional funding was drawn down from the fund to meet the higher than expected spending referred to above.

**Funding from the Crown was \$52 million (29 percent) below budget.** This was due to slower than planned progress on the Urban Cycleways Programme as more time was required on defining scope, costs and routes before implementation.

### 3/ CAPITAL FUNDING AND EXPENDITURE

Capital funding from the National Land Transport Fund and Crown is as follows.

	CAPITAL FUNDING ACTUAL 2017/18 \$000	CAPITAL EXPENDITURE ACTUAL 2017/18 \$000	CAPITAL FUNDING ACTUAL 2016/17 \$000	CAPITAL EXPENDITURE ACTUAL 2016/17 \$000
<b>NATIONAL LAND TRANSPORT FUND</b>				
State highway improvements	738,098	739,618	886,943	911,468
Public-private partnerships	433,300	433,300	173,574	173,574
State highway maintenance	202,061	204,382	141,273	142,060
Regional improvement	140,136	140,136	68,517	68,517
Auckland Transport Package	121,678	121,678	123,739	123,739
Walking and cycling	6,744	6,744	7,890	7,890
Investment management	2,935	2,935	8,028	8,028
Road safety promotion	1,273	1,273	1,125	1,125
<b>TOTAL NATIONAL LAND TRANSPORT FUND CAPITAL FUNDING AND EXPENDITURE</b>	<b>1,646,225</b>	<b>1,650,066</b>	<b>1,411,089</b>	<b>1,436,401</b>
<b>FUNDED FROM THE CROWN</b>				
Kaikōura Earthquake Response	370,503	370,503	45,409	45,409
Accelerated Regional Roading Programme	43,625	43,625	0	0
Urban Cycleways Programme	4,389	4,389	3,247	3,247
<b>TOTAL CROWN CAPITAL FUNDING AND EXPENDITURE</b>	<b>418,517</b>	<b>418,517</b>	<b>48,656</b>	<b>48,656</b>
<b>TOTAL CAPITAL FUNDING AND EXPENDITURE</b>	<b>2,064,742</b>	<b>2,068,583</b>	<b>1,459,745</b>	<b>1,485,057</b>

Capital funding is recognised as a capital contribution when expenditure for capital projects is incurred.

**4 / OTHER REVENUE**

	ACTUAL 2017/18 \$000	ACTUAL 2016/17 \$000
<b>REVENUE FROM OTHER ACTIVITIES</b>		
Motor vehicle licensing fees	53,072	54,713
Driver licensing fees	35,318	35,256
Driver testing fees	24,296	24,834
Road user charges collections	12,675	12,296
Certification review fees	11,758	12,065
Transport licensing fees	10,987	10,666
Standards development fee and certification levies	6,706	6,556
Rail licensing fees	1,210	1,117
Over-dimension and overweight permits	1,185	1,153
Border inspection fees	945	1,044
Total fees and charges	158,152	159,700
Interest and finance income	22,658	20,386
Tolling fees and contributions	15,162	13,987
Recoveries from National Land Transport Programme activities	9,244	28,173
Levy on personalised plates for community road safety initiatives	3,357	3,110
Rental recoveries	2,203	1,167
Administration fee from Accident Compensation Corporation	845	834
Miscellaneous revenue	555	3,044
<b>TOTAL REVENUE FROM OTHER ACTIVITIES</b>	<b>212,176</b>	<b>230,401</b>

## 5 / DEBTOR CROWN, DEBTOR NATIONAL LAND TRANSPORT FUND AND RECEIVABLES AND OTHER ASSETS

	ACTUAL 2017/18 \$000	ACTUAL 2016/17 \$000
National Land Transport Fund receivable	351,739	331,459
National Land Transport Fund receivable – debt related	1,547,307	1,003,972
Debtor Crown	58,633	49,745
Other receivable	100,403	81,796
Loans and advances	1,459	1,574
Other current assets	1,858	10,398
<b>TOTAL</b>	<b>2,061,399</b>	<b>1,478,944</b>
Split between current and non-current is:		
Current	535,633	488,398
Non-current	1,525,766	990,546
<b>TOTAL</b>	<b>2,061,399</b>	<b>1,478,944</b>

Receivables are recognised initially at fair value less any provision for impairment.

The categories National Land Transport Fund receivable and debtor Crown represent undrawn funds from the operating and capital appropriations relevant to expenses incurred and not funded by borrowings. The receivables are expected to be received within 30 days of balance date.

The category other receivable includes third-party receivables and GST receivable. It is net of provision for impairment of \$2.896 million (2016/17: \$1.418 million). Out of the total provision for impairment, \$2.725 million, (94 percent) relates to receivables that are past due over 90 days (2016/17: \$1.189 million; 84 percent).

Receivables written off during the year amounted to \$1.174 million (2016/17: \$1.314 million).

The category National Land Transport Fund receivable – debt related represents operating and capital expenditure for accelerated programmes that are funded by loans and public-private partnerships that will be reimbursed by the National Land Transport Fund over future periods.

The receivable balance has been discounted over its term at the original effective interest rate.

### Impairment

There is no indication that receivables from the National Land Transport Fund or the Crown are impaired as at 30 June 2018.

## EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

**Current debtor National Land Transport Fund and debtor Crown** were \$27 million (7 percent) above budget. This is mainly the result of higher than expected expenditure towards the end of the year on local road improvements and public transport. A significant number of claims were received by councils and other approved organisations in the last few months of the year as the three-year National Land Transport Programme was concluded. The increase in debtor Crown was mainly due to good progress on the Kaikōura State Highway 1 reinstatement and the Accelerated Regional State Highway Programme.

**Non-current debtor National Land Transport Fund** was \$72 million (5 percent) above budget. This is due to fair value movements in the interest rate swap contracts entered into for the Transmission Gully public-private partnership agreement.

**6 / STATE HIGHWAY NETWORK**

	ACTUAL 2017/18 \$M	ACTUAL 2016/17 \$M
Opening balance	34,219	31,866
Additions	2,071	1,766
Depreciation	(383)	(366)
Disposals	(48)	(89)
Net revaluation	7,346	1,049
Assets transfer to/from held for sale	(1)	(7)
<b>CLOSING BALANCE</b>	<b>43,204</b>	<b>34,219</b>

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 be realised and the cost can be measured reliably. Other repair and maintenance costs are expensed during the financial period in which they are incurred.

Subsequent to initial recognition, the state highway network is revalued on an annual basis.

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

State highway network assets are reviewed for impairment whenever events or changes in circumstances indicate that there may be a reduction in the asset's future service potential. An impairment loss is recognised when the asset's carrying amount exceeds the recoverable service amount. The recoverable service amount is the higher of the asset's fair value less cost to sell and value in use. Impairment of state highway network assets is deducted from the asset revaluation reserve to the extent of an existing credit balance for that asset class. Any excess is recognised in surplus or deficit.

The Manawatū Gorge has been closed since slips caused damage in April 2017. As at 30 June 2018, the Manawatū Gorge has been impaired by \$42 million. The impairment expense is recognised in the asset revaluation reserve.

**Valuation**

The state highway network is valued using an optimised depreciated replacement cost methodology based on the estimated current cost of constructing the existing assets by the most appropriate method of construction, reduced by factors for the age, condition and performance of the assets. The estimated current cost is expected to change over time.

The valuation is carried out by qualified independent valuers:

STATE HIGHWAY NETWORK COMPONENT	VALUER
Roads, bridges, culverts, tunnels, underpasses, including the formation works, road structure, drainage works and traffic facilities.	WSP Opus
Land	Darroch Limited

Replacement costs for the valuation are based on recent prices and unit costs provided by BondCM, an independent cost estimator.

The components of the state highway network at optimised depreciated replacement cost and the related depreciation expense are shown in the table below:

STATE HIGHWAY NETWORK COMPONENTS	OPTIMISED DEPRECIATED REPLACEMENT COST		DEPRECIATION EXPENSE	
	2017/18 \$M	2016/17 \$M	2017/18 \$M	2016/17 \$M
Land	12,351	10,892	-	-
Formation	10,648	8,602	-	-
Pavement base course	6,099	4,236	48	46
Pavement surface	878	742	117	120
Drainage	1,564	903	25	25
Traffic facilities	1,383	1,330	91	89
Bridges	7,431	5,405	69	63
Culverts and subways	762	491	8	7
Other structures	2,088	1,618	25	16
<b>Total</b>	<b>43,204</b>	<b>34,219</b>	<b>383</b>	<b>366</b>

**State highway assets** significantly increased in value in 2017/18. The increase is mainly due to the following changes in valuation estimates and assumptions.

- Unit costs applied to several significant state highway network components were updated by an independent cost estimator (BondCM).
- The estimate for preliminary and general costs increased to 34 percent from 10–15 percent. Preliminary and general costs are multiplied by the unit costs, professional fees and internal charges to form the total replacement cost.

Depreciation expense for 2017/18 is calculated based on the 30 June 2017 valuation.

### Estimates, assumptions and judgement

Due to the unique nature of the state highway network, the value of the assets cannot be measured with precision. Significant estimates and assumptions have been applied to the valuation, including assumptions on quantities used in the construction of state highway network components, the life of the assets and the unit costs to apply. Changes to the underlying estimates and assumptions can cause a material movement in the state highway valuation and are reviewed on a periodic basis.

