

# Financial statements and audit reports



# Statement of responsibility


The Waka Kotahi NZ Transport Agency Board (the 'Board') is responsible for the preparation of the Waka Kotahi 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 Waka Kotahi under section 19A of the Public Finance Act 1989.

The Board has the responsibility 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 Waka Kotahi for the year ended 30 June 2020.

## Signed on behalf of the Board:



---

**Sir Brian Roche**

Chair

18 September 2020



---

**Cassandra Crowley**

Chair of the Risk and

Assurance Committee

18 September 2020

## Countersigned by:



---

**Nicole Rosie**

Chief Executive

18 September 2020



---

**Howard Cattermole**

Chief Financial Officer

18 September 2020

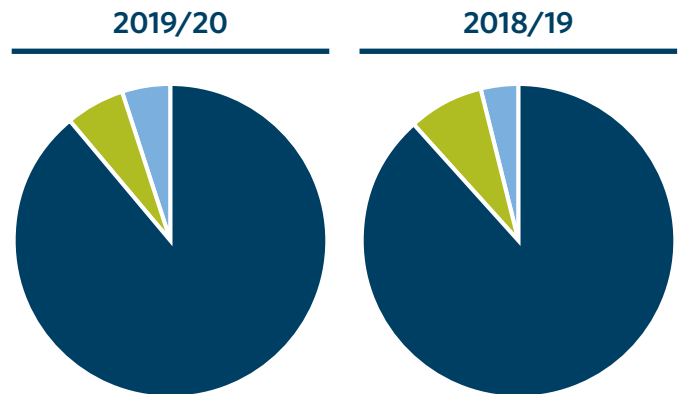
# Highlights from our financial statements

**\$3.5 BILLION**  
TOTAL REVENUE  
(2018/19: \$2.9 billion)

Most of Waka Kotahi NZ 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 for COVID-19 response and recovery. Other revenue comes from licensing and regulatory activities.

## REVENUE BY SOURCE

<span style="color: #003366;">●</span> <b>National Land Transport Fund</b>	2019/20 <b>89.0%</b>	2018/19 <b>88.4%</b>
<span style="color: #92D050;">●</span> <b>Other revenue</b>	2019/20 <b>5.9%</b>	2018/19 <b>7.9%</b>
<span style="color: #6699CC;">●</span> <b>Crown</b>	2019/20 <b>5.1%</b>	2018/19 <b>3.7%</b>

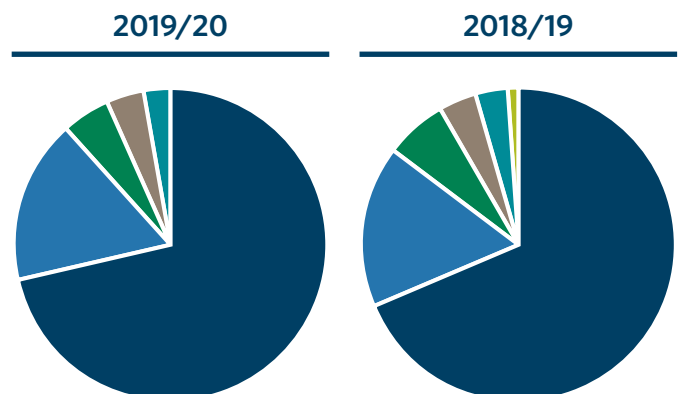


**\$3.5 BILLION**  
TOTAL EXPENSE  
(2018/19: \$2.9 billion)

Our expenses are guided by the Government Policy Statement on land transport and the priorities identified in our *Amended statement of intent 2018-2022*. In 2019/20, over two-thirds (72 percent) of our expenses directly related to: land transport funding we provided to approved organisations, activities funded from the Crown and maintenance and operation of the state highway network. Depreciation and amortisation made up 17 percent of our annual expenses and personnel and operating expenses made up 11 percent.

## EXPENSE BY TYPE

<span style="color: #003366;">●</span> <b>Land transport funding</b>	2019/20 <b>72.4%</b>	2018/19 <b>68.8%</b>
<span style="color: #336699;">●</span> <b>Depreciation and amortisation expense</b>	2019/20 <b>17.0%</b>	2018/19 <b>19.0%</b>
<span style="color: #009933;">●</span> <b>Operating expenses</b>	2019/20 <b>5.2%</b>	2018/19 <b>6.0%</b>
<span style="color: #996633;">●</span> <b>Personnel costs</b>	2019/20 <b>3.9%</b>	2018/19 <b>3.7%</b>
<span style="color: #009999;">●</span> <b>Other</b>	2019/20 <b>1.5%</b>	2018/19 <b>1.2%</b>
<span style="color: #92D050;">●</span> <b>Waka Kotahi other activities</b>	2019/20 <b>0.0%</b>	2018/19 <b>0.9%</b>



The other activities of Waka Kotahi include road safety promotion and demand management.

**\$54.2 BILLION**  
NET ASSETS/EQUITY  
(2018/19: \$51.1 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 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
Total assets	58,351.4	55,275.3	53,841.9
Less total liabilities	4,103.6	3,380.9	2,732.9
<b>Net assets/equity at end of year</b>	<b>54,247.8</b>	<b>51,894.4</b>	<b>51,109.0</b>

Our statement of financial position reflects the significant value held in the state highway network, with \$58.4 billion of assets and low levels of liabilities. The state highway network accounts for 89 percent of our asset base. In the previous two years, the value increased significantly as we improved certain estimates. Most of the asset base increase this year relates to capital spending and indexing of replacement costs, and increases in public-private partnership assets, which has been offset by an increase in debt and interest rate swaps liability valuation, and an increase in provisions.

# Financial statements

## STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE FOR THE YEAR ENDED 30 JUNE 2020

	Note	Actual 2019/20 \$M	Budget 2019/20 \$M	Restated actual 2018/19 \$M
<b>Revenue</b>				
Funding from the National Land Transport Fund	2	3,090.9	2,888.4	2,570.4
Funding from the Crown	2	176.7	67.7	107.1
Revenue from other activities	2/4	206.8	196.3	229.2
<b>Total revenue</b>		<b>3,474.4</b>	<b>3,152.4</b>	<b>2,906.7</b>
<b>Expense</b>				
Land transport funding		2,539.3	2,242.8	2,020.6
Employee costs	9	136.2	125.5	107.0
Operating expenses	10	184.0	175.5	194.7
Interest and finance costs	12	11.3	38.3	10.2
Depreciation, amortisation and state highway write-off	6	638.7	564.1	552.3
Assets vested to local authorities	6	0.0	23.0	24.4
<b>Total expense</b>	2	<b>3,509.5</b>	<b>3,169.2</b>	<b>2,909.2</b>
<b>Surplus/(deficit)</b>		<b>(35.1)</b>	<b>(16.8)</b>	<b>(2.5)</b>
<b>Other comprehensive revenue and expense</b>				
Gain/(loss) state highway network revaluations	6	1,538.3	1,860.0	5,265.3
Net movement in cash flow hedges	12	(269.1)	11.1	(263.4)
<b>Total other comprehensive revenue and expense</b>		<b>1,269.2</b>	<b>1,871.1</b>	<b>5,001.9</b>
<b>Total comprehensive revenue and expense</b>		<b>1,234.1</b>	<b>1,854.3</b>	<b>4,999.4</b>

## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

	Note	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Assets</b>				
Cash and cash equivalents		106.0	50.0	81.4
Debtor Crown	5	132.7	50.6	33.8
Receivables and other assets	5	161.1	124.6	119.3
Debtor National Land Transport Fund	5	299.9	439.1	335.7
Debtor National Land Transport Fund – debt related	5	3,427.4	2,623.3	2,223.2
Property assets held for sale	6	17.1	60.0	14.8
Public-private partnership assets	7	1,950.2	716.3	1,316.4
Property, plant, equipment and intangible assets		66.6	69.6	60.3
State highway network	6	52,190.4	51,141.8	49,657.0
<b>Total assets</b>		<b>58,351.4</b>	<b>55,275.3</b>	<b>53,841.9</b>
<b>Liabilities</b>				
Payables	10	618.2	769.7	485.0
Employee entitlements	9	21.9	20.4	15.0
Provisions	11	215.5	4.0	5.6
Derivative financial liability	12	727.5	285.5	461.7
Borrowing and other liabilities	12	843.9	459.7	449.2
Public-private partnership liabilities	7	1,676.6	1,841.6	1,316.4
<b>Total liabilities</b>		<b>4,103.6</b>	<b>3,380.9</b>	<b>2,732.9</b>
<b>Net assets</b>		<b>54,247.8</b>	<b>51,894.4</b>	<b>51,109.0</b>
<b>Equity</b>				
Contributed capital		0.0	5.6	0.0
Retained funds		(8.3)	9.8	24.3
Equity derived from the state highway network	13	54,916.8	52,093.1	51,476.3
Cash flow hedge reserve	12	(660.7)	(214.1)	(391.6)
<b>Total equity</b>		<b>54,247.8</b>	<b>51,894.4</b>	<b>51,109.0</b>

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020

	Note	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Balance at 1 July</b>		51,109.0	48,374.0	44,265.5
Surplus/(deficit)		(35.1)	(16.8)	(2.5)
State highway network revaluations	6	1,538.3	1,860.0	5,265.3
Movement in cash flow hedges	12	(269.1)	11.1	(263.4)
Capital contribution	13	1,904.7	1,666.1	1,842.3
Other equity movements	13	0.0	0.0	1.8
<b>Balance at 30 June</b>	13	<b>54,247.8</b>	<b>51,894.4</b>	<b>51,109.0</b>

## STATEMENT OF CASH FLOWS AS AT 30 JUNE 2020

	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Cash flows from operating activities</b>			
Receipts from the National Land Transport Fund	2,633.1	2,947.6	2,684.9
Receipts from the Crown	82.4	67.6	103.2
Receipts from other revenue	191.9	173.5	202.6
Payments to employees	(133.8)	(134.7)	(106.6)
Payments to suppliers	(2,413.5)	(2,339.3)	(2,235.7)
Goods and services tax (net)	4.2	0.0	(1.4)
<b>Net cash from operating activities</b>	<b>364.3</b>	<b>714.7</b>	<b>647.0</b>
<b>Cash flows from investing activities</b>			
National Land Transport Fund receipts from sale of state highway-held properties	2.4	35.0	34.9
Purchase of property, plant, equipment and intangible assets	(19.1)	(19.4)	(13.2)
Investment in the state highway network	(1,906.3)	(1,871.5)	(1,824.1)
<b>Net cash from investing activities</b>	<b>(1,923.0)</b>	<b>(1,855.9)</b>	<b>(1,802.4)</b>
<b>Cash flows from financing activities</b>			
Capital contribution from the National Land Transport Fund	1,104.5	1,012.7	991.3
Capital contribution from the Crown	95.6	107.9	119.8
Receipts from borrowing	403.6	186.6	34.8
Repayment of borrowing	(15.0)	(160.0)	(23.0)
Interest paid on borrowing	(5.4)	(6.0)	(6.4)
<b>Net cash from financing activities</b>	<b>1,583.3</b>	<b>1,141.2</b>	<b>1,116.5</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>24.6</b>	<b>0.0</b>	<b>(38.9)</b>
Cash and cash equivalents at the beginning of the year	81.4	50.0	120.3
<b>Cash and cash equivalents at the end of the year</b>	<b>106.0</b>	<b>50.0</b>	<b>81.4</b>

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

	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Surplus/(deficit)</b>	<b>(35.1)</b>	<b>(16.8)</b>	<b>(2.5)</b>
<b>Add/(deduct) non-cash/non-operating items:</b>			
Depreciation, amortisation and state highway write-off	638.7	564.1	552.3
Losses on disposal of non-financial assets	18.2	0.0	1.0
Net impact of assets vested to/(from) local authorities	0.0	23.0	24.4
Movement in discounting on receivables	(7.0)	8.6	(4.9)
Interest on borrowings	5.4	31.5	5.2
Movement in discounting on borrowings	7.1	0.0	1.5
Movement in ineffective portion of cash flow hedge	(3.3)	(1.7)	(5.4)
<b>Total non-cash/non-operating items</b>	<b>659.1</b>	<b>625.5</b>	<b>574.1</b>
<b>Add/(deduct) movements in working capital:</b>			
(Increase)/decrease in Debtor National Land Transport Fund and Debtor Crown	(555.7)	59.1	101.2
(Increase)/decrease in receivables and other assets	(41.9)	(22.8)	(15.5)
Increase/(decrease) in creditors and other payables	331.0	68.6	(10.6)
Increase/(decrease) in employee entitlements	6.9	1.0	0.3
<b>Net movements in working capital items</b>	<b>(259.7)</b>	<b>105.9</b>	<b>75.4</b>
<b>Net cash from operating activities</b>	<b>364.3</b>	<b>714.6</b>	<b>647.0</b>



# Notes to the financial statements

## 1 ENTITY INFORMATION

Waka Kotahi NZ Transport Agency ('Waka Kotahi') is a Crown entity as defined by the Crown Entities Act 2004 and is domiciled and operates in New Zealand. Legislation governing the operations of Waka Kotahi includes the Crown Entities Act 2004 and the Land Transport Management Act 2003.

The primary objective of Waka Kotahi 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.

Waka Kotahi does not operate to make a financial profit.

The financial statements for Waka Kotahi are for the year ended 30 June 2020 and were approved by the Waka Kotahi Board on 18 September 2020.

### Basis of preparation

The financial statements of Waka Kotahi 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).

Waka Kotahi 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 going concern assumption has been assessed for the impact of COVID-19. In the event of an extended lockdown in 2020/21, Waka Kotahi may require further financing and/or funding support from the Crown, or need to reduce its planned expenditure.

While there is no explicit guarantee from the Crown that they would provide financing or funding in the event of a future extended lockdown, the Board considers that Waka Kotahi is one of the key enablers of economic activity and provider of essential services including regulatory activities and as such may have access to further Crown support were it essential to meet its obligations. Both financing and funding support was provided by the Crown in response to the 2019/20 lockdown. An assessment of the impact of COVID-19 on the financial performance, and position of Waka Kotahi is set out in Critical Accounting judgements, estimates and assumptions section.

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 in millions (\$M) and rounded to the nearest hundred thousand dollars.

Certain prior year balances have been reclassified to match current year classifications. These are not material reclassifications.

### Budget figures

The budget figures are derived from the *Statement of performance expectations 2019/20* as approved by the Board on 20 June 2019. 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 and certain balances have been reclassified to reflect the actual spend during 2019/20.

## **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.

Waka Kotahi is a public authority, so is exempt from the payment of income tax.

## **Accounting standards issued and not yet effective**

Waka Kotahi has adopted all accounting standards, amendments and interpretations to existing standards that have been published and are mandatory from 1 July 2019.

## **Critical accounting judgements, estimates and assumptions**

In preparing the financial statements, Waka Kotahi 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, where possible, and other factors. Note 6 outlines the judgements, estimates and assumptions applied to the valuation of the state highway network.

For 2019/20, Waka Kotahi has applied particular judgements, estimates and assumptions to assess and apportion additional costs arising from COVID-19 between provisions recognised at balance date, future commitments and contingent liabilities.

Waka Kotahi has also applied judgement to apportion borrowing facilities across output classes.

## **The impact of the COVID-19 pandemic**

COVID-19, and the resulting lockdown, have had a significant impact on the operations and financial position of Waka Kotahi. National Land Transport Fund revenue (the main funding source of Waka Kotahi) has reduced by \$291.7 million in 2019/20 compared to budget. COVID-19 also added significant cost pressures for a number of output classes, such as public transport for increased farebox support and state highway improvements to meet additional claims from suppliers. Claims will also impact on the costs of programmes delivered by approved organisations in which Waka Kotahi is a co-investor.

The going concern assumption has been reassessed in light of the impacts of COVID-19 and is considered valid.

An assessment of the impact of COVID-19 on the financial performance and financial position of Waka Kotahi is set out below:

<b>Statement of comprehensive revenue and expense item</b>	<b>COVID-19 Assessment</b>	<b>Note</b>
Funding from the National Land Transport Fund	Operating funding has increased to cover the COVID-19 related costs that are considered operational expenses	2
Funding from Crown	Additional revenue from Crown has been recognised for managing the financial impact on regulatory activities, and meeting public-private partnership related costs arising from COVID-19	2
Land transport funding	COVID-19 related costs are unbudgeted and considered operational expenses. Land Transport funding is therefore operational rather than capital in nature.	
Net movement in cash flow hedge	In March 2020, the Official Cash Rate (OCR) reduced to 0.25% from 1.0% largely because of the negative economic implications of COVID-19. As a result, the net liability on interest rate swaps related to the public-private partnership contracts has increased materially. Most of the negative movement flows through the cash flow hedge reserve.	12
<b>Statement of financial position item</b>	<b>COVID-19 Assessment</b>	<b>Note</b>
Cash and cash equivalents	No impact.	
Debtor Crown	Debtor Crown has increased reflecting that the Crown has agreed to fund certain COVID-19 costs that were incurred before balance date.	5
Receivables and other assets	Waka Kotahi has reviewed the provision for doubtful debts based on expected credit losses and no material changes have occurred.	5
Debtor National Land Transport Fund and debtor National Land Transport Fund - debt related	National Land Transport Fund debtors have increased reflecting the additional debt taken on by Waka Kotahi related to increased costs and decreased revenue as a result of COVID-19.  This debt will ultimately be funded from the National Land Transport Fund, which recognises the additional obligations through an increase to the National Land Transport Fund debtor balance in the financial statements of Waka Kotahi and an increase in long term payables to Waka Kotahi in the National Land Transport Fund financial statements.	5
Property assets held for sale	No material impacts from COVID-19 on this asset class have been identified.	6
Public-private partnership assets	As a result of COVID-19, there were claims from the builders of both the Transmission Gully and Pūhoi to Warkworth projects.  The cost of settlement (where applicable) has been expensed rather than capitalised to the public-private partnership asset given the assessment that the settlement costs are not reflective of 'normal' costs of putting such assets in place. Judgement has been applied in determining what part of the settlement relates to the year ended 30 June 2020 as an adjusting post balance date event and those parts that are future commitments.	7
Property, plant, equipment and intangible assets	No impact.	

State highway network assets	<p>Waka Kotahi has engaged valuation specialists that have considered the impact of COVID-19 on their highway network and property valuations. The valuers have concluded:</p> <ul style="list-style-type: none"> <li>• No allowance is required in the valuation to account for potential changes in the economy and construction costs in the short-term as a result of the COVID-19 pandemic.</li> <li>• No adjustment is required to the replacement cost of assets for any additional construction costs related to COVID-19. Additional COVID-19 related costs incurred, that are not reflective of ongoing increased costs of construction, were treated as operating expenditure.</li> <li>• No adjustment has been made for replacement cost changes as a result of the sharp decline in oil prices observed in the June quarter.</li> <li>• No adjustment has been made for property assets as no discernible COVID-19 impact has been reflected in property values to date.</li> </ul> <p>Refer to sensitivity analysis table in Note 6 State Highway Network, which outlines possible impacts on the state highway network valuation based on changes to estimates.</p>	6
Provisions	Includes additional costs related to COVID-19 such as estimates for expected contractual claims for work incurred up to 30 June 2020. Judgement has been applied to estimate the level of claims included as a provision at 30 June 2020 and also those claims that are future commitments rather than provisions.	11
Employee Entitlements	The COVID-19 lockdown and resultant work from home environment resulted in the workforce of Waka Kotahi using less leave compared to the same period in the prior year. There has been a non-material increase in the leave liability as a result.	9
Derivative financial liability	The net liability on interest rate swaps related to the public-private partnership contracts has increased predominantly due to a reduction in market interest rates over the last year some of which is likely attributable to the economic effects of COVID-19.	12
Borrowing and other liabilities	Borrowings have increased as a direct result of the requirement to increase financing to meet revenue shortfalls and observed cost increases, not immediately covered by Crown assistance, that occurred due to the impacts of COVID-19.	12
Public-private partnership liabilities	As a result of COVID-19, there were additional claims from the builders of both the Transmission Gully and Pūhoi to Warkworth projects. A provision for the costs relating to the period ending 30 June 2020 has been made.	7
Capital Commitment	Capital projects are expected to be delayed due to the COVID-19 lockdown. As a result, forecast capital commitments have increased. There are likely to be future claims that will further increase the level of contractual commitments.	8

## 2 OPERATING FUNDING REVENUE AND EXPENSE

The tables below represent funding from the National Land Transport Fund and the Crown and relevant expenses for operating transport infrastructure and other services throughout New Zealand.