The following represents estimated inputs used in the 2017/18 valuation.



STATE HIGHWAY NETWORK COMPONENT	QUANTITY	RATE (\$)	USEFUL LIFE IN YEARS	BASIS OF VALUATION
Land	Land corridor: 36,219ha Held properties: 140,200ha	Market price	N/A	Corridor land (land associated with the road) is valued at the market price per hectare of the surrounding land. Land quantity is sourced from the asset management database that is derived from Land Information NZ. Held properties, which are properties not yet part of corridor land, are based on market prices.
Formation (earthworks)	Formation: 124,349,489m <sup>2</sup> Shoulder formation: 21,016,219m <sup>2</sup>	Flat terrain: 24-43 per m <sup>2</sup> Rolling terrain: 40-60 per m <sup>2</sup> Mountainous terrain: 67-92 per m <sup>2</sup> Special unit rates applied to some sections Overhead rate: 54.11%	N/A	Unit costs are obtained from contract records of highway construction (1-10km lengths), which are then grouped into terrain types and adjusted for construction overhead costs. Formation area is calculated using treatment length (typically sections of a road that have the same pavement and material type, are of a similar age and condition, and are expected to have a similar rate of deterioration) multiplied by the road width including shoulder. (These quantities are recorded in the asset management database.)
Pavement subbase and pavement basecourse	Pavement other: 38,939,124m <sup>3</sup> Shoulder base course: 3,063,802m <sup>3</sup>	Base course: 113-131 per m <sup>3</sup> Subbase: 87-105 per m <sup>3</sup> Structural: 95-102 per m <sup>2</sup> Overhead rate: 54.11%	50 for basecourse N/A for subbase, which is non-depreciable	Depth of subbase and base course type is determined from the Austroads Pavement Design Guide. Unit costs are provided by BondCM and adjusted for overhead costs. Pavement area is calculated by multiplying treatment length by road width plus shoulder. (These quantities are recorded in the asset management database.)
Pavement surface	Pavement surface: 112,650,740m <sup>2</sup>	Asphalt: 24-26 per m <sup>2</sup> Milling: 5-17 per m <sup>2</sup> Chipseal: \$7.3-7.8 per m <sup>2</sup> Overhead rate: 54.11%	9	Unit costs are determined from recent contracts in the relevant region and adjusted for overhead costs. Pavement surface area is recorded in the asset management database.
Drainage	Drainage: 2,172,313m and 35,850 units Stormwater channel: 15,180,868m	Drainage: 429-17,269 per m Ancillary: 57-6,682 per m Stormwater channel: 34-369 per m Overhead rate: 54.11%	50	Unit costs are provided by BondCM and adjusted for overhead costs. Length/quantity is recorded in the asset management database. The large spread in rates relates to the drainage size, varying prices of the state highway networks' sub-component (that is, sumps, manholes and kerbs), location type (that is, rural, urban and motorway) and region.
Traffic facilities	Railings: 2,093,714m and 113 units Signs: 186,560 units Traffic facilities: 11,634,011m	Traffic facilities: 17,437-401,298 per km Signs: 321-11,678 per sign Railing and barriers: 153-38,838 per m	10-25	Unit costs are derived from a combination of indexed historical cost data and recent construction costs. The large spread of rates relates to different prices for component type (that is, guide, information and signs) location type and region.
Bridges	2,693 bridges 1,554,996m <sup>2</sup>	Routine (single span): 3,961 per m <sup>2</sup> Routine (multi span): 3,237 per m <sup>2</sup> Motorway ramps: 4,686 per m <sup>2</sup> Exceptional rates: 2,097-17,076 per m <sup>2</sup> Overhead rate: 54.11%	90-100	Unit costs are provided by BondCM, dependent on the number of spans, and multiplied by deck area. Exceptional rates are asset specific and reflect special circumstances, for example, special design such as an arch bridge or difficult construction circumstance.
Culverts and subways	1,648 culverts and subways 43,589m	5,704-40,120 per m Overhead rate 54.11%	50-75	Unit costs are provided by BondCM, dependent on cross-sectional area, and multiplied by treatment length (and adjusted for overhead costs).
Other structures	Retaining wall: 2,136m and 716,877m <sup>2</sup> Tunnels: 34 structures Weigh station: 152 structures	Retaining walls: 454-2,519 per m Tunnels: 5,000-70,000 per m Weigh station: 123,985-780,528 per structure Overhead rate: 54.11%	10-100	Unit costs are derived from a combination of indexed historical cost data and recent construction costs.

### Unit costs

A significant component of the valuation is based on unit costs provided by the independent expert, BondCM. BondCM applies rates calculated using the Auckland market as the base and then assessed for regional price differences for major cost elements (such as labour, plant and materials) from which a weighting is derived to determine regional rates for each item. The unit costs provided by BondCM generally relate only to the cost of physical construction and do not include overhead costs that would also be incurred to replace the asset.

Overhead costs are estimated based on actual information for recently completed projects. The rate of overheads incurred on a project can vary significantly depending on whether the construction is taking place in a greenfields or brownfields environment. Overheads include the sum of preliminary and general on-costs (34%) multiplied by professional fees, including Transport Agency costs (15 percent).

### Quantities

The calculation of the state highway network valuation consists of estimated quantities that include the actual area and length of the network at the close of the prior year. Completed construction projects within the current financial year are included in the calculation at cost.

### Work in progress

Recent capital expenditure is not yet reflected in the asset database, because the projects are large and take more than one year to complete. The total work in progress included within the valuation is \$5.555 billion, which is included at cost. This is not included on the basis of the valuation table on page 83.

### Valuation inputs subject to estimation uncertainty

The valuation inputs and assumptions subject to the most estimation uncertainty are:

- Preliminary and general on-costs (P&G costs), related to multiple asset components
 

An analysis of recent projects revealed that P&G costs are higher than previously estimated due to higher health and safety requirements, compliance costs and general costs increases. This has resulted in an increase in P&G costs from 10 percent for roading assets and 15 percent for structures to an average of 34 percent across all project types.
- Professional fees, related to multiple asset components
 

Professional fees are the costs of professional services from external consultants and internal costs for investigations, design and management surveillance quality. Professional fees of 15 percent are derived based on project averages. Professional fees will be a focus of the valuation improvements review for 2018/19.
- Formation
 

Formation is the constructed land form profile and platform on which the pavement structure is built. The unit costs used on the valuation are based on those established by the valuer over several years valuing the state highway and local roading networks and indexed to 2018 dollars. Formation will be also be a focus of review for 2018/19.
- Bridges
 

Bridge construction dates, lengths, widths and associated characteristics are extracted from the Transport Agency's asset database. The replacement cost for bridges is based on its span (single or multi-span) or if it is a motorway ramp. There is also a provision for bridges that have been deemed to be exceptional in nature or service level, in which case a specific unit cost has been applied.

- Brownfield cost

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 with 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 construction cost of the Transport Agency's physical assets. 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 the 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 and restricted hours of work.

The valuation does not include a specific allowance for historic brownfield costs for assets before 2014. However, it is estimated that a significant component of existing brownfield costs has been captured as a result of the 2017/18 review of P&G costs. Further review of brownfield costs will be undertaken for 2018/19.

### Sensitivity analyses

The following sensitivity analysis represents possible impacts on the state highway network valuation based on changes to estimates:

	<b>CHANGE IN OPTIMISED DEPRECIATED REPLACEMENT COST (ODRC) (\$M)</b>
Increase in preliminary and general on-costs from 34.3% to 37.7%	788
Increase in external professional fees from 12% to 22%	2,688
Increase or decrease in formation unit costs by 10%/(10%)	1,064/(1,064)
Increase or decrease in unit costs* by 10%/(10%)	1,552/(1,552)
Increase in land corridor quantities by 10%	1,062

\* Relates to bridges, culverts, surface, pavement, railings and barriers.

WSP Opus has performed simulation analysis on the valuation to quantify the range of valuation outcomes that could occur as a result of changes in the different valuation inputs.

WSP Opus has concluded that the overall valuation is likely to be between -7.5 percent and +10 percent of the current value, excluding the impact of brownfield costs. The estimated exposure to brownfield costs is between \$2 billion and \$3 billion.

While work undertaken in the year ended 30 June 2018 has significantly reduced the likelihood of an understatement of the state highway network's value, further work is planned to improve the valuation. In 2018/19, the intention is to continue to refine the valuation process, with a focus on professional fees and formation costs. The sensitivity analysis above is only an indication of the range of possible impacts and should not be interpreted as the likely actual impact.

### Property assets held for sale

The Transport Agency owns 134 properties valued at \$50.041 million (2017: 200 properties valued at \$49.611 million) that have been classified as held for sale. It is expected that these properties will be sold by 30 June 2019.

Held properties are classified as property assets 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 and fair value less costs to sell.

### EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

**State highway assets** were \$7,760 million (22 percent) above budget. The increase is mainly due to changes in valuation estimates and assumptions, in particular, changes in unit rates from BondCM and preliminary and general costs.

**Depreciation and amortisation expense** was \$53 million (12 percent) below budget. This predominately relates to the state highway depreciation budget being established before the revaluation that occurred at 30 June 2017.

**Assets vested to local authorities** were nil compared with an \$89 million budget. No vested assets to or from local authorities were recognised in the surplus or deficit this year. The Transport Agency expected to vest Mackays to Peka Peka and the Western Belfast bypass, which has not occurred yet.