	Funding revenue* actual 2019/20 \$M	Funding revenue budget 2019/20 \$M	Funding revenue actual 2018/19 \$M	Expense actual 2019/20 \$M	Expense budget 2019/20 \$M	Expense actual 2018/19 \$M
<b>National Land Transport Fund</b>						
State highway improvements	726.8	603.3	559.3	726.2	573.0	564.0
Local road maintenance	617.7	666.0	653.4	617.7	666.0	653.4
Public transport	641.1	510.0	449.2	641.0	510.0	449.3
State highway maintenance	533.6	413.4	485.5	556.6	415.3	494.1
Local road improvements	258.2	272.0	225.7	258.2	272.0	225.7
Investment management	79.8	70.8	60.1	78.3	70.8	62.6
Transitional rail	64.6	157.0	19.2	64.6	157.0	19.2
Road safety promotion and demand management	46.5	54.4	43.7	47.0	54.4	44.3
Walking and cycling	44.1	54.5	42.7	44.1	54.5	42.7
Rapid transit	32.3	0.0	0.0	32.3	0.0	0.0
Regional improvements	30.2	49.0	23.6	30.2	49.0	23.6
Local road improvements (Housing Infrastructure Fund)	11.1	33.0	3.0	11.1	33.0	3.0
Road user charges collection, investigation and enforcement	4.3	4.3	4.3	4.4	4.6	5.0
Refund of fuel excise duty	0.6	0.7	0.7	0.7	1.0	0.8
<b>Total National Land Transport Fund funding and expense</b>	<b>3,090.9</b>	<b>2,888.4</b>	<b>2,570.4</b>	<b>3,112.4</b>	<b>2,860.6</b>	<b>2,587.7</b>
Classified as follows:						
Funding paid to approved organisations				1,736.8	1,806.1	1,446.1
Waka Kotahi operating expenditure				1,375.6	1,054.5	1,141.6
<b>Total National Land Transport Fund expense</b>				<b>3,112.4</b>	<b>2,860.6</b>	<b>2,587.7</b>

	Funding revenue* actual 2019/20 \$M	Funding revenue budget 2019/20 \$M	Funding revenue actual 2018/19 \$M	Expense actual 2019/20 \$M	Expense budget 2019/20 \$M	Expense actual 2018/19 \$M
<b>Crown</b>						
COVID-19 Response and Recovery Fund (CRRF)	94.1	0.0	0.0	94.1	0.0	0.0
SuperGold card administration and public transport concessions	30.7	29.7	29.4	30.7	29.7	29.4
Local road improvements (Provincial Growth Fund)	20.4	5.4	10.9	20.4	5.4	10.9
COVID-19 - protection of core regulatory services**	8.1	0.0	0.0	0.0	0.0	0.0
Kaikōura earthquake response	7.3	19.5	41.9	7.3	19.5	41.9
Investment management (Provincial Growth Fund)	5.5	2.1	5.4	5.5	2.1	5.4
Urban Cycleways Programme	5.0	6.3	12.7	5.0	6.3	12.7
Other Crown funding and expense	5.6	4.7	6.8	7.0	4.3	7.6
<b>Total Crown funding and expense</b>	<b>176.7</b>	<b>67.7</b>	<b>107.1</b>	<b>170.0</b>	<b>67.3</b>	<b>107.9</b>
Classified as follows:						
Funding paid to approved organisations				61.5	60.9	94.8
Waka Kotahi operating expenditure				108.5	6.4	13.1
<b>Total Crown expense</b>				<b>170.0</b>	<b>67.3</b>	<b>107.9</b>
<b>Total funding and expense from fees, charges and other revenue</b>	<b>206.8</b>	<b>196.3</b>	<b>229.2</b>	<b>227.1</b>	<b>241.3</b>	<b>213.6</b>
<b>Total revenue and expense</b>	<b>3,474.4</b>	<b>3,152.4</b>	<b>2,906.7</b>	<b>3,509.5</b>	<b>3,169.2</b>	<b>2,909.2</b>

\* Borrowing facilities funding is included within the funding revenue column. The financing component included is: \$33.2 million local road maintenance; \$108.8 million public transport; \$173.2 million state highway maintenance; and \$12.7 million local road improvements.

\*\* Crown funding was provided to meet the revenue shortfall in core regulatory services resulting from COVID-19. The expenditure is shown in the fees, charges and other revenue line.

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

Waka Kotahi is primarily funded through revenue received from the National Land Transport Fund and the Crown.

Funding from the National Land Transport Fund and the Crown has been accounted for in accordance with PBE IPSAS 23 *Revenue from non-exchange transactions* and classified and treated as non-exchange revenue. The funding is used for the specific purpose set out in the founding legislation and the scope of the relevant government appropriations. The payment of funding does not entitle the payer to an equivalent value of services or benefits, because no direct exchange relationship exists between paying the funding and receiving services or benefits from Waka Kotahi. Apart from these general restrictions there are no unfulfilled conditions or contingencies attached to this funding, as such revenue is recognised when earned and is reported in the financial period to which it relates.

### **Funding from fees, charges and other revenue**

Revenue from other activities has been classified and treated as exchange revenue and accounted for in accordance with PBE IPSAS 9 *Revenue from exchange transactions*.

### **Land transport funding**

Waka Kotahi 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**

**Funding from the National Land Transport Fund** was \$202.5 million (7 percent) above budget. Additional National Land Transport Fund funding was drawn down to meet costs arising from COVID-19 on state highway improvements projects. Waka Kotahi also provided additional funding to approved organisations to meet the revenue shortfall in farebox during the COVID-19 lockdown.

**Funding from the Crown** was \$109.0 million (161 percent) above budget. This was mainly due to additional funding provided by the Crown to meet extra public-private partnerships costs arising from COVID-19.

**Total expense** was 340.3 million (11 percent) above budget mainly due to additional costs arising from COVID-19 in state highway improvements, and public transport output classes.

### 3 CAPITAL FUNDING AND EXPENDITURE

	Capital funding* actual 2019/20 \$M	Capital funding budget 2019/20 \$M	Capital funding actual 2018/19 \$M	Capital expenditure actual 2019/20 \$M	Capital expenditure budget 2019/20 \$M	Capital expenditure actual 2018/19 \$M
<b>National Land Transport Fund</b>						
Public-private partnerships	902.9	471.0	724.3	902.9	471.0	724.3
State highway improvements	525.3	483.6	626.4	527.4	485.6	646.9
State highway maintenance	208.6	240.1	222.0	208.8	240.1	222.9
Public transport	74.8	82.0	60.6	75.4	82.0	62.0
Regional improvements	66.5	85.0	114.9	66.5	85.0	114.9
Walking and cycling	26.4	50.0	14.6	26.4	50.0	14.6
Auckland Transport Package	0.0	0.0	12.5	0.0	0.0	12.5
Rapid transit	0.0	180.0	9.9	0.0	180.0	9.9
Road safety promotion and demand management	1.6	1.5	1.0	1.6	1.5	1.0
Investment management	0.9	0.0	0.9	0.9	0.0	0.9
<b>Total National Land Transport Fund capital funding and expenditure</b>	<b>1,807.0</b>	<b>1,593.2</b>	<b>1,787.1</b>	<b>1,809.9</b>	<b>1,595.2</b>	<b>1,809.9</b>



	Capital funding* actual 2019/20 \$M	Capital funding budget 2019/20 \$M	Capital funding actual 2018/19 \$M	Capital expenditure actual 2019/20 \$M	Capital expenditure budget 2019/20 \$M	Capital expenditure actual 2018/19 \$M
<b>Crown</b>						
Kaikōura earthquake response	30.8	45.5	71.2	30.8	45.5	71.2
New Zealand Upgrade Programme	28.0	0.0	0.0	28.0	0.0	0.0
Accelerated Regional Roding Programme	27.7	54.7	18.8	27.7	54.7	18.8
Regional improvements (Provincial Growth Fund)	5.2	6.0	0.8	5.2	6.0	0.8
Urban Cycleways Programme	4.2	1.7	0.3	4.2	1.7	0.3
Other	4.3	0.0	0.0	0.0	0.0	0.0
<b>Total Crown capital funding and expenditure</b>	<b>100.2</b>	<b>107.9</b>	<b>91.1</b>	<b>95.9</b>	<b>107.9</b>	<b>91.1</b>
<b>Total capital funding and expenditure</b>	<b>1,907.2</b>	<b>1,701.1</b>	<b>1,878.2</b>	<b>1,905.8</b>	<b>1,703.1</b>	<b>1,901.0</b>

\* Borrowing facilities funding is included within the funding revenue column of \$247.1 million related to State Highway Improvements.

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

### Explanation of major variances against budget

**Funding from the National Land Transport Fund** was \$213.8 million (13 percent) above budget. More funding from the National Land Transport Fund was required to be drawn down due to the higher than budgeted spending detailed below.

**Total capital expenditure** was \$202.7 million (12 percent) above budget. This was mainly the result of a \$190.6 million pre-COVID-19 settlement of the Transmission Gully public-private partnership claim, and \$83.0 million for the Pūhoi to Warkworth public-private partnership pre-COVID-19 claim. Both settlements were funded by the National Land Transport Fund. Offsetting this was the spend related to the Auckland Light Rail project under the rapid transit output class being much lower due to the evaluation process carried out by the Ministry of Transport and then impaired as operating expenditure due to the decision by the Minister of Transport to end the Auckland Light Rail process and refer the project to the Ministry of Transport for further work.

**Funding from the Crown** was \$7.7 million (7 percent) below budget. This was the result of Accelerated Regional Roding Programme and Kaikōura State Highway 1 reinstatement work moving into 2020/21.

#### 4 REVENUE FROM OTHER ACTIVITIES

	Actual 2019/20 \$M	Actual 2018/19 \$M
<b>Fees and Charges</b>		
Motor vehicle licensing fees	49.4	51.7
Driver licensing fees	33.9	35.8
Driver testing fees	22.6	24.3
Road user charges collections	12.3	13.0
Certification review fees	11.1	11.9
Transport licensing fees	10.7	11.2
Standards development fee and certification levies	7.0	6.9
Rail licensing fees	1.6	1.3
Over dimension and overweight permits	1.5	1.2
Border inspection fees	0.7	0.8
<b>Total fees and charges</b>	<b>150.8</b>	<b>158.1</b>
Recoveries from National Land Transport Programme activities*	23.5	33.6
Tolling fees and contributions	14.8	16.0
Interest and finance income	9.8	15.4
Levy on personalised plates for community road safety initiatives	3.9	3.8
Administration fee from Accident Compensation Corporation	0.6	1.0
Rental recoveries	2.2	0.0
Miscellaneous revenue	1.2	1.3
<b>Total revenue from other activities</b>	<b>206.8</b>	<b>229.2</b>

\* Included developer contributions.

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

	Actual 2019/20 \$M	Actual 2018/19 \$M
Debtor National Land Transport Fund	299.9	335.7
Debtor National Land Transport Fund – debt related	3,427.4	2,223.2
Debtor Crown	132.7	33.8
Other receivables	124.1	105.0
Loans and advances	1.5	1.5
Other current assets	35.5	12.8
<b>Total</b>	<b>4,021.1</b>	<b>2,712.0</b>
Classified as follows:		
Current	833.3	502.3
Non-current	3,187.8	2,209.7
<b>Total</b>	<b>4,021.1</b>	<b>2,712.0</b>

Receivables are recognised at face value less an allowance for doubtful debt calculated using the expected credit losses (ECLs) model.

### Other receivables

Other receivables include third-party receivables and GST receivable. It is net of ECLs of \$1.9 million (2018/19: \$4.5 million). Waka Kotahi applies the simplified approach and recognises lifetime ECLs for other receivables. Lifetime ECLs result from all possible default events over the expected life of the receivable. The ECLs for other receivables are calculated in two groups, tolling debtors and other debtors, to reflect the differences in collection and default rate history.

There have been no changes to the estimation technique or assumptions used in calculating the lifetime ECLs during 2019/20.

The movement in ECLs for the year are shown in the table below.