## 7 / PUBLIC-PRIVATE PARTNERSHIP ASSETS AND LIABILITIES

	ACTUAL 2017/18 \$000	ACTUAL 2016/17 \$000
Transmission Gully	549,321	395,598
Puhoi to Warkworth	306,159	112,707
<b>TOTAL PUBLIC-PRIVATE PARTNERSHIP ASSETS AND LIABILITIES</b>	<b>855,480</b>	<b>508,305</b>

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 and a matching liability represents the Transport Agency's obligations under the arrangement should conditions exist such that the arrangement will not continue through to the service commencement date. Before the service commencement date, there are no scheduled payments under the agreements.

On completion, the asset and liability will be remeasured to fair value. Once operational, the public-private partnership assets will be accounted for in accordance with the policies adopted by the Transport Agency in respect of the rest of the state highway.

This treatment is consistent with the Treasury's public-private partnership accounting guidelines.

### Public-private partnership agreements

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

- Wellington Gateway Partnership to deliver the Transmission Gully project
- Northern Express Group to deliver the Puhoi to Warkworth project.

Under the agreements, the contractors will finance, design, build, operate and maintain the sections of state highway. The Transport Agency provided land it owns to the contractors on which to build the state highway. The construction phase for Transmission Gully is expected to be completed by April 2020 and for Puhoi to Warkworth by the end of 2021. The operational agreements run for 25 years from the service commencement date, after which the responsibility for ongoing operation and maintenance of both roads will revert to the Transport Agency. As both state highways are under construction, no depreciation on the assets has been incurred.

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

- A reduction in the service concession liability.
- Finance costs. Under the terms of the agreements, the operators have provision to re-price the finance costs at intervals during the 25-year period. The Transport Agency has put in place interest rate swaps to hedge the re-pricing of the finance costs. (See note 11 for details of the interest rate swaps.)
- Service costs, which cover the operational costs of running, maintaining, insuring and ensuring the availability of the highway to the service level agreed with the Transport Agency. Some of these costs are indexed to the consumers price index or to other relevant indices and can be varied from time to time.

The reduction in the service concession liability, finance and service costs will be recognised in the period incurred.

### Renewal and termination options

At the end of both agreements, there is no automatic right of renewal for either the contracting party or the Transport Agency. Both the contractors and the Transport Agency have the right to terminate the agreements in limited circumstances.

### Deed of Indemnity

The Crown has issued indemnities to each consortium for all indemnified amounts (as defined in the respective Deeds of Indemnity). In general terms, the indemnified amounts consist 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 is required to make a payment under its indemnity, the Transport Agency must reimburse it under the Reimbursement and Management Agreement.

### Commitments

The total estimated capital and operating expenditure to be paid throughout the 25-year period is \$3.3 billion for Transmission Gully and \$2.3 billion for Puhoi to Warkworth. This includes capital commitments of \$2.2 billion across the two projects, which is included in the commitment totals in note 8.

The Transmission Gully public-private partnership includes 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 cost of the project, but it will continue to closely monitor the project and the risks associated with it.

## EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

**Public-private partnership assets and liabilities** were below budget by \$159 million (16 percent) mainly due to construction progress and changes in the calculation methodology for accruing the progressive construction cost.

**8 / CAPITAL COMMITMENTS**

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

	ACTUAL 30 JUNE 2018 \$000	RESTATED ACTUAL 30 JUNE 2017 \$000
Not later than one year	1,077,577	1,840,982
Later than one year and not later than five years	1,188,728	1,105,387
Later than five years	2,145,007	2,175,756
<b>TOTAL CAPITAL COMMITMENTS</b>	<b>4,411,312</b>	<b>5,122,125</b>

Construction of the state highway network is a component of the National Land Transport Programme.

The 30 June 2017 commitments have been restated to include only contractually committed state highway expenditure.

**9 / TRANSPORT AGENCY PERSONNEL COSTS AND EMPLOYEE BENEFITS****Personnel costs (included in the statement of comprehensive revenue and expenses)**

	ACTUAL 2017/18 \$000	ACTUAL 2016/17 \$000
Salaries and wages	92,493	98,027
Defined contribution plan employer contributions	2,932	3,240
Other personnel costs	2,738	1,461
<b>TOTAL PERSONNEL COSTS</b>	<b>98,163</b>	<b>102,728</b>

**Employee entitlements (included in the statement of financial position)**

	ACTUAL 2017/18 \$000	ACTUAL 2016/17 \$000
Employee entitlements - current	10,723	9,819
Employee entitlements - non-current	4,015	4,395
<b>TOTAL EMPLOYEE ENTITLEMENTS</b>	<b>14,738</b>	<b>14,214</b>

## 10 / TRANSPORT AGENCY OPERATING EXPENSES AND PAYABLES

### Operating expenses (included in the statement of comprehensive revenue and expenses)

	NOTE	ACTUAL 2017/18 \$000	ACTUAL 2016/17 \$000
Commissions and transaction costs	a	71,280	72,499
Professional services		35,849	35,585
Operating lease expense		19,986	19,747
Information technology		18,365	14,554
Road user safety advertising		13,498	14,666
Office and building management		6,143	4,358
Staff travel		5,829	4,892
Impairment of receivables		1,214	1,327
Meetings and conferences		725	710
Fees to principal auditors:			
- for audit of financial statements		443	418
- for other services	b	109	396
Other operating expenses		5,568	5,339
<b>TOTAL OPERATING EXPENSES</b>		<b>179,009</b>	<b>174,491</b>

a. This category includes payments to agents for driver licensing services, motor vehicle registration and motor vehicle licensing services, personalised plates, card merchant fees and bulk postage transaction costs.

b. Other services by KPMG included consulting work on the driver licensing process, transport service delivery site audit support, risk workshop facilitation, and value-for-money consulting work.

### Payables (included in the statement of financial position)

	ACTUAL 2017/18 \$000	ACTUAL 2016/17 \$000
<b>CURRENT</b>		
Creditors	562,547	426,279
Income in advance	12,614	21,156
Onerous contracts	41	101
<b>TOTAL PAYABLES</b>	<b>575,202</b>	<b>447,536</b>

Short-term creditors and other payables are recorded at face value. Creditors and other payables are non-interest bearing and are normally settled on 30-day terms. The carrying value of creditors and other payables approximates their fair value.

### EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

Payables were \$176 million (44 percent) above budget as a result of higher than expected state highway and local road payables. A larger amount of claims were received in June from local councils and other approved organisations as the three-year National Land Transport Programme was concluded.

**11 / BORROWINGS, FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

The Transport Agency had the following borrowings outstanding at 30 June 2018.

NAME	NOTIONAL AMOUNT BORROWED \$000	ACTUAL 2017/18 \$000	ACTUAL 2016/17 \$000	INTEREST RATE APPLYING	COMMENTS
Auckland Transport Package	338,200	301,707	211,691	Interest free	The interest-free loan has been discounted using the government bond rates of 2.14% to 2.63%.
Christchurch earthquake recovery	183,420	24,207	40,483	Fixed rates ranging from 2.57% to 2.84%	Interest of \$1m incurred during the year has been capitalised to borrowing.
Tauranga eastern link	107,000	107,000	107,000	\$87 million at fixed rates ranging from 4.99% to 5.14%. \$20 million at floating.	Interest of \$4.9m has been paid through the financial year.
<b>TOTAL</b>		<b>432,914</b>	<b>359,174</b>		
Tolling funds held in trust		3,768	3,588		
<b>TOTAL BORROWING AND OTHER LIABILITIES</b>		<b>436,682</b>	<b>362,762</b>		
Borrowing split between current and non-current:		-	-		
Current		27,975	20,501		
Non-current		408,707	342,261		
<b>TOTAL</b>		<b>436,682</b>	<b>362,762</b>		

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

The discount on the Auckland Transport Package interest-free loans resulted in a net fair value gain of \$15.6 million (2017: \$16.6 million).

Interest-free loan movements are as follows.

	ACTUAL 2017/18 \$000	ACTUAL 2016/17 \$000
<b>OPENING BALANCE</b>	211,691	108,939
Nominal value of loans issued	100,000	116,200
Fair value adjustment	(15,640)	(16,633)
Repayments	0	0
Amortised interest (at government bond rates)	5,656	3,185
<b>CLOSING BALANCE</b>	<b>301,707</b>	<b>211,691</b>



### Borrowing facilities

The borrowing facilities available to the Transport Agency are as follows.