	Lifetime ECL – other receivables 2019/20 \$M	Lifetime ECL – other receivables 2018/19 \$M
Opening balance at 1 July	4.5	4.3
Impairment expensed/(released)	(1.2)	1.5
Amounts written off	(1.4)	(1.3)
<b>Closing balance at 30 June</b>	<b>1.9</b>	<b>4.5</b>

Receivables are written off when they are deemed uncollectable. The total receivables written off during the year amounted to \$1.4 million (2018/19: \$1.3 million). Of the receivables written off, none were still subject to enforcement activities.

### **Debtor National Land Transport Fund and Debtor Crown**

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

Debtor National Land Transport Fund – debt related represents operating and capital expenditure for programmes that are funded by loans and public-private partnerships that will be reimbursed by the National Land Transport Fund over future financial periods. The receivable balance has been discounted over its term at the effective interest rate at the transaction date.

There is no indication that receivables from the National Land Transport Fund or the Crown are impaired as at 30 June 2020. We have considered the credit risk to Waka Kotahi from the National Land Transport Fund in note 12.

### **Explanation of major variances against budget**

**Debtor National Land Transport Fund and Debtor Crown** were \$432.6 million, \$57.1 million (12 percent) below budget of \$489.7 million. This was mainly the result of expenditure towards the end of the year being funded through debt rather than through the National Land Transport Fund and Crown.

**Debtor National Land Transport Fund – debt related** was \$3,427.4 million, \$804.1 million (31 percent) above budget of \$2,623.3 million. This is due a large amount of expenditure being funded by debt rather than from current National Land Transport Fund funding and the fair value movements in the interest rate swap contracts entered into for the Transmission Gully and Pūhoi to Warkworth public-private partnership agreements.

## 6 STATE HIGHWAY NETWORK

	Actual 2019/20 \$M	Actual 2018/19 \$M
Opening balance	49,657.0	43,204.3
Additions	1,643.9	1,752.5
Depreciation*	(591.3)	(497.5)
Impairment/Write-offs*	(34.6)	(42.1)
Assets vested to local authorities	0.0	(24.4)
Disposals	(20.6)	(35.9)
Revaluation of state highway network	1,538.3	5,265.3
Assets transferred from/(to) held for sale	(2.3)	34.8
<b>Closing balance</b>	<b>52,190.4</b>	<b>49,657.0</b>

\* Depreciation, amortisation and state highway write-off balance in the statement of comprehensive revenue and expense included \$12.8 million (2018/19: \$12.7 million) of depreciation and amortisation relating to property, plant, equipment and intangible assets and is not included in the state highway network disclosure above.

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. Repairs and maintenance costs are expensed during the financial period in which they are incurred.

### Valuation

The state highway network (excluding land and formation) 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 land corridor is valued using the across the fence methodology, which is based on the premise that the corridor land should be worth at least as much as the land through which it passes. Formation is valued using unit rates for formation types applied to the carriageway. Land, held properties, formation and the subbase component of pavement are non-depreciable asset classes. Qualified independent valuers carry out the valuation as shown in the table below.

State highway network component	Valuer
Roads, bridges, culverts, tunnels, underpasses, including formation works, road structure, drainage works and traffic facilities	WSP Opus, utilising unit prices provided by BondCM
Land	Darroch Limited

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	
	Actual 2019/20 \$M	Actual 2018/19 \$M	Actual 2019/20 \$M	Actual 2018/19 \$M
Land*	14,723.6	13,744.2	0.0	0.0
Formation	13,975.7	12,884.2	0.0	0.0
Pavement base course**	6,284.0	6,284.7	76.2	74.3
Pavement surface	1,093.2	1,038.6	147.8	131.4
Drainage	1,775.0	1,769.5	49.8	43.8
Traffic facilities	1,514.7	1,451.1	104.3	88.9
Bridges	8,387.3	8,067.0	122.8	108.7
Culverts and subways	705.8	737.7	17.4	14.8
Tunnels & other structures	3,427.8	3,680.0	44.0	35.6
Miscellaneous***	303.3	0.0	29.0	0.0
<b>Total</b>	<b>52,190.4</b>	<b>49,657.0</b>	<b>591.3</b>	<b>497.5</b>

\* Land includes corridor land and held properties.

\*\* Pavement basecourse includes basecourse which is depreciable and pavement subbase which is non-depreciable

\*\*\* Miscellaneous is a new asset class that is made up of Intelligent Traffic Systems, traffic management units and tolling, bailey bridges, sea and river protection structures and other structures previously held outside of the Road Assessment and Maintenance Management database. The balance has been derived from reclassification of assets from other asset classes. The prior period have not been restated.

**State highway assets increased in value by \$2.5 billion** with the increase as result of indexation of base unit rates, to reflect current costs of construction and land revaluation, particularly in the Auckland region, and capital expenditure of state highway projects.

## Depreciation

Depreciation is calculated on a straight-line basis on state highway network assets (other than land, held properties, formation and the subbase component of pavement) at rates that will spread the cost of the assets to their estimated residual values over their useful lives. The depreciation expense for 2019/20 is calculated based on the 30 June 2019 valuation.

## Impairment

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 or 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.

### *Waikato Expressway*

Pavement surface failures have occurred on sections of the Waikato Expressway that will require remedial activity. The Ngāruawāhia section is constructed to provide a four-lane bypass of Ngāruawāhia and connect to the Huntly section of the expressway in the north and the Te Rapa section in the south. Rutting has occurred on the left lanes in each direction due to the volume of heavy vehicles and issues with the pavement subgrade materials that have performed poorly and have become weaker due to moisture penetration. The Te Rapa section is a similar construction to the Ngāruawāhia section and has experienced rutting and cracking of the pavement surface that has allowed water penetration to the pavement subbase resulting in ongoing pavement failure. The cost to reinstate the pavement subbase and surface to its desired level of service is used to calculate the impairment value. Similar issues have also been identified in Cambridge and Rangiriri sections of the expressway and are under investigation to identify the cause.

### *Auckland Light Rail*

On 24 June 2020, the Minister of Transport announced that the current process to develop light rail between Auckland city centre and Māngere has been discontinued and the next steps for an alternative solution will be developed later this year. The announcement about discontinuation of the Auckland Light Rail project triggered an impairment assessment of the capital expenditure on the project. Waka Kotahi have assessed that the life to date capital expenditure of \$34.5 million on this project is impaired. Accordingly, \$23.9 million of expenditure in 2019/20 is recorded as impairment loss through surplus or deficit, and the previous years' expenditure of \$10.6 million is recorded as impairment loss against revaluation reserve.

## **Estimates, assumptions and judgements**

Due to the unique nature of the state highway network, the value of the assets cannot be measured with precision. There are some uncertainties about the values assigned to different components of the state highway network. These uncertainties include whether Waka Kotahi databases have accurate quantities and whether some cost components and in-service data are captured completely. Waka Kotahi is continually considering controls to improve the timeliness and accuracy of the main asset database – the Road Assessment and Maintenance Management database. In addition, significant estimates and assumptions have been applied to the valuation, which include 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 periodically.

Waka Kotahi is continuously improving the accuracy of the asset databases and the identification of all costs that can be capitalised through its state highway valuation improvement programme.

The state highway valuation improvement programme for 2019/20 was centred on simplifying the valuation process. Simplification work carried in 2019/20 includes implementation of the Highway Structures Information Management System which is used to value bridges and culverts, and adoption of a Hybrid valuation approach valuing high value assets on an individual replacement cost basis and lower value assets on a top down percentage basis. Lower value assets include sea and river protection, rockfall netting, weigh stations, bailey bridges, minor structures and some retaining walls.

The following represent estimated inputs used in the 2019/20 valuation.

State highway network component	Quantity	Rate (\$)	Useful life (years)	Basis of valuation
Land	Land corridor: 37,189ha	Market price	N/A	Corridor land (land associated with the road) is valued by Darroch Ltd at the market price per hectare of the surrounding land. Land quantity is sourced from the asset management database, which is derived from Land Information New Zealand. Held properties, which are properties not yet part of corridor land, are based on market prices determined by Darroch Ltd.
Formation (earthworks)	Formation: 103,705,369m <sup>2</sup> Shoulder formation: 20,921,590m <sup>2</sup>	Flat terrain: \$23 per m <sup>2</sup> Rolling terrain: \$69 per m <sup>2</sup> Mountainous terrain: \$129 per m <sup>2</sup> Soft terrain: \$67 per m <sup>2</sup> Special unit rates applied to some sections Overhead rate: 55.25%	N/A	Unit rates are provided by BondCM based on terrain type groupings 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 base course	Pavement other: 37,909,893m <sup>3</sup> Shoulder base course: 3,051,796m <sup>3</sup>	Base course: \$121-\$140 per m <sup>3</sup> Subbase: \$93-\$112 per m <sup>3</sup> Structural: \$101-\$109 per m <sup>2</sup> Overhead rate: 55.25%	50 for basecourse N/A for subbase which is non-depreciable	Depth of subbase and base course type is determined from Austroads Pavement Design Guide. Unit rates 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: 113,741,130m <sup>2</sup>	Asphalt: \$19-\$109 per m <sup>2</sup> Milling: \$5-\$18 per m <sup>2</sup> Chipseal: \$7-\$8 per m <sup>2</sup> Overhead rate: 55.25%	9-14	Unit rates are provided by BondCM and adjusted for overhead costs. Pavement surface area is recorded in the asset management database.



State highway network component	Quantity	Rate (\$)	Useful life (years)	Basis of valuation
Drainage	Drainage: 54,787m and 67,419 units Stormwater channel: 15,244,289m	Drainage: \$458-\$18,423 per m Ancillary: \$61-\$7,129 per m Stormwater channel: \$36-\$394 per m Overhead rate: 55.25%	50	Unit rates 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 network's subcomponents (sumps, manholes, kerb, and so on), location type (rural, urban and motorway) and region.
Traffic facilities	Railings: 2,330,028m Traffic facilities: 11,645,638m	Traffic facilities: \$18,602-\$428,182 per km Signs: \$343-\$12,458 per unit Railing and barriers: \$100-\$41,433 per m Overhead rate: 55.25%	10-25	Unit rates are derived by WSP Opus from a combination of indexed historical cost data and recent construction costs.  The large spread of rates relates to different prices for component type (guide, information, signs and so on) location type (rural, urban and motorway) and region.
Bridges	2,695 bridges	Routine (single span): \$4,262 per m <sup>2</sup> Routine (multi span): \$3,483 per m <sup>2</sup> Motorway ramps: \$5,041 per m <sup>2</sup> Exceptional rates: \$2,256-\$19,331 per m <sup>2</sup> Overhead rate: 55.25%	90-100	Unit rates 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	Culverts and subways: 1,617 units and 44,433m	Culverts and subways: \$6,140-\$43,185 per m Overhead rate: 55.25%	50-75	Unit rates are provided by BondCM, dependent on cross-sectional area, and multiplied by treatment length (and adjusted for overhead costs).
Other structures	Retaining walls: 744,854m <sup>2</sup> Tunnels: 27 structures Weigh stations: 143 structures	Retaining walls: \$484-\$2,687 per m Tunnels: \$3,367-\$268,333 per m Weigh station: \$713,715-\$832,667 per structure Overhead rate: 55.25%	10-100	Unit rates are derived from a combination of indexed historical cost data and recent construction costs.  Tunnels includes excavation, lining, cladding and services.

### *Unit prices*

A significant component of the valuation is based on unit prices provided by 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 regional weightings are based on costs BondCM has observed in the regions. The unit rates 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 or install the asset.

For the 2019/20 valuation Bond CM has recommended the base unit rates be adjusted by indexation only. The index used is derived from Statistics NZ Construction indices published quarterly, which are then weighted to approximate the input costs of road construction.

The replacements costs are based on various cost indices, including a forecast of the movement in the indices from 31 March 2020 to 30 June 2020. The June forecast against the actual June indices released post balance date differs by -3.2% for road construction and -6.3% for bridge construction. If these movements were applied, it would result in a reduction in the valuation (depreciated replacement cost) of approximately \$1.5 billion. Waka Kotahi and its valuers believe that it is premature to conclude whether the change in indices is a temporary COVID-19 related effect or a more permanent decrease. Therefore, no valuation adjustment has been made to reflect the movement in the indices from March to June 2020.

### *Overhead costs*

Overhead costs are estimated by BondCM 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 (35 percent) multiplied by professional fees, including Waka Kotahi costs (15 percent), and brownfields costs (15 percent for urban and motorway carriageways and 5 percent for rural carriageways).

No changes in base overhead costs have been made in the 2019/20 valuation.

### *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 extracted from the asset management system. 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 several years to complete. The total work in progress included in the valuation is \$5.05 billion, which is included at cost. The associated quantities are not included in the inputs table.

### *Valuation inputs subject to estimation uncertainty*

The valuation inputs and/or assumptions subject to the most estimation uncertainty are as follows.

- Preliminary and general (P&G) on-costs, related to multiple asset components: P&G on-costs are associated with site establishment and disestablishment, site management and compliance on-costs, and contractor mark-up. In 2017/18, an analysis of recent projects revealed that P&G on-costs are higher than previously estimated due to higher health and safety requirements, higher compliance costs and general cost increases. This 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. Following further review during 2018/19 by BondCM and WSP Opus, this was refined to 35 percent and has remained at this level for 2019/20.
- Professional fees related to multiple asset components: Professional fees are the costs for 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 provided by BondCM.
- Formation: This is the constructed land form profile and platform on which the pavement structure is built. Formation within the different terrain types can be highly variable, the valuation of formation is on an average basis with the unit rates used in the valuation provided by BondCM.
- Brownfield costs: A major component of brownfield costs are one-off costs necessary to make the land freely available to build the state highway. 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; for example, 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. BondCM provided a brownfield overhead rate for rural and urban areas that has been applied to the depreciable assets unit cost rates. The urban rate has also been applied to motorway carriageways.

### *Sensitivity analysis*

The following sensitivity analysis represents possible impacts on the state highway network valuation based on changes to estimates of +10 percent.

**Change in optimised depreciated replacement cost  
(\$M)**

Movement in P&G on-costs by 10% (from 35.0% to 38.5%)	971
Movement in external professional fees by 10%	398
Movement in formation unit costs by 10%	1,398
Movement in bridge unit costs by 10%	839
Movement in unit prices* by 10%	1,647
Movement in land corridor quantities by 10%	1,306
Movement in brownfield costs by 10%	174
Movement in price index by 10%	3,375

\*Relates to bridges, culverts and pavements (surface and other).

WSP Opus 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 concluded that the overall valuation is likely to be between -7.5 percent and +10 percent of the current value.

The sensitivity analysis above is only an indication of the range of possible impacts and should not be interpreted as the likely actual impact.

Work undertaken over the last three years has reduced the likelihood of understatement of the state highway networks value. At this stage, it has not been determined whether further work is necessary to the inputs of the valuation, given the complexity and underlying assumptions required to make further changes.

### Property assets held for sale

Waka Kotahi owns 59 properties valued at \$17.1 million (2018/19: 76 properties valued at \$14.8 million) that have been classified as held for sale. It is expected that these properties will be sold by 30 June 2021.

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 \$52,190.4 million, \$1,048.6 million (2 percent) above budget of \$51,141.8 million due primarily to a higher opening state highway balance in 2019/20 than assumed in the budget. This was partially offset by the delay in the completion of the Transmission Gully project which was therefore not transferred to the state highway assets as budgeted.

## 7 PUBLIC-PRIVATE PARTNERSHIP ASSETS AND LIABILITIES

	Actual 2019/20 \$M	Actual 2018/19 \$M
<b>Assets</b>		
Transmission Gully	1,138.9	798.5
Pūhoi to Warkworth	811.3	517.9
<b>Total public-private partnership assets</b>	<b>1,950.2</b>	<b>1,316.4</b>
<b>Liabilities</b>		
Transmission Gully	948.3	798.5
Pūhoi to Warkworth	728.3	517.9
<b>Total public-private partnership liabilities</b>	<b>1,676.6</b>	<b>1,316.4</b>

### Public-private partnership agreements

Waka Kotahi has entered into public-private partnership agreements with the:

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

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 obligations under the arrangement of Waka Kotahi 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 Waka Kotahi in respect of the rest of the state highway network.

Under the agreements, the contractors finance, design, build, operate and maintain the sections of state highway. Waka Kotahi provided land it owns to the contractors on which to build the state highway. 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 Waka Kotahi. As both state highways are under construction, no depreciation on the assets has been incurred.

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

At the time the public-private partnership assets become operational, Waka Kotahi will pay the contractor a quarterly unitary charge in arrears 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 a provision to re-price the finance costs at intervals during the 25-year period. Waka Kotahi has put in place interest rate swaps to hedge the re-pricing of the finance costs (see note 12 for details of the interest rate swaps).
- Service costs: These cover the operational costs of running, maintaining, insuring and ensuring the availability of the highway to the service level agreed with Waka Kotahi. Some of these costs are indexed to the Consumer Price Index or to other relevant indices and can be varied from time to time.

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

### **Transmission Gully public-private partnership**

In February 2019, Waka Kotahi received a claim for \$352.0 million from CPB Contractors Pty Limited and HEB Construction Limited (together the 'Builder'), passed through by Wellington Gateway Partnership No. 2 LP, in relation to the Transmission Gully project. The claim related to delays in the commencement of work on Transmission Gully. The claim was previously disclosed as a contingent liability in the annual report for the year ended 30 June 2019.

In December 2019, Waka Kotahi and the Builder entered a pre-settlement agreement for all prior claims in respect of the Transmission Gully project subject to satisfying certain conditions. Under the pre-settlement agreement, Waka Kotahi has paid the Builder the agreed amount of \$190.6 million with the Builder providing Waka Kotahi 'on-demand' bank bonds for the same amount that may be redeemed by Waka Kotahi should the Builder not meet the conditions of the pre-settlement agreement. The payment of \$190.6 million has been capitalised as part of the public-private partnership asset. As a result, the public-private partnership asset is greater than the public-private partnership liability as at 30 June 2020.

As the settlement would be a full and final payment in respect of the February 2019 claim relating to Transmission Gully, the contingent liability of \$352.0 million no longer exists.

The COVID-19 lockdown in March/April 2020 is considered an uninsurable event for which Waka Kotahi, the Builder and Wellington Gateway Partnership negotiated a commercial settlement post balance date. The settlement agreement is a post balance date adjusting event. Operating costs relating to the period ending 30 June 2020 of \$54.1 million were recognised in the 2019/20 financial year with a further \$146.9 million disclosed as commitments in note 8. A contingency of \$22.5 million was also recognised. Judgement was required to determine which costs were recognised at 30 June 2020 and which costs were commitments or contingencies. As part of the settlement the debt component of the quarterly unitary charges are expected to commence in February 2021, ahead of the proposed road opening in September 2021.

Under the terms of the settlement agreement, risks and costs related to Alert Levels 1 and 2 are the Builder's responsibility. Waka Kotahi is exposed to risks and costs associated with any future periods at Alert Levels 3 and 4.

### **Pūhoi to Warkworth public-private partnership**

Waka Kotahi entered a pre-settlement agreement with the Northern Express Group (NX2) representing the Builder and the Contractor on the Pūhoi to Warkworth project in relation to the historical claims. Under the pre-settlement agreement, Waka Kotahi has paid the Builder the agreed amount of \$83.0 million with the Builder providing Waka Kotahi 'on-demand' bank bonds for the same amount which may be redeemed by Waka Kotahi should the Builder not meet the conditions of the pre-settlement agreement. The payment of \$83.0 million has been capitalised as part of the public-private partnership asset.

The COVID-19 lockdown in March/April 2020 is considered an uninsurable event for which Waka Kotahi, the Builder and the Contractor have reached a pre-settlement agreement in June 2020. Under the pre-settlement agreement, Waka Kotahi will pay the Builder an agreed amount of \$85.0 million with the Builder providing Waka Kotahi 'on-demand' bank bonds for the same amount that may be redeemed by Waka Kotahi should the Builder not meet the conditions of the pre-settlement agreement. Operating costs relating to 30 June 2020 of \$40.0 million were paid out and recognised in the 2019/20 financial year with a further \$40.0 million disclosed as commitments in note 8. A contingency of \$5.0 million was also recognised. Judgement was required to determine which costs were recognised at 30 June 2020 and which costs were commitments. As part of the settlement the debt component of the quarterly unitary charges are expected to commence in February 2022, ahead of the proposed road opening in May 2022.

Under the terms of the settlement agreement, risks and costs related to Alert Levels 1 and 2 are the Builder's responsibility. Waka Kotahi is exposed to risks and costs associated with any future periods at Alert Levels 3 and 4.

### **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 Waka Kotahi in the operational phase of the project and defined compensation sums payable in the event of default on payment by Waka Kotahi. If the Crown is required to make a payment under its indemnity, Waka Kotahi must reimburse it under the Reimbursement and Management Agreement.

### **Commitments**

The total estimated capital and operating expenditure (excluding COVID-19 related settlements) to be paid throughout the 25-year period is \$3.3 billion for Transmission Gully and \$2.3 billion for Pūhoi to Warkworth.

### Explanation of major variances against budget

**Public-private partnership assets** were \$1,950.2 million, \$1,233.9 million (172 percent) above budget of \$716.3 million mainly due to the assumption in the budget that the Transmission Gully road would be completed in 2019/20 and the road asset transferred to the state highway network. The settlement of the pre-COVID-19 claims valued at \$273.6 million also increased the asset value.

**Public-private partnership liabilities** were \$1,676.6 million, \$165.0 million (9 percent) below budget of \$1,841.6 million mainly due to slower than expected construction progress.