NAME	TOTAL AVAILABLE \$M	AMOUNT DRAWN DOWN AT 30 JUNE 2018 \$M	PURPOSE OR COMMENT
Short-term advance	250.0	0	To cover seasonal and other variations in cashflows.
Auckland Transport Package	375.0	338.2	To accelerate the programme of Auckland roading projects, including the northern and southern corridors on State Highway 1. Interest-free loans with terms of four to seven years.
Christchurch earthquake recovery	183.4	24.2	To manage the costs of reinstating local roads in Christchurch. No further drawdown is planned.
Tauranga Eastern Link	107.0	107.0	To accelerate the construction of the Tauranga Eastern Link toll road.
<b>TOTAL</b>	<b>915.4</b>	<b>469.4</b>	

### Financial instruments

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

	ACTUAL 2017/18 \$000	ACTUAL 2016/17 \$000
<b>LOANS AND RECEIVABLES</b>		
Cash and cash equivalents	120,349	65,442
National Land Transport Fund and Crown receivables	1,957,679	1,385,176
Other receivables and other assets	103,720	93,768
<b>TOTAL LOANS AND RECEIVABLES</b>	<b>2,181,748</b>	<b>1,544,386</b>
<b>FINANCIAL LIABILITIES MEASURED AT AMORTISED COST</b>		
Payables	575,202	447,536
Borrowing and other liabilities	436,682	362,762
Public-private partnership liabilities	855,480	508,305
<b>TOTAL FINANCIAL LIABILITIES MEASURED AT AMORTISED COST</b>	<b>1,867,364</b>	<b>1,318,603</b>
<b>FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE REVENUE AND EXPENSE</b>		
Derivative financial asset	0	8,534
<b>TOTAL FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE REVENUE AND EXPENSE</b>	<b>0</b>	<b>8,534</b>
<b>FINANCIAL LIABILITY AT FAIR VALUE THROUGH OTHER COMPREHENSIVE REVENUE AND EXPENSE</b>		
Derivative financial liability	203,763	120,536
<b>TOTAL FINANCIAL LIABILITY AT FAIR VALUE THROUGH OTHER COMPREHENSIVE REVENUE AND EXPENSE</b>	<b>203,763</b>	<b>120,536</b>

Interest and finance costs are as follows.

	ACTUAL 2017/18 \$000	ACTUAL 2016/17 \$000
Interest on borrowings	6,114	6,411
Discount on National Land Transport Fund receivable	19,590	17,540
Amortisation of discount on borrowings	5,656	3,185
Ineffective portion of cash flow hedge	5,635	(3,768)
<b>TOTAL INTEREST AND FINANCE COSTS</b>	<b>36,995</b>	<b>23,368</b>

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

### Financial risks

The Transport Agency's activities expose it to a variety of risks, including market risk, credit risk and liquidity risk. The Transport Agency has policies to manage the risks associated with financial instruments and seeks to minimise exposure from these risks.

#### Market 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 2018, approximately 93 percent (2016/17: 91 percent) of loans were either interest free or on a fixed interest rate.

The Transport Agency uses interest rate swaps to mitigate risks associated with interest rate fluctuations.

The Transport Agency has entered into public-private partnership agreements for the construction of Transmission Gully and Puhoi to Warkworth. The arrangements require that a unitary charge is paid to the contractors from the time the section of state highway becomes operational. The unitary charge includes payment for finance costs that the operators have provision to re-price periodically during the 25-year term. The Transport Agency has entered into 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.

Details of the interest rate swaps carried out with the New Zealand Debt Management Office are as follows.

SWAP	NOTIONAL VALUE OF INTEREST RATE SWAP \$M	COMMENCEMENT DATE	MATURITY DATE	INTEREST RATE PAY LEG (FIXED)	INTEREST RATE RECEIVE LEG	FAIR VALUE OF LIABILITY \$M
Transmission Gully	857.8	February 2021	October 2043	5.58	Floating, with periodic reset	178.5
Puhoi to Warkworth	765.0	August 2023	August 2045	4.16	Floating, with periodic reset	25.3
						203.8

The interest rate swaps are accounted for as derivative financial instruments.

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 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.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Generally, when market interest rates are below the fixed interest rates of the interest rate swap, then the interest rate swap will be in a liability position.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to surplus or deficit, except for the effective portion of derivatives designated in cash flow hedges, which is recognised in other comprehensive revenue and expense.

The hedge relationship is designated as a cash flow hedge, and the Transport Agency formally designates and documents the hedge relationship as well as 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 table below shows the movement of the cash flow hedge reserve.

	ACTUAL 2017/18 \$000	ACTUAL 2016/17 \$000
Balance as at 1 July 2017	(42,102)	(131,863)
Effective cash flow hedge	(86,125)	89,761
<b>CASH FLOW HEDGE RESERVE</b>	<b>(128,227)</b>	<b>(42,102)</b>

During the year, the total ineffective portion of the cash flow hedge reserve charged to surplus or deficit is \$5.6 million deficit (2017: \$3.8 million surplus).

The table below illustrates the sensitivity analysis, which is 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.

	2017/18		2016/17	
	+1% \$000	-1% \$000	+1% \$000	-1% \$000
<b>EFFECT ON SURPLUS OR DEFICIT</b>				
Cash and cash equivalents	1,203	(1,203)	667	(667)
<b>EFFECT ON OTHER COMPREHENSIVE REVENUE AND EXPENSE</b>				
Derivative financial asset/(liability)	155,213	(193,126)	135,296	(171,929)
<b>EFFECT ON SURPLUS OR DEFICIT</b>				
Borrowing	(1,030)	1,382	(1,277)	1,597

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.

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 holds all cash and term deposits with Westpac New Zealand Limited. At 30 June 2018, Westpac had a Standard and Poor's credit rating of AA-. The largest debtor is the Crown, which has a Standard and Poor's credit rating of AA+.

*Liquidity risk*

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

The Transport Agency manages liquidity risk by continuously monitoring forecast and actual cash flow requirements and maintaining funding facilities of \$175 million to manage seasonal variations in cashflow and \$75 million to manage unexpected and unfavourable variations in cashflow.

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

	2017/18			
	0-1 YEAR \$000	1-2 YEARS \$000	2-5 YEARS \$000	OVER 5 YEARS \$000
Payables	575,202	0	0	0
Borrowing	28,494	19,968	218,105	316,349
Derivative financial liability	0	0	51,528	227,039
Service concession liability	0	0	223,475	1,256,982
<b>TOTAL</b>	<b>603,696</b>	<b>19,968</b>	<b>493,108</b>	<b>1,800,370</b>
	2016/17			
	0-1 YEAR \$000	1-2 YEARS \$000	2-5 YEARS \$000	OVER 5 YEARS \$000
Payables	447,536	0	0	0
Borrowing	20,301	44,199	142,123	297,485
Derivative financial liability	0	0	22,784	148,778
Service concession liability	0	0	202,630	651,005
<b>TOTAL</b>	<b>467,837</b>	<b>44,199</b>	<b>367,537</b>	<b>1,097,268</b>

The Transport Agency's derivatives are considered level 2 on the fair value hierarchy. The fair value of the derivatives is estimated using inputs that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices). Inputs for the valuation were derived from Bloomberg.

## EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

**Cash and cash equivalents** was above budget by \$70 million (141 percent) due to third-party contributions to state highway projects received earlier than expected.

**Borrowing** was higher than budget by \$30 million (7 percent) due to borrowing being drawn down earlier than planned for the Auckland Transport Package because of good progress on construction activity.

**Derivative financial liability** was above budget by \$98 million (92 percent) due to movements in the fair value of the interest rate swap contracts entered into for the Transmission Gully and Puhoi to Warkworth public-private partnership agreements. The fair value movements reflect market interest rates that have decreased compared with the rates payable under the respective interest rate swaps.

## 12 / EQUITY AND CAPITAL MANAGEMENT

The table below shows movements in equity during the year.

	GENERAL FUNDS \$000	RETAINED FUNDS \$000	MEMORANDUM ACCOUNTS \$000	EQUITY DERIVED FROM THE STATE HIGHWAY NETWORK \$000	CASHFLOW HEDGE RESERVE \$000	TOTAL \$000
<b>BALANCE AT 1 JULY 2016</b>	<b>5,606</b>	<b>22,865</b>	<b>18,952</b>	<b>32,389,597</b>	<b>(131,863)</b>	<b>32,305,157</b>
Surplus/deficit	0	26,493	1,950			<b>28,443</b>
Other comprehensive revenue and expense	0	0	0	1,049,112	89,761	<b>1,138,873</b>
Total comprehensive revenue and expense	0	26,493	1,950	1,049,112	89,761	<b>1,167,316</b>
Changes in equity		(32,329)	4,931	1,487,143	0	<b>1,459,745</b>
<b>Total changes in equity</b>	<b>0</b>	<b>(5,836)</b>	<b>6,881</b>	<b>2,536,255</b>	<b>89,761</b>	<b>2,627,061</b>
<b>BALANCE AT 30 JUNE 2017/ 1 JULY 2017</b>	<b>5,606</b>	<b>17,029</b>	<b>25,833</b>	<b>34,925,852</b>	<b>(42,102)</b>	<b>34,932,218</b>
Surplus/deficit	0	7,934	1,037	0	0	<b>8,971</b>
Other comprehensive revenue and expense	0	0	0	7,345,659	(86,125)	<b>7,259,534</b>
Total comprehensive revenue and expense	0	7,934	1,037	7,345,659	(86,125)	<b>7,268,505</b>
Changes in equity	0	(8,515)	0	2,073,257	0	<b>2,064,742</b>
<b>Total changes in equity</b>	<b>0</b>	<b>(581)</b>	<b>1,037</b>	<b>9,418,916</b>	<b>(86,125)</b>	<b>9,333,247</b>
<b>BALANCE AT 30 JUNE 2018</b>	<b>5,606</b>	<b>16,448</b>	<b>26,870</b>	<b>44,344,768</b>	<b>(128,227)</b>	<b>44,265,465</b>

### Equity derived from the state highway network

	ACTUAL 2017/18 \$000	ACTUAL 2016/17 \$000
<b>STATE HIGHWAY INVESTMENT</b>		
Balance at 1 July	23,307,893	21,820,750
Transfer from the National Land Transport Programme and Crown	2,073,257	1,487,143
<b>BALANCE AT 30 JUNE</b>	<b>25,381,150</b>	<b>23,307,893</b>
<b>STATE HIGHWAY REVALUATION RESERVE</b>		
Balance at 1 July	11,617,959	10,568,847
Revaluations - state highway network	7,345,659	1,049,112
<b>BALANCE AT 30 JUNE</b>	<b>18,963,618</b>	<b>11,617,959</b>
<b>TOTAL EQUITY DERIVED FROM THE STATE HIGHWAY NETWORK</b>	<b>44,344,768</b>	<b>34,925,852</b>

### Capital management

The Transport Agency's capital is its equity. 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 imposes restrictions in relation to borrowing, acquiring securities, issuing guarantees and indemnities, and using derivatives.

The Transport Agency manages its equity by managing its forecast cashflows from the National Land Transport Fund and other sources compared with its outgoings. When the Transport Agency borrows funds, it ensures it has sufficient forecast cashflows from future national land transport fund revenue to meet its repayments obligations.

### Memorandum accounts

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

	NOTE	ACTUAL 2017/18 \$000	ACTUAL 2016/17 \$000
Customer licensing activities	a	9,118	13,737
Road user charges collection		3,633	4,097
Vehicle standards compliance activities	b	14,119	7,999
<b>TOTAL MEMORANDUM ACCOUNT - OTHER FEES AND CHARGES</b>		<b>26,870</b>	<b>25,833</b>

a. Customer licensing activities include driver licensing and testing and rail and transport operator licensing.

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

Memorandum accounts reflect the cumulative surplus or deficit of those services that are intended to be fully recovered from third parties through fees, levies or charges. The balance of each memorandum account is expected to trend to zero over time.

## 13 / OPERATING LEASES

### Operating leases as lessee

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

	ACTUAL 2017/18 \$000	ACTUAL 2016/17 \$000
Not later than one year	11,402	19,684
Later than one year and not later than five years	34,307	33,935
Later than five years	9,521	12,624
<b>TOTAL NON-CANCELLABLE OPERATING LEASES</b>	<b>55,230</b>	<b>66,243</b>

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.

Significant operating leases are limited to buildings for office accommodation.

## 14 / RELATED PARTY TRANSACTIONS AND BOARD MEMBER REMUNERATION

### 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 relationship under normal terms and conditions for such transactions. 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 normal terms and conditions for such transactions.

### Key management personnel compensation

	ACTUAL 2017/18 \$000	ACTUAL 2016/17 \$000
<b>Board members</b>		
Remuneration	326	372
Number of personnel	8	8
<b>Leadership team</b>		
Remuneration	5,569	4,982
Number of personnel	17	19
<b>TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION</b>	<b>5,895</b>	<b>5,354</b>
<b>TOTAL PERSONNEL</b>	<b>25</b>	<b>27</b>

The total number of key management personnel at balance date is 24 (2017: 25).

A number of positions were not filled for the full duration of the reporting periods as leadership roles were revised as part of the organisational transformation effective 3 July 2017.

### Board member remuneration

The total value of remuneration paid or payable to each Board member during the year was as follows.

	APPOINTED	STEPPED DOWN	ACTUAL 2017/18 \$000	ACTUAL 2016/17 \$000
Michael Stiasny (Chair)	April 2018		18	0
Fran Wilde (Deputy Chair)	May 2016		50	52
Mark Darrow	May 2017		36	6
Chris Ellis	May 2016		36	41
Leo Lonergan	May 2016		36	33
Nick Rogers	September 2013		36	40
Vanessa van Uden	May 2017		36	6
Adrienne Young-Cooper	August 2011		36	40
Chris Moller (Chair)	March 2010	January 2018	42	83
Gill Cox	September 2011	April 2017	0	39
Mark Oldfield	July 2014	April 2017	0	32
<b>TOTAL BOARD MEMBER REMUNERATION</b>			<b>326</b>	<b>372</b>

No payments were made to committee members appointed by the Board who were not Board members during the financial year.

The Transport Agency has Directors and Officers Liability and Professional Indemnity Insurance cover in respect of the liability or costs of Board members and employees. The Board also has insurance cover against personal accident and other travel-related risk for Board members and employees where injury or loss occurs while on Transport Agency business.

No Board members received compensation or other benefits in relation to cessation (2017: nil).



**15 / EMPLOYEE REMUNERATION**

TOTAL REMUNERATION PAID OR PAYABLE	NO. OF STAFF 2017/18	NO. OF STAFF 2016/17
100,000-109,999	126	124
110,000-119,999	91	104
120,000-129,999	98	99
130,000-139,999	66	49
140,000-149,999	44	46
150,000-159,999	37	30
160,000-169,999	27	21
170,000-179,999	11	20
180,000-189,999	11	14
190,000-199,999	10	9
200,000-209,999	6	11
210,000-219,999	4	4
220,000-229,999	7	8
230,000-239,999	2	2
240,000-249,999	3	4
250,000-259,999	2	1
260,000-269,999	2	3
270,000-279,999	2	2
280,000-289,999	2	0
290,000-299,000	1	1
300,000-309,000	2	0
310,000-319,999	1	2
320,000-329,000	1	0
330,000-339,000	3	0
340,000-349,999	1	2
360,000-369,999	2	1
370,000-379,999	0	2
380,000-389,999	1	1
390,000-399,999	0	1
570,000-579,999	0	*1
710,000-719,999	*1	0
<b>TOTAL EMPLOYEES</b>	<b>564</b>	<b>562</b>

\* Chief Executive Officer.

During the year ended 30 June 2018 no (2017: 2) Transport Agency employees received compensation and other benefits in relation to cessation (2017: \$0.092 million).

**16 / CONTINGENCIES****Contingent liabilities**

There are claims of \$7.6 million (2017: \$4.6 million) relating to a variety of roading and other contract disputes.

The Transport Agency does not have material contingent assets as at 30 June 2018 (2017: nil).

**17 / EVENTS AFTER THE BALANCE DATE**

There were no significant events after the balance date.

# SUPPLEMENTARY INFORMATION (UNAUDITED)

This supplementary information contains additional disclosures to the financial statements and has been provided to provide further information on the Transport Agency's business.

In this section you will find:

- information about performance by segment of the business
- a summary of 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 69 to 70 and the audited financial statements on pages 71 to 99.

## PERFORMANCE BY SEGMENT OF THE BUSINESS

The following tables provide detailed financial performance information for each segment of the Transport Agency.

### OPERATIONS

	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
<b>Revenue</b>			
Transport Agency operations	22,173	23,405	22,453
National Land Transport Programme	109,088	113,704	105,558
Memorandum accounts - other fees and charges	161,428	161,779	162,951
	292,689	298,888	290,962
<b>Expenditure</b>			
Transport Agency operations	23,731	24,988	27,617
National Land Transport Programme	139,341	146,033	141,806
Capital expenditure	(37,263)	(37,505)	(40,812)
Memorandum accounts - other fees and charges	160,391	164,421	161,001
	286,200	297,937	289,612
<b>Surplus/(deficit)</b>			
Transport Agency operations	(1,558)	(1,583)	(5,164)
National Land Transport Programme	7,010	5,175	4,564
Memorandum accounts - other fees and charges	1,037	(2,642)	1,950
	<b>6,489</b>	<b>951</b>	<b>1,350</b>

### Movement of operations net surplus to equity

The table above 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.

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

## LAND TRANSPORT FUNDING

	NOTE	ACTUAL 2017/18 \$'000	BUDGET 2017/18 \$'000	ACTUAL 2016/17 \$'000
<b>REVENUE</b>				
National Land Transport Fund		2,214,743	2,007,501	1,833,537
Developers' contributions on capital projects		3,842	0	25,312
Non-cash revenue	a	21,306	0	94,772
		2,239,891	2,007,501	1,953,621
<b>EXPENDITURE</b>				
National Land Transport Programme		3,457,821	2,717,239	3,132,789
Public-private partnerships		433,300	463,330	173,574
Depreciation and other non-cash items		393,339	445,000	396,469
Capital expenditure		(2,047,952)	(1,618,068)	(1,775,403)
		2,236,508	2,007,501	1,927,429
<b>SURPLUS/(DEFICIT)</b>		<b>3,383</b>	<b>0</b>	<b>26,192</b>

a. This category includes the initial write-down of interest free loans, \$16 million (2016/17: \$17 million), amortisation of the discount on the long-term National Land Transport Fund receivable, \$5 million (2016/17: \$3 million) and assets vested from local authorities nil (2016/17: \$75 million).