## 8 CAPITAL COMMITMENTS

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

	Actual As at 30 June 2020 \$M	Actual As at 30 June 2019 \$M
Not later than one year	1,568.7	1,197.7
Later than one year and not later than five years	1,147.9	1,171.2
Later than five years	2,071.5	2,067.2
<b>Total capital commitments*</b>	<b>4,788.1</b>	<b>4,436.1</b>

\* Included in total capital commitments is \$2.2 billion relating to the construction of the public-private partnership assets. Future costs arising from COVID-19, such as time extension are considered operating in nature, however are included above as future commitments of Waka Kotahi.



## 9 WAKA KOTAHI NZ TRANSPORT AGENCY EMPLOYEE COSTS AND EMPLOYEE ENTITLEMENTS

Employee costs (included in the statement of comprehensive revenue and expense)

	Actual 2019/20 \$M	Actual 2018/19 \$M
Salaries and wages	123.3	100.2
Defined contribution plan employer contributions	4.1	3.4
Other employee costs	8.8	3.4
<b>Total Waka Kotahi NZ Transport Agency employee costs*</b>	<b>136.2</b>	<b>107.0</b>

\* Total Waka Kotahi employee costs excluded contractor costs which are included under note 10.

### Explanation of major variances against budget

**Employee costs** were \$136.2 million, \$10.7 million (9 percent) above budget of \$125.5 million due to a number of additional roles created. In particular, roles to deal with regulatory issues and to manage the significantly expanded workload that Waka Kotahi is facing such as new output classes, additional Crown funding of \$6.8 billion for the New Zealand Upgrade Programme and various legacy information technology issues.

Employee entitlements (included in the statement of financial position)

	Actual 2019/20 \$M	Actual 2018/19 \$M
Employee entitlements - current	17.8	11.3
Employee entitlements - non-current	4.1	3.7
<b>Total Waka Kotahi NZ Transport Agency employee entitlements</b>	<b>21.9</b>	<b>15.0</b>

## 10 WAKA KOTAHI NZ TRANSPORT AGENCY OPERATING EXPENSES AND PAYABLES

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

	Note	Actual 2019/20 \$M	Restated* Actual 2018/19 \$M
Commissions and transaction costs	a	66.2	71.0
Contractor and professional services	b	44.8	45.4
Information technology		37.3	33.0
Operating lease expense	c	12.9	16.5
Office and building management		7.5	7.5
Staff travel		5.1	6.7
Impairment of receivables		1.3	1.5
Meetings and conferences		0.7	0.6
Fees to principal auditors for:			
▪ audit of financial statements		0.5	0.5
▪ other services	d	0.1	0.3
Other operating expenses		7.6	11.7
<b>Waka Kotahi NZ Transport Agency operating expenses</b>		<b>184.0</b>	<b>194.7</b>

\* The 2018/19 comparative has been restated to be consistent with reclassifying road safety promotion as expenditure funded by National Land Transport Fund in 2019/20 as opposed to Waka Kotahi operating expenses.

- 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. Significant regulatory response costs were incurred in 2018/19. Costs reduced over lockdown in 2019/20.
- c. This category includes the cost of providing for onerous contracts arising from a non-cancellable building lease in Palmerston North.
- d. Other services by KPMG included the half year review and the scrutiny principle review

### Explanation of major variances against budget

**Operating expenses** were \$184.0 million, \$8.5 million (5 percent) above budget of \$175.5 million mainly due to additional contracting costs within the technology and regulatory teams to cope with the significant workload while permanent resources were recruited. Offsetting this increase were reductions in commissions and transaction costs and travel due primarily to the COVID-19 lockdown.

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

	Actual 2019/20 \$M	Actual 2018/19 \$M
Creditors	583.7	474.5
Income in advance	34.5	10.5
<b>Total Waka Kotahi NZ Transport Agency payables</b>	<b>618.2</b>	<b>485.0</b>
Classified as follows:		
Current	618.2	485.0
Non-current	0.0	0.0
<b>Total</b>	<b>618.2</b>	<b>485.0</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 \$618.2 million, \$151.5 million (20 percent) below budget of \$769.7 million. This is due to lower than expected claims from local councils and other approved organisations.

**11 PROVISIONS****Provisions (included in the statement of financial position)**

	Actual 2019/20 \$M	Actual 2018/19 \$M
State highway provisions	211.5	0.2
Onerous contracts	4.0	5.4
<b>Total Waka Kotahi provisions</b>	<b>215.5</b>	<b>5.6</b>
Classified as follows:		
Current	212.9	1.6
Non-current	2.6	4.0
<b>Total</b>	<b>215.5</b>	<b>5.6</b>

### Movements for each class of provision are as follows

	State highway \$M	Onerous contracts \$M	Total \$M
Balance at 1 July 2018	0.0	0.0	0.0
Additional provisions made	0.2	5.4	5.6
Amounts used	0.0	0.0	0.0
Unused amounts reversed	0.0	0.0	0.0
<b>Balance at 30 June 2019/1 July 2019</b>	<b>0.2</b>	<b>5.4</b>	<b>5.6</b>
Additional provisions made	211.3	0.0	211.3
Amounts used	0.0	(1.4)	(1.4)
Unused amounts reversed	0.0	0.0	0.0
<b>Balance at 30 June 2020</b>	<b>211.5</b>	<b>4.0</b>	<b>215.5</b>

A provision is recognised for future expenditure of uncertain amount or timing when:

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

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation.

The state highway provision relates to estimates for expected contractual claims and claims resulting from the COVID-19 lockdown for work on state highway projects including public-private partnerships incurred up to 30 June 2020 where it is probable that Waka Kotahi will be required to settle these claims. All claims are expected to be settled in the 2020/21 year. Actual costs may vary from the provision estimates.

The onerous contracts arise from non-cancellable building leases where the unavoidable costs of meeting the lease contract exceeds the economic benefits to be received from it. Waka Kotahi has one onerous lease due to the previous Palmerston North premises being assessed as earthquake prone and subsequently vacated. The provision is measured at the present value of the lower of the expected cost of terminating the contract or the expected net costs of continuing with the contract. The lease is due to expire in 2022/23.

#### Explanation of major variances against budget

**Provisions** were \$215.5 million, \$211.5 million (5,288 percent) above budget of \$4.0 million. This is due to provisions for COVID-19 related claims.

## 12 BORROWINGS, FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Waka Kotahi had the following borrowings outstanding at 30 June 2020.

Name	Notional amount borrowed \$M	Actual 2019/20 \$M	Actual 2018/19 \$M	Interest rate applied	Comments
Auckland Transport Package	355.0	328.6	335.6	Interest free	The interest-free loan was discounted using government bond rates of 2.14% to 2.63%.
Housing Infrastructure Fund	12.0	10.7	2.5	Interest free	The interest-free loan was discounted using government bond rates of 0.87% to 1.72%.
<b>Total interest free borrowing</b>		<b>339.2</b>	<b>338.1</b>		
Tauranga Eastern Link	107.0	107.0	107.0	\$87.0 million at fixed rates ranging from 4.99% to 5.14%. \$20.0 million at floating.	Interest of \$4.9m was paid during the financial year.
Regulatory facility	19.6	19.6	0.0	Fixed rates ranging from 1.39% to 1.95%	Interest of \$0.1m was capitalised through the financial year.
COVID-19 NLTF borrowing facility	125.0	125.0	0.0	Fixed rates ranging from 1.10% to 1.18%	Interest of \$0.1m was capitalised through the financial year.
Short term facility	250.0	250.0	0.0	Floating rates	Interest of \$0.2m was paid through the financial year.
<b>Total borrowing</b>		<b>840.8</b>	<b>445.1</b>		
Tolling funds held in trust		3.1	4.1		
<b>Total borrowing and other liabilities</b>		<b>843.9</b>	<b>449.2</b>		
Classified as follows:					
Current		244.1	19.1		
Non-current		599.8	430.1		
<b>Total</b>		<b>843.9</b>	<b>449.2</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 and Housing Infrastructure Fund interest-free loans resulted in a net fair value gain of \$1.0 million (2018/19: \$6.0 million).

Interest-free loan movements are as follows.

	Actual 2019/20 \$M	Actual 2018/19 \$M
<b>Opening balance</b>	<b>338.1</b>	<b>301.7</b>
Nominal value of loans issued	9.0	34.8
Fair value adjustment	(1.0)	(6.0)
Repayments	(15.0)	0.0
Amortised interest (at government bond rates)	8.1	7.6
<b>Closing balance</b>	<b>339.2</b>	<b>338.1</b>

### Borrowing facilities

The borrowing facilities available to Waka Kotahi are as follows.

Name of facility	Total facility \$M	Amount outstanding at 30 June 2020 \$M	Purpose or comment
Short-term facility	250.0	250.0	To manage seasonal variations in cash flow (\$175.0 million) and to manage unexpected and unfavourable variations in cash flow (\$75.0 million).
Auckland Transport Package	375.0	355.0	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 nine years with repayments commencing June 2020.
Housing Infrastructure Fund	357.0	12.0	The \$1 billion Housing Infrastructure Fund was established to accelerate infrastructure projects and support housing development in New Zealand's high-growth urban areas. The Waka Kotahi share of the Housing Infrastructure Fund is an interest-free loan facility of \$357.0 million which is for transport initiatives. All loans drawn under the interest-free facility are repayable 10 years from draw-down date.
Tauranga Eastern Link	107.0	107.0	To accelerate the construction of the Tauranga Eastern Link toll road. Loan repayments commence June 2034.
COVID-19 NLTF borrowing facility	425.0	125.0	To manage revenue shocks due to the impact of COVID-19 on the National Land Transport Fund. An additional \$200.0 million was drawn down in early July 2020 for funding June 2020 expenditure.
Regulatory borrowing facility	45.0	19.5	To meet specific agreed on regulatory cost pressures including funding certain memorandum account shortfalls, funding the back to basics programme and reimbursing Waka Kotahi for the cost of remediating third-party suppliers.
<b>Total borrowing facilities</b>	<b>1,559.0</b>	<b>868.5*</b>	

\* This represents the actual amount repayable under each facility, whereas the statement of financial position includes interest and discounting.

## Financial instruments

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

	Actual 2019/20 \$M	Actual 2018/19 \$M
<b>Financial assets measured at amortised cost</b>		
Cash and cash equivalents	106.0	81.4
Debtor National Land Transport Fund and Debtor Crown	3,860.0	2,592.7
Other receivables and other assets	56.5	48.7
<b>Total financial assets measured at amortised cost</b>	<b>4,022.5</b>	<b>2,722.8</b>
<b>Financial liabilities measured at amortised cost</b>		
Payables	618.2	485.0
Borrowing and other liabilities	843.9	449.2
Public-private partnership liabilities	1,676.6	1,316.4
<b>Total financial liabilities measured at amortised cost</b>	<b>3,138.7</b>	<b>2,250.6</b>
<b>Financial liability at fair value through other comprehensive revenue and expense</b>		
Derivative financial liability	727.5	461.7
<b>Total financial liability at fair value through other comprehensive revenue and expense</b>	<b>727.5</b>	<b>461.7</b>

Interest and finance costs are as follows.