## SPECIFIC PROJECTS FUNDED BY THE CROWN

	ACTUAL 2017/18 \$'000	BUDGET 2017/18 \$'000	ACTUAL 2016/17 \$'000
<b>REVENUE - CROWN FUNDING</b>			
SuperGold card administration and public transport concessions	28,171	29,320	26,386
Urban Cycleways Programme	33,253	49,543	22,000
Kaikōura Earthquake Response	62,228	98,000	93,137
	123,652	176,863	141,523
<b>EXPENDITURE</b>			
SuperGold card administration and public transport concessions	28,171	29,320	26,386
Urban Cycleways Programme	38,543	55,543	24,346
Kaikōura Earthquake Response	432,731	325,000	93,137
Accelerated Regional Roding Programme	43,625	24,800	45,409
Capital expenditure	(418,517)	(257,800)	(48,656)
	124,553	176,863	140,622
<b>SURPLUS/(DEFICIT)</b>	<b>(901)</b>	<b>0</b>	<b>901</b>
<b>TOTAL SURPLUS/(DEFICIT)</b>	<b>8,971</b>	<b>951</b>	<b>28,443</b>

## 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 2003 and the Government Policy Statement on Land Transport.

The following table shows the movements in the National Land Transport Programme balance for the third and final year of the 2015-18 National Land Transport Programme.

### NATIONAL LAND TRANSPORT PROGRAMME

	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
<b>INFLOWS</b>			
Capital contribution from the National Land Transport Fund (NLTF)	1,212,924	1,064,743	1,237,514
Capital contribution from the NLTF - public-private partnerships	433,300	463,330	173,574
Funding from the NLTF	2,282,468	2,182,900	1,901,268
Funding from the NLTF (rental and interest income)	26,494	21,985	24,347
Funding from state highway disposals	37,137	51,530	56,272
Funding from other activities	33,895	27,683	53,988
<b>Total inflows for the NLTF</b>	<b>4,026,218</b>	<b>3,812,171</b>	<b>3,446,963</b>
<b>OUTFLOWS</b>			
State highway improvements	1,174,766	1,273,500	1,293,367
Auckland transport package	121,678	70,000	123,739
Public-private partnerships	433,300	463,330	173,574
State highway maintenance	735,763	596,000	558,017
Local road improvements	246,242	157,000	140,911
Local road maintenance	608,673	576,848	593,500
Public transport	382,616	335,744	336,120
Walking and cycling	50,091	71,137	41,561
Regional improvements	140,136	138,000	68,517
Road safety promotion	35,990	35,367	33,515
Investment management	59,968	61,466	59,698
Reinstatement of earthquake damaged roads in Christchurch	0	0	2,282
Interest and finance costs	36,995	33,779	23,368
<b>TOTAL OUTFLOWS</b>	<b>4,026,218</b>	<b>3,812,171</b>	<b>3,448,169</b>
<b>Carry over into next year</b>	<b>0</b>	<b>0</b>	<b>(1,206)</b>
Opening balance	1,035	2,242	2,241
<b>CLOSING BALANCE AT THE END OF THE YEAR</b>	<b>1,035</b>	<b>2,242</b>	<b>1,035</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 Northern Gateway, Tauranga Eastern Link and Takitimu Drive toll roads.

**NORTHERN GATEWAY TOLL ROAD FOR THE YEAR ENDED 30 JUNE 2018**

	ACTUAL 2017/18 000	BUDGET 2017/18 000	FORECAST 2018/19 000	ACTUAL 2016/17 000
<b>TRAFFIC VOLUMES (NUMBER OF VEHICLES)</b>				
Light vehicle	6,808	6,567	7,128	6,504
Heavy vehicle	559	529	589	512
Exempt	21	25	23	22
Unidentifiable	1	11	1	3
Technical loss	15	4	16	13
<b>TOTAL</b>	<b>7,404</b>	<b>7,136</b>	<b>7,757</b>	<b>7,054</b>
<b>TOLL REVENUE (PORTION DESIGNATED FOR REPAYMENT OF DEBT)</b>				
	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	FORECAST 2018/19 \$000	ACTUAL 2016/17 \$000
Light vehicle	8,853	8,473	9,266	8,470
Heavy vehicle	1,900	1,684	1,995	1,739
Interest	51	54	0	50
<b>TOTAL</b>	<b>10,804</b>	<b>10,211</b>	<b>11,261</b>	<b>10,259</b>

A feasible, untolled alternative route remains available to road users on State Highway 17 via Orewa. The Transport Agency does not include Northern Gateway tolling revenue in its financial statements. The tolling revenue is collected and passed to the Crown to repay the debt that is held by the Crown.

**TAURANGA EASTERN LINK TOLL ROAD FOR THE YEAR ENDED 30 JUNE 2018**

	ACTUAL 2017/18 000	BUDGET 2017/18 000	FORECAST 2018/19 000	ACTUAL 2016/17 000
<b>TRAFFIC VOLUMES (NUMBER OF VEHICLES)</b>				
Light vehicle	3,261	2,374	3,275	2,938
Heavy vehicle	480	361	476	418
Exempt	12	10	13	12
Unidentifiable	0	4	1	2
Technical loss	19	2	20	16
<b>TOTAL</b>	<b>3,772</b>	<b>2,751</b>	<b>3,785</b>	<b>3,386</b>

	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	FORECAST 2018/19 \$000	ACTUAL 2016/17 \$000
<b>TOLL REVENUE (PORTION DESIGNATED FOR REPAYMENT OF DEBT)</b>				
Light vehicle	3,365	2,376	3,406	3,035
Heavy vehicle	1,753	1,186	1,738	1,522
Interest	13	30	0	12
<b>TOTAL</b>	<b>5,131</b>	<b>3,592</b>	<b>5,144</b>	<b>4,569</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 state highway, through Te Puke.

**TAKITIMU DRIVE TOLL ROAD FOR THE YEAR ENDED 30 JUNE 2018**

	ACTUAL 2017/18 000	BUDGET 2017/18 000	FORECAST 2018/19 000	ACTUAL 2016/17 000
<b>TRAFFIC VOLUMES (NUMBER OF VEHICLES)</b>				
Light vehicle	3,191	2,216	3,135	2,776
Heavy vehicle	656	426	664	585
Exempt	13	9	13	12
Unidentifiable	0	4	1	4
Technical loss	36	2	46	43
<b>TOTAL</b>	<b>3,896</b>	<b>2,657</b>	<b>3,859</b>	<b>3,420</b>
<b>TOLL REVENUE (PORTION DESIGNATED FOR REPAYMENT OF DEBT)</b>				
Light vehicle	2,752	1,943	2,728	2,399
Heavy vehicle	2,284	1,436	2,305	2,027
Interest	13	30	0	12
<b>TOTAL</b>	<b>5,049</b>	<b>3,409</b>	<b>5,033</b>	<b>4,438</b>
<b>TOLL REVENUE INFLOW TO THE NATIONAL LAND TRANSPORT FUND</b>				
Takitimu Drive	4,996	3,345	5,033	4,394
<b>TOTAL</b>	<b>4,996</b>	<b>3,345</b>	<b>5,033</b>	<b>4,394</b>

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

The Transport Agency does not hold any debt in relation to Takitimu Drive. The Transport Agency paid \$65 million for the road to Tauranga City Council, which it is recovering with interest from toll revenues.

## FINANCIAL STATEMENTS FOR ROAD TOLLING OPERATIONS

### STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE FOR THE YEAR ENDED 30 JUNE 2018

	NOTE	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
<b>Revenue</b>				
Toll fees	a	15,276	14,577	14,036
<b>Total revenue</b>		<b>15,276</b>	<b>14,577</b>	<b>14,036</b>
Expenditure		15,635	10,964	13,091
<b>NET SURPLUS/(DEFICIT)</b>		<b>(359)</b>	<b>3,613</b>	<b>945</b>

a. Toll fees excludes tolling revenue used to repay debt. The tolling revenue used to repay debt is included in the Northern Gateway, Tauranga East Link and Takitimu Drive information on pages 103-105.

### STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
<b>ASSETS</b>			
Current assets	25,273	21,250	20,551
Non-current assets	13,260	11,326	15,816
<b>TOTAL ASSETS</b>	<b>38,533</b>	<b>32,576</b>	<b>36,367</b>
Liabilities	11,462	10,717	10,680
<b>NET ASSETS/EQUITY</b>	<b>27,071</b>	<b>21,859</b>	<b>25,687</b>

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
Net cash from operating activities	22,332	19,173	19,835
Net cash from investing activities	0	0	0
Net cash from financing activities	(20,456)	(17,601)	(18,721)
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,876</b>	<b>1,572</b>	<b>1,114</b>
Cash and cash equivalents at the beginning of the year	9,443	9,443	8,329
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>11,319</b>	<b>11,015</b>	<b>9,443</b>

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



# OUTPUT CLASS INCOME AND EXPENDITURE

## INVESTMENT MANAGEMENT

	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
<b>OPERATING REVENUE</b>			
Crown (crash analysis system)	775	775	775
National Land Transport Fund	55,927	58,056	52,227
Other	1,106	0	523
Total operating revenue	57,808	58,831	53,525
<b>OPERATING EXPENSES</b>			
Transport Agency (crash analysis system)	316	3,896	1,855
Transport Agency operating activities	49,123	50,935	47,333
Funding to approved organisations	8,369	4,000	4,337
Total operating expenses	57,808	58,831	53,525
Surplus/(deficit)	0	0	0
<b>CAPITAL FUNDING AND CAPITAL EXPENDITURE</b>			
National Land Transport Fund capital contribution	2,935	3,410	8,028
Capital investment	(2,935)	(3,410)	(8,028)
Net capital movement	0	0	0
<b>TOTAL MOVEMENT</b>	<b>0</b>	<b>0</b>	<b>0</b>