	Actual 2019/20 \$M	Actual 2018/19 \$M
Interest on borrowings	5.4	5.2
Discount on Debtor National Land Transport Fund - debt related	1.1	2.8
Amortisation of discount on borrowings	8.1	7.6
Ineffective portion of cash flow hedge	(3.3)	(5.4)
<b>Total interest and finance costs</b>	<b>11.3</b>	<b>10.2</b>

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

## Financial risks

Waka Kotahi activities expose it to a variety of risks, including market risk, credit risk and liquidity risk. Waka Kotahi 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 exposure of Waka Kotahi to the risk of changes in market rates relates primarily to interest rates on the long-term debt obligations. This is managed by ensuring loans are at fixed interest rates. As at 30 June 2020, approximately 69 percent of loans (2018/19: 96 percent) are either interest free or on a fixed interest rate.

Waka Kotahi has entered into public-private partnership agreements for the construction of Transmission Gully and Pūhoi to Warkworth. The arrangements require that a quarterly unitary charge be paid to the contractors from the time the section of state highway becomes operational. Under the recent COVID-19 settlement the debt component of the quarterly unitary charges will commence ahead of the state highways becoming operational. The unitary charge includes payment for finance costs that the operators have provision to re-price periodically during the 25-year term. Waka Kotahi 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 held with the New Zealand Debt Management Office are as follows.

Swap relates to	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	491.9
Pūhoi to Warkworth	765.0	August 2023	August 2045	4.16	Floating, with periodic reset	235.6
<b>Total derivative financial liability</b>						<b>727.5</b>

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

The 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 and are independently valued by Bancorp Treasury Services Limited on a six-monthly basis.

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 Waka Kotahi 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 whether 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 2019/20 \$M	Actual 2018/19 \$M
Balance as at 1 July	(391.6)	(128.2)
Effective cash flow hedge	(269.1)	(263.4)
<b>Cash flow hedge reserve</b>	<b>(660.7)</b>	<b>(391.6)</b>

During the year, the total ineffective portion of the cash flow hedge reserve charged to surplus or deficit is \$3.3 million deficit (2018/19: \$5.4 million deficit).

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 financial instrument exposure at balance date.

Effect on surplus or deficit	2019/20		2018/19	
	+1% \$M	-1% \$M	+1% \$M	-1% \$M
<b>Cash and cash equivalents</b>	<b>1.1</b>	<b>(1.1)</b>	<b>0.8</b>	<b>(0.8)</b>
<b>Effect on other comprehensive revenue and expense</b>				
	+1% \$M	-1% \$M	+1% \$M	-1% \$M
<b>Derivative financial liability</b>	<b>223.2</b>	<b>(334.2)</b>	<b>205.2</b>	<b>(250.7)</b>
<b>Effect on surplus or deficit</b>				
	+1% \$M	-1% \$M	+1% \$M	-1% \$M
<b>Borrowing</b>	<b>(2.7)</b>	<b>2.7</b>	<b>(1.3)</b>	<b>0.8</b>

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 Waka Kotahi, causing Waka Kotahi to incur a loss.

In the normal course of business, Waka Kotahi 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.

Waka Kotahi holds all cash and term deposits with Westpac New Zealand Limited. At 30 June 2020, 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+.

Waka Kotahi is dependent upon funding from the National Land Transport Fund. In the event of an extended lockdown the NLTF would require Crown financing and/or funding in order to support the forward work programme.

## Liquidity risk

**Liquidity risk** is the risk that Waka Kotahi 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.

Waka Kotahi manages liquidity risk by continuously monitoring forecast and actual cash flow requirements and maintaining funding facilities of \$175.0 million to manage seasonal variations in cash flow and \$75.0 million to manage unexpected and unfavourable variations in cash flow, both were fully drawn down at 30 June 2020. Through Budget 2020, borrowing facilities were increased by \$425.0 million to manage the short-term revenue impact of COVID-19, \$125.0 million was drawn down at 30 June 2020 with a further \$200.0 million drawn down in early July 2020.

In July 2020, the Crown approved additional funding of \$600.0 million and further financing up to \$300.0 million to manage ongoing impacts. Waka Kotahi has also received assurances of further financial support from the Crown to cover the COVID-19 related costs arising from public-private partnership contracts and Cabinet has approved appropriations to cover the expected costs for both Pūhoi to Warkworth and Transmission Gully.

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.

	2019/20			
	Less than 1 year \$M	1-2 years \$M	2-5 years \$M	Over 5 years \$M
Payables	618.2	0.0	0.0	0.0
Borrowing	249.0	68.2	273.0	390.2
Derivative financial liability	11.6	46.3	173.8	621.0
Public-private partnership liabilities	170.9	59.2	439.3	2,505.5
<b>Total</b>	<b>1,049.7</b>	<b>173.7</b>	<b>886.1</b>	<b>3,516.7</b>

	2018/19			
	Less than 1 year \$M	1-2 years \$M	2-5 years \$M	Over 5 years \$M
Payables	490.6	0.0	0.0	0.0
Borrowing	19.9	70.9	226.9	269.5
Derivative financial liability	0.0	9.1	117.3	462.4
Public-private partnership liabilities	0.0	163.4	317.2	1,937.9
<b>Total</b>	<b>510.5</b>	<b>243.4</b>	<b>661.4</b>	<b>2,669.8</b>

### Explanation of major variances against budget

**Cash and cash equivalents** were \$106.0 million, \$56.0 million (112 percent) above budget of 50.0 million. Additional cash was held to meet expected year end claims from suppliers and approved organisations.

**Borrowing** was \$843.9 million, \$384.2 million (84 percent) above budget of \$459.7 million due to additional borrowing of \$375 million drawn down from the Crown in late 2019/20.

**Derivative financial liability** was \$727.5 million, \$442.0 million (155 percent) above budget of \$285.5 million due to movements in the fair value of the interest rate swap contracts entered into for the Transmission Gully and Pūhoi 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.

### 13 EQUITY AND CAPITAL MANAGEMENT

The table below shows movements in equity during the year.

	General funds \$M	Retained funds \$M	Memorandum accounts \$M	Equity derived from the state highway network \$M	Cashflow hedge reserve \$M	Total \$M
<b>Balance at 1 July 2018</b>	<b>5.6</b>	<b>16.4</b>	<b>26.9</b>	<b>44,344.8</b>	<b>(128.2)</b>	<b>44,265.5</b>
Surplus/(deficit)	0.0	21.4	(23.9)	0.0	0.0	<b>(2.5)</b>
Other comprehensive revenue and expense	0.0	0.0	0.0	5,265.3	(263.4)	<b>5,001.9</b>
<b>Total comprehensive revenue and expense</b>	<b>0.0</b>	<b>21.4</b>	<b>(23.9)</b>	<b>5,265.3</b>	<b>(263.4)</b>	<b>4,999.4</b>
Changes in equity - capital contribution from National Land Transport Fund	0.0	0.0	0.0	1,842.3	0.0	<b>1,842.3</b>
Changes in equity - prior year adjustment for PBE IFRS 9 expected credit loss	0.0	(0.7)	0.0	(0.7)	0.0	<b>(1.4)</b>
Changes in equity - prior year Community Road Safety Programme to equity	0.0	3.2	0.0	0.0	0.0	<b>3.2</b>
Changes in equity - transfer regulatory losses from memorandum accounts to retained funds	0.0	(4.2)	4.2	0.0	0.0	<b>0.0</b>
Changes in equity - transfer rail licensing deficit to retained funds	0.0	(2.5)	2.5	0.0	0.0	<b>0.0</b>
Changes in equity - transfer from general funds	(5.6)	5.6	0.0	0.0	0.0	<b>0.0</b>
Changes in equity - transfer developer contributions from retained funds to equity derived from the state highway network	0.0	(24.6)	0.0	24.6	0.0	<b>0.0</b>
<b>Total changes in equity</b>	<b>(5.6)</b>	<b>(1.8)</b>	<b>(17.2)</b>	<b>7,131.5</b>	<b>(263.4)</b>	<b>6,843.5</b>

	General funds \$M	Retained funds \$M	Memorandum accounts \$M	Equity derived from the state highway network \$M	Cashflow hedge reserve \$M	Total \$M
<b>Balance at 30 June 2019/1 July 2019</b>	<b>0.0</b>	<b>14.6</b>	<b>9.7</b>	<b>51,476.3</b>	<b>(391.6)</b>	<b>51,109.0</b>
Surplus/(deficit)	0.0	(4.2)	(30.9)	0.0	0.0	<b>(35.1)</b>
Other comprehensive revenue and expense	0.0	0.0	0.0	1,538.3	(269.1)	<b>1,269.2</b>
<b>Total comprehensive revenue and expense</b>	<b>0.0</b>	<b>(4.2)</b>	<b>(30.9)</b>	<b>1,538.3</b>	<b>(269.1)</b>	<b>1,234.1</b>
Changes in equity - capital contribution from the National Land Transport Fund	0.0	0.0	0.0	1,904.7	0.0	<b>1,904.7</b>
Changes in equity - other transfers	0.0	1.7	0.8	(2.5)	0.0	<b>0.0</b>
<b>Total changes in equity</b>	<b>0.0</b>	<b>(2.5)</b>	<b>(30.1)</b>	<b>3,440.5</b>	<b>(269.1)</b>	<b>3,138.8</b>
<b>Balance at 30 June 2020</b>	<b>0.0</b>	<b>12.1</b>	<b>(20.4)</b>	<b>54,916.8</b>	<b>(660.7)</b>	<b>54,247.8</b>

### Equity derived from the state highway network

	Actual 2019/20 \$M	Actual 2018/19 \$M
<b>State highway investment</b>		
Balance at 1 July	27,247.3	25,381.1
Transfer from the National Land Transport Programme and the Crown	1,902.2	1,866.2
<b>Balance at 30 June</b>	<b>29,149.5</b>	<b>27,247.3</b>
<b>State highway revaluation reserve</b>		
Balance at 1 July	24,229.0	18,963.7
Revaluations - state highway network	1,538.3	5,265.3
<b>Balance at 30 June</b>	<b>25,767.3</b>	<b>24,229.0</b>
<b>Total equity derived from the state highway network</b>	<b>54,916.8</b>	<b>51,476.3</b>

### Capital management

The capital of Waka Kotahi is its equity. Equity is represented by net assets. Waka Kotahi 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.

Waka Kotahi manages its equity by managing its forecast cash flows from the National Land Transport Fund and other sources compared with its outgoings. When Waka Kotahi borrows funds, it ensures it has sufficient forecast cashflows from future National Land Transport Fund revenue to meet its repayment obligations.

## Memorandum accounts

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

	Note	Actual 2019/20 \$M	Restated* actual 2018/19 \$M
Driver licensing and testing		(9.3)	0.2
Regulation of commercial transport operators and the rail transport system	a	(12.1)	(1.0)
Road user charges collection		(1.7)	0.3
Vehicle safety and certification	b	2.7	10.2
<b>Total memorandum accounts – other fees and charges</b>		<b>(20.4)</b>	<b>9.7</b>

\* The 2018/19 comparative has been restated to reflect the new output classes introduced in 2019/20.

a. Regulation of commercial transport operators and the rail transport system activities include transport licensing, over dimension permits and rail licensing.

b. Vehicle safety and certification activities include standards development and certification, certification reviews, border inspections and motor vehicle licensing.