## ROAD USER CHARGES COLLECTION, INVESTIGATION AND ENFORCEMENT

	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
<b>OPERATING REVENUE</b>			
National Land Transport Fund (road user charges investigation and enforcement)	3,779	3,779	3,779
National Land Transport Fund (road user charges refund)	450	450	450
Fees and charges	12,764	13,071	12,410
Total operating revenue	16,993	17,300	16,639
<b>OPERATING EXPENSES</b>			
Transport Agency (road user charges investigation and enforcement)	2,163	3,884	4,010
Transport Agency (road user charges refund)	2,134	577	687
Transport Agency (road user charges collection)	13,191	13,041	11,251
Total operating expenses	17,488	17,502	15,948
<b>SURPLUS/(DEFICIT)</b>	<b>(495)</b>	<b>(202)</b>	<b>691</b>

**REFUND OF FUEL EXCISE DUTY**

	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
<b>OPERATING REVENUE</b>			
National Land Transport Fund	638	708	1,034
Other	147	115	127
Total operating revenue	785	823	1,161
<b>OPERATING EXPENSES</b>			
Transport Agency operating activities	785	823	1,161
Total operating expenses	785	823	1,161
<b>SURPLUS/(DEFICIT)</b>	<b>0</b>	<b>0</b>	<b>0</b>

## STATE HIGHWAY IMPROVEMENTS

	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
<b>OPERATING REVENUE</b>			
National Land Transport Fund	401,441	532,056	315,772
National Land Transport Fund (tolling)	10,180	6,900	9,008
Developer contributions	1,521	0	24,525
Assets vested from local authorities	0	0	75,013
Interest and finance income	21,305	25,471	19,759
Other income	1,073	0	1,106
Total operating revenue	435,520	564,427	445,183
<b>OPERATING EXPENSES</b>			
Depreciation and state highway write offs	393,339	445,000	378,059
Assets vested to local authorities	0	88,800	18,410
Interest on Tauranga Eastern Link borrowings	5,106	0	5,146
Other interest and finance costs	30,881	30,627	16,957
Other expenses	4,673	0	2,086
Total operating expenses	433,999	564,427	420,658
Surplus/(deficit)	1,521	0	24,525
<b>CAPITAL FUNDING</b>			
Crown (Accelerated Regional Roding Programme)	43,625	24,800	45,409
National Land Transport Fund capital contribution	738,097	688,170	886,943
National Land Transport Fund (Auckland transport package)	121,678	70,000	123,739
National Land Transport Fund (public-private partnerships)	433,300	463,330	173,574
National Land Transport Fund (state highway disposals)	37,137	51,530	56,272
Depreciation funding utilised for investment in the state highway network	393,339	445,000	378,059
Net non-cash funding for losses/(income) utilised for investment in state highway network	4,673	88,800	(54,517)
Total capital funding	1,771,849	1,831,630	1,609,479
<b>CAPITAL EXPENDITURE</b>			
Crown investment (Accelerated Regional Roding Programme)	43,625	24,800	45,409
Auckland transport package	121,678	70,000	123,739
Public-private partnerships*	433,300	463,330	173,574
Transport Agency capitalised expenditure	37,263	36,102	39,364
Transport Agency investment in the state highway network	1,137,504	1,237,398	1,251,918
Total capital expenditure	1,773,370	1,831,630	1,634,004
Net capital movement	(1,521)	0	(24,525)
<b>TOTAL MOVEMENT</b>	<b>0</b>	<b>0</b>	<b>0</b>

\* During the year, the total public-private partnership construction costs were \$347.175 million (2017: \$263.336 million). This capital expenditure item included the cash flow hedge reserve movement during the year of \$86.125 million deficit (2017: \$89.761 million surplus).

## STATE HIGHWAY MAINTENANCE

	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
<b>OPERATING REVENUE</b>			
Crown (Kaikōura Earthquake Response)	62,228	98,000	93,137
National Land Transport Fund	509,242	424,540	395,216
National Land Transport Fund (rental and interest income)	16,315	15,085	15,340
Other (contributions)	8,145	2,212	7,155
Total operating revenue	595,930	539,837	510,848
<b>OPERATING EXPENSES</b>			
Investment in the state highway network (Kaikōura Earthquake Response)	62,228	98,000	93,137
Transport Agency operating activities	31,920	26,636	28,195
Investment in the state highway network	499,461	415,201	388,729
Total operating expenses	593,609	539,837	510,061
Surplus/(deficit)	2,321	0	787
<b>CAPITAL FUNDING</b>			
Crown (Kaikōura Earthquake Response)	370,503	227,000	0
National Land Transport Fund capital contribution	202,061	154,163	141,273
Total capital funding	572,564	381,163	141,273
<b>CAPITAL EXPENDITURE</b>			
Investment in the state highway network (Kaikōura Earthquake Response)	370,503	227,000	0
Transport Agency capitalised expenditure	0	1,403	1,447
Transport Agency investment in the state highway network	204,382	152,760	140,613
Total capital expenditure	574,885	381,163	142,060
Net capital movement	(2,321)	0	(787)
<b>TOTAL MOVEMENT</b>	<b>0</b>	<b>0</b>	<b>0</b>

**WALKING AND CYCLING**

	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
<b>OPERATING REVENUE</b>			
Crown (Urban Cycleways Programme)	33,253	49,543	22,000
National Land Transport Fund	43,347	61,137	33,670
Other	0	0	1
Total operating revenue	76,600	110,680	55,671
<b>OPERATING EXPENSES</b>			
Crown funding to approved organisations (Urban Cycleways Programme)	34,154	49,543	21,099
Transport Agency operating activities	0	1,137	1,536
Funding to approved organisations	43,347	60,000	32,135
Total operating expenses	77,501	110,680	54,770
Surplus/(deficit)	(901)	0	901
<b>CAPITAL FUNDING</b>			
Crown capital contribution (Urban Cycleways Programme)	4,389	6,000	3,247
National Land Transport Fund capital contribution	6,744	10,000	7,890
Total capital funding	11,133	16,000	11,137
<b>CAPITAL EXPENDITURE</b>			
Crown investment in the state highway network (Urban Cycleways Programme)	4,389	6,000	3,247
Capital investment in walking and cycling	6,744	10,000	7,890
Total capital expenditure	11,133	16,000	11,137
Net capital movement	0	0	0
<b>TOTAL MOVEMENT</b>	<b>(901)</b>	<b>0</b>	<b>901</b>

**PUBLIC TRANSPORT**

	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
<b>OPERATING REVENUE</b>			
National Land Transport Fund	382,396	335,744	334,061
Other	220	0	2,059
Total operating revenue	382,616	335,744	336,120
<b>OPERATING EXPENSES</b>			
Transport Agency (New Zealand Transport Ticketing Limited)	0	0	1,626
Transport Agency operating activities	0	5,744	1,871
Funding to approved organisations	382,616	330,000	332,623
Total operating expenses	382,616	335,744	336,120
<b>SURPLUS/(DEFICIT)</b>	<b>0</b>	<b>0</b>	<b>0</b>

**SUPERGOLD CARD ADMINISTRATION AND PUBLIC TRANSPORT CONCESSIONS**

	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
<b>OPERATING REVENUE</b>			
Crown	28,266	29,415	26,481
Total operating revenue	28,266	29,415	26,481
<b>OPERATING EXPENSES</b>			
Transport Agency operating activities	95	95	95
Funding to approved organisations	28,171	29,320	26,386
Total operating expenses	28,266	29,415	26,481
<b>SURPLUS/(DEFICIT)</b>	<b>0</b>	<b>0</b>	<b>0</b>

**LOCAL ROAD IMPROVEMENTS**

	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
<b>OPERATING REVENUE</b>			
National Land Transport Fund	246,242	157,000	140,911
Total operating revenue	246,242	157,000	140,911
<b>OPERATING EXPENSES</b>			
Funding to approved organisations	246,242	157,000	140,911
Total operating expenses	246,242	157,000	140,911
<b>SURPLUS/(DEFICIT)</b>	<b>0</b>	<b>0</b>	<b>0</b>

**LOCAL ROAD MAINTENANCE**

	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
<b>OPERATING REVENUE</b>			
National Land Transport Fund	611,962	580,000	594,764
National Land Transport Fund (reinstatement of local roads in Christchurch)	(2,282)	0	2,282
Total operating revenue	609,680	580,000	597,046
<b>OPERATING EXPENSES</b>			
National Land Transport Programme (reinstatement of local roads in Christchurch)	0	0	2,282
Transport Agency operating activities	0	200	0
Funding to approved organisations	608,672	576,648	593,499
Interest and finance costs	1,008	3,152	1,265
Total operating expenses	609,680	580,000	597,046
<b>SURPLUS/(DEFICIT)</b>	<b>0</b>	<b>0</b>	<b>0</b>

Included above is the repayment of \$15 million in borrowing related to the reinstatement of earthquake damaged roads in Christchurch.

**REGIONAL IMPROVEMENTS**

	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
<b>CAPITAL FUNDING</b>			
National Land Transport Fund capital contribution	140,136	138,000	68,517
Total capital funding	140,136	138,000	68,517
<b>CAPITAL EXPENDITURE</b>			
Transport Agency investment in the state highway network	140,136	138,000	68,517
Total capital expenditure	140,136	138,000	68,517
<b>NET CAPITAL MOVEMENT</b>	<b>0</b>	<b>0</b>	<b>0</b>

**ROAD TOLLING**

	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
<b>OPERATING REVENUE</b>			
Fees and charges	15,276	14,577	14,036
Total operating revenue	15,276	14,577	14,036
<b>OPERATING EXPENSES</b>			
Transport Agency operating activities	15,636	10,964	13,091
Total operating expenses	15,636	10,964	13,091
<b>SURPLUS/(DEFICIT)</b>	<b>(360)</b>	<b>3,613</b>	<b>945</b>



**ROAD SAFETY PROMOTION**

	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
<b>OPERATING REVENUE</b>			
National Land Transport Fund	34,192	34,367	32,365
Community road safety programme	3,357	2,914	3,111
Other	525	0	25
Total operating revenue	38,074	37,281	35,501
<b>OPERATING EXPENSES</b>			
Transport Agency (community road safety programme)	1,422	1,957	1,326
Transport Agency (vehicle impoundment)	249	204	243
Transport Agency operating activities	21,675	23,163	21,157
Funding to approved organisations	12,793	11,000	10,990
Total operating expenses	36,139	36,324	33,716
Surplus/(deficit)	1,935	957	1,785
<b>CAPITAL FUNDING AND CAPITAL EXPENDITURE</b>			
National Land Transport Fund capital contribution	1,273	1,000	1,125
Capital investment	(1,273)	(1,000)	(1,125)
Net capital movement	0	0	0
<b>TOTAL MOVEMENT</b>	<b>1,935</b>	<b>957</b>	<b>1,785</b>

**LICENSING AND REGULATORY COMPLIANCE**

	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
<b>OPERATING REVENUE</b>			
Better public services seed funding	864	0	0
Crown (ministerial advice and official correspondence)	548	548	548
Crown (rules development)	865	903	903
Crown (drug and alcohol assessments)	569	1,030	817
Crown (driver licensing stop orders)	75	75	75
Crown (driver test subsidy)	1,445	1,445	1,445
Regional fuel tax administration	979	0	0
Fees and charges	93,650	92,463	93,389
Total operating revenue	98,995	96,464	97,177
<b>OPERATING EXPENSES</b>			
Better public services seed funding	864	0	
Ministerial advice and official correspondence	641	836	944
Rules development	946	1,060	825
Drug and alcohol assessments	828	1,406	1,023
Regional fuel tax administration	244	0	
Fees and charges funded activities	94,750	94,374	91,658
Total operating expenses	98,273	97,676	94,450
<b>SURPLUS/(DEFICIT)</b>	<b>722</b>	<b>(1,212)</b>	<b>2,727</b>
Regional fuel tax capital expenditure	735	0	0
Net capital movement	(735)	0	0
<b>TOTAL MOVEMENT</b>	<b>(13)</b>	<b>(1,212)</b>	<b>2,727</b>

**MOTOR VEHICLE REGISTRY**

	ACTUAL 2017/18 \$000	BUDGET 2017/18 \$000	ACTUAL 2016/17 \$000
<b>OPERATING REVENUE</b>			
Fees and charges	53,636	54,800	55,808
Total operating revenue	53,636	54,800	55,808
<b>OPERATING EXPENSES</b>			
Transport Agency operating activities	52,355	57,005	58,119
Total operating expenses	52,355	57,005	58,119
<b>SURPLUS/(DEFICIT)</b>	<b>1,281</b>	<b>(2,205)</b>	<b>(2,311)</b>

# INDEPENDENT AUDITOR'S REPORT



## TO THE READERS OF NZ TRANSPORT AGENCY'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2018

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

We have audited:

- the financial statements of the Transport Agency on pages 71 to 99, that comprise the statement of financial positions as at 30 June 2018, the statement of comprehensive revenue and expenses, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies and other explanatory information; and
- the key performance indicators, service delivery and investment performance measures included in the performance information of the Transport Agency on pages 12 to 65.

In our opinion:

- the financial statements of the Transport Agency on pages 71 to 99:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2018; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity International Public Sector Accounting Standards; and
- the key performance indicators, service delivery and investment performance measures included in the performance information of the Transport Agency on pages 12 to 65:
  - presents fairly, in all material respects, the Transport Agency's performance for the year ended 30 June 2018, including:
    - for each class of reportable outputs:
      - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
      - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
    - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 28 September 2018. This is the date at which our opinion is expressed.

The basis for 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 audit opinion.

### Emphasis of matter - Valuation of the State Highway Network

Without modifying our opinion, we draw your attention to Note 6 in the financial statements which describes the accounting policy, the valuation inputs and estimates made in determining the fair value of the state highway network. The state highway network is a significant asset of the Transport Agency and changes in valuation inputs and estimates can have a material impact on the financial statements. Note 6 also provides a sensitivity analysis to highlight such impacts. We consider the disclosures about the valuation of the state highway network to be adequate.

### Responsibilities of the Board for the financial statements and the performance information

The Board is 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 is responsible for such internal control as they determine is necessary to enable them 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 for the audit of the financial statements and the performance information

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 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 responsible for the other information. The other information comprises the information included on pages 4 to 11, 12 to 65 (excluding key performance indicators, service delivery and investment performance measures) 66 to 70, 100 to 116 and 125 to 171 but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information 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 and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information 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.

Other than in our capacity as auditor, we have no relationship with, or interests, in the Transport Agency

A handwritten signature in black ink, appearing to be 'Brent Manning', written over a horizontal line.

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### 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

### Legislative requirement

The Land Transport Management Act 2003 (section 96(1)(d)(ii)) states that the Transport Agency must ensure that:

*it gives, when making decisions in respect of land transport planning and funding ..., the same level of scrutiny to its own proposed activities and combinations of activities as it would give to those proposed by approved organisations.*

The Transport Agency must, among other things, develop systems and procedures to give effect to this scrutiny principle and must report on its implementation of those systems and procedures in its annual report. This section meets that requirement.

### Systems and procedures

The Transport Agency has systems and procedures that give effect to the scrutiny principle. The three sets of procedures to support compliance are:

- operational procedures – to support individuals to apply the appropriate level of scrutiny when making decisions
- managerial procedures – to oversee the application of the scrutiny principle
- monitoring and reporting procedures – to confirm the operational procedures are followed and the scrutiny principle has been properly applied.

The operational procedures enable staff 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 analysis
- applying the same level of tolerance to cost estimates
- having staff with equivalent seniority and experience involved with equivalent decisions.

### Implementation

We publish our approach to giving effect to the scrutiny principle on our website.<sup>1</sup> A webpage lists the systems and procedures in place to apply the scrutiny principle and provides links to the procurement manuals and Planning and Investment Knowledge Base where the systems and procedures are detailed.

Monitoring of the webpage during 2018 shows the page was accessed 54 times. (The scrutiny principle page was revamped during the year, so comparative statistics are not available for 2017.)

<sup>1</sup> NZ Transport Agency. 2018. *Scrutiny principle*. [www.nzta.govt.nz/planning-and-investment/planning-and-investment-knowledge-base/planning-and-investment-principles-and-policies/planning-and-investment-principles/scrutiny-principle/](http://www.nzta.govt.nz/planning-and-investment/planning-and-investment-knowledge-base/planning-and-investment-principles-and-policies/planning-and-investment-principles/scrutiny-principle/)

The webpage also has links to two other webpages that list all funding decisions made by the Transport Agency Board<sup>2</sup> and delegated Transport Agency staff<sup>3</sup> since 1 August 2008.<sup>4</sup> Both pages are updated monthly once the previous month's decisions have been confirmed. Monitoring in 2018 shows the:

- board decisions webpage was accessed an average 199 times a month (2017: 95)
- delegated funding decisions webpage was accessed an average 36 times a month (2017: 19).

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

<sup>2</sup> NZ Transport Agency. 2018. Board funding decisions. <https://www.nzta.govt.nz/planning-and-investment/funding-and-investing/investmentdecisions/board-decisions/>

<sup>3</sup> NZ Transport Agency. 2018. Delegated funding decisions. [www.nzta.govt.nz/planning-and-investment/funding-and-investing/investmentdecisions/delegated-decisions/](http://www.nzta.govt.nz/planning-and-investment/funding-and-investing/investmentdecisions/delegated-decisions/)

<sup>4</sup> The prescribed date in the Land Transport Management Act 2003 for reporting on these decisions is 1 October 2008.

# INDEPENDENT LIMITED ASSURANCE REPORT



## INDEPENDENT LIMITED ASSURANCE REPORT TO THE READERS OF THE NZ TRANSPORT AGENCY'S REPORT ON PUTTING THE SCRUTINY PRINCIPLE INTO PRACTICE FOR THE YEAR ENDED 30 JUNE 2018

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 NZ Transport Agency (the "Transport Agency") on Putting the Scrutiny Principle into Practice (the "Report") on pages 120 and 121 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 2018.

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 120 and 121, for the year ended 30 June 2018 is not fairly stated.

Our limited assurance engagement was completed on 28 September 2018 and our opinion expressed as at that date.

A handwritten signature in black ink, appearing to be 'Brent Manning', written over a horizontal line.

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**BRENT MANNING**

KPMG

On behalf of the Auditor-General  
Wellington, New Zealand