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 intended to trend to zero over time. Waka Kotahi has commenced a fee and funding review for its regulatory activities, given the significant decline in memorandum account balances and the need to incur significant additional costs to reinforce its regulatory function. The deficit has been financed through additional Crown loans.

## 14 OPERATING LEASES

### Operating leases as lessee

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

	Actual 2019/20 \$M	Actual 2018/19 \$M
Not later than one year	13.8	12.6
Later than one year and not later than five years	32.9	31.4
Later than five years	12.9	15.4
<b>Total non-cancellable operating leases</b>	<b>59.6</b>	<b>59.4</b>

Significant operating leases are limited to buildings for office accommodation. 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.

## 15 RELATED PARTY TRANSACTIONS AND BOARD MEMBER REMUNERATION

### Waka Kotahi 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 and board member remuneration have been presented to the nearest thousand dollars (\$000) to provide more meaningful information to the users of the financial statements.

### Key management personnel compensation

	Note	Actual 2019/20 \$000	Actual 2018/19 \$000
<b>Board members</b>			
Remuneration		287	309
Number of positions	a	7	7
<b>Leadership team</b>			
Remuneration	b		
	c	5,320	6,702
Number of personnel		15	23
<b>Total key management personnel compensation</b>		<b>5,607</b>	<b>7,011</b>
<b>Total personnel</b>	d	<b>22</b>	<b>30</b>

a. Reflects the number of positions on the Board during the financial year.

b. Leadership team includes key management personnel who report to the Chief Executive and have the authority and responsibility for planning, directing, and controlling the activities of Waka Kotahi.

c. Includes full year remuneration of the leadership team while they were members of the leadership team.

d. The total number of key management personnel at balance date is 17 (2018/19: 18).

### Board member remuneration

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

	Appointed	Resigned	Actual 2019/20 \$000	Actual 2018/19 \$000
Sir Brian Roche (Chair)	June 2019		75	6
Cassandra Crowley (Deputy Chair)	September 2019		27	0
Catherine Taylor	September 2019		27	0
Ken Rintoul	September 2019		27	0
Patrick Reynolds	September 2019		27	0
Victoria Carter	September 2019		27	0
David Smol	February 2019		33	15
Sheridan Broadbent	February 2019	September 2019	9	15
Mark Darrow	May 2017	September 2019	9	36
Leo Lonergan	May 2016	September 2019	8	36
Nick Rogers*	September 2013	September 2019	9	40
Vanessa van Uden	May 2017	September 2019	9	36
Michael Stiasny (Chair)	April 2018	April 2019	0	60
Dame Fran Wilde (Deputy Chair)	May 2016	January 2019	0	27
Chris Ellis	May 2016	December 2018	0	20
Adrienne Young-Cooper	August 2011	December 2018	0	18
<b>Total board member remuneration</b>			<b>287</b>	<b>309</b>

\* Nick Rogers was appointed interim Board Chair from 27 April 2019 to 10 June 2019.

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

Waka Kotahi 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 Waka Kotahi business.

No Board members received compensation or other benefits in relation to cessation (2018/19: \$nil).



## 16 EMPLOYEE REMUNERATION

Total remuneration paid or payable*	No. of staff 2019/20	No. of staff 2018/19
100,000-109,999	100	118
110,000-119,999	140	94
120,000-129,999	107	102
130,000-139,999	95	90
140,000-149,999	67	56
150,000-159,999	52	38
160,000-169,999	42	26
170,000-179,999	26	29
180,000-189,999	25	18
190,000-199,999	12	14
200,000-209,999	13	10
210,000-219,999	6	8
220,000-229,999**	7	4
230,000-239,999	6	3
240,000-249,999	7	5
250,000-259,999	5	6
260,000-269,999	4	2
270,000-279,999	2	2
280,000-289,999	2	4
290,000-299,000	1	2
300,000-309,000	2	4
310,000-319,999	1	1
320,000-329,000	2	1
330,000-339,000	0	0
340,000-349,999	0	0
350,000-359,999	0	1
360,000-369,999	0	1
370,000-379,999	0	2
380,000-389,999	0	2
390,000-399,999	1	2
400,000-409,999	1	1
420,000-429,999	3	0
430,000-439,999	2	0
460,000-469,999	1	0
500,000-509,999	1	0
520,000-529,999	1	0
890,000-899,999	1	0
<b>Total employees</b>	<b>735</b>	<b>646</b>

\* Up until 31 March 2020, some senior employees at Waka Kotahi were eligible for a performance payment. In line with guidance from the Public Service Commission a number of re-negotiated employment agreements were put in place with effect from 1 April 2020, removing the performance component.

In response to the more constrained fiscal environment due to the impact of COVID-19 there were no annual remuneration increases implemented at Waka Kotahi for the 2020/21 year for employees earning over \$100,000.

\*\* The current chief executive joined Waka Kotahi on 17 February 2020, and for a fixed period in the 2019/20 financial year took a voluntary salary reduction due to COVID-19. Therefore only a partial salary for the financial year is reflected in this remuneration table.

The table on the previous page contains remuneration information solely on permanent or fixed-term employees of Waka Kotahi who have been paid more than \$100,000 in respect of the financial year in accordance with the requirements of the Crown Entities Act 2004. Contract personnel are not included.

During the year ended 30 June 2020, 24 (2018/19: 24) Waka Kotahi employees received compensation and other benefits in relation to cessation of \$1.1 million (2018/19: \$1.8 million). These costs are excluded from the remuneration table above.

## 17 CONTINGENCIES

### Contingent liabilities as at 30 June 2020

#### *Roading and other contract disputes*

There are claims of \$75.7 million (2018/19: \$385.4 million) relating to a variety of roading and other contract disputes including contractual claims arising from the COVID-19 lockdown.

Apart from the above matters, there is regular dialogue between Waka Kotahi and its contractors over technical and commercial matters that may result in material dispute between the parties. As at 30 June 2020, Waka Kotahi has provided for certain contractual matters.

#### *Southern Corridor vibration complaints*

Waka Kotahi has received complaints of vibration damage from the road works being undertaken as part of the Southern Corridor improvements project in Auckland. Complaints are being worked through by Waka Kotahi on a case-by-case basis to assess their validity. Until these assessments are completed, the final costs of the complaints are uncertain. A provision has been made in the financial statements for cases where a valid claim has been demonstrated.

## 18 EVENTS AFTER BALANCE DATE

### Transmission Gully COVID-19

The COVID-19 lockdown was an uninsurable event for the Transmission Gully public-private partnership. Waka Kotahi has determined that the related settlement is an adjusting post balance date event and has reflected the settlement in these financial statements. In determining the impact of the settlement, judgement was required to determine those costs that related to 30 June 2020, those costs that represented future commitments and those that were contingencies.

### COVID-19 restrictions

After 102 days free of community transmission, COVID-19 cases were found outside a managed isolation or quarantine facility. As a result, the New Zealand government announced on 11 August 2020 that Auckland was to move to Alert Level 3 restrictions and the rest of the country was to move to Alert Level 2. These restrictions are likely to have a material fiscal impact on the National Land Transport Fund position due to reduced revenue and increased costs from COVID-19 related claims from approved organisations, roading contractors and public-private partnership operators. Waka Kotahi has determined that the restrictions imposed from 11 August 2020 are a non-adjusting post balance date event, and therefore no adjustments have been made in the financial statements for this event.

### COVID-19 National Land Transport Fund funding for cost pressures and revenue shocks

In July 2020, the Crown approved additional funding of \$600 million to manage ongoing revenue shock and cost pressure on National Land Transport Fund as a result of COVID-19. The National Land Transport Fund provides the main source of revenue for Waka Kotahi. The Crown also signalled its intention to allow Waka Kotahi to raise additional financing of up to \$300 million to enable delivery of the National Land Transport Programme, subject to joint minister (Minister of Finance and Minister of Transport) approval.

# Supplementary information (unaudited)

This supplementary information contains additional disclosures to the financial statements and provides further information on the business.

In this section you will find:

- a summary of total of Waka Kotahi NZ Transport Agency expenditure
- information about performance by segment of the business
- a summary of National Land Transport Programme funding
- details of land transport management (road tolling scheme)
- details of regional fuel tax
- debt apportionment.

This information is consistent with and should be read in conjunction with the financial highlights on pages 107 to 108 and the audited financial statements on pages 109 to 155.

## WAKA KOTAHI NZ TRANSPORT AGENCY EXPENDITURE

	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
Personnel costs*	172.5	135.7	143.7
Operating expenses	147.0	165.3	174.2
Depreciation and amortisation expense	13.3	14.1	14.7
<b>Waka Kotahi NZ Transport Agency operating activities expense</b>	<b>332.8</b>	<b>315.1</b>	<b>332.6</b>
Waka Kotahi NZ Transport Agency capitalised expenditure	44.5	50.4	43.6
<b>Waka Kotahi NZ Transport Agency activities expenditure</b>	<b>377.3</b>	<b>365.5</b>	<b>376.2</b>
Waka Kotahi NZ Transport Agency expenditure allocated to National Land Transport Programme activities	51.6	105.5	47.5
<b>Total Waka Kotahi NZ Transport Agency expenditure</b>	<b>428.9</b>	<b>471.0</b>	<b>423.7</b>

\* Included in personnel costs are contractor costs

This supplementary information does not form part of the Waka Kotahi audited financial statements.

## PERFORMANCE BY SEGMENT OF THE BUSINESS

The following tables provide detailed financial performance information for each of segment of Waka Kotahi. Segments area as follows:

- Waka Kotahi NZ Transport Agency operations
- land transport funding
- specific projects funded by the Crown.

### Waka Kotahi NZ Transport Agency operations

	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Revenue</b>			
Waka Kotahi NZ Transport Agency activities	27.4	31.1	30.1
National Land Transport Programme	97.5	100.1	117.8
Memorandum accounts - other fees and charges	162.5	165.1	160.9
<b>Total revenue</b>	<b>287.4</b>	<b>296.3</b>	<b>308.8</b>
<b>Expenditure</b>			
Waka Kotahi NZ Transport Agency activities	41.9	31.7	32.5
National Land Transport Programme	142.0	150.5	158.9
Capital expenditure	(44.5)	(50.4)	(43.6)
Memorandum accounts - other fees and charges	193.4	183.3	184.8
<b>Total expenditure</b>	<b>332.8</b>	<b>315.1</b>	<b>332.6</b>
<b>Surplus/(deficit)</b>			
Waka Kotahi NZ Transport Agency activities	(14.5)	(0.6)	(2.4)
National Land Transport Programme	0.0	0.0	2.5
Memorandum accounts - other fees and charges	(30.9)	(18.2)	(23.9)
<b>Total surplus/(deficit)</b>	<b>(45.4)</b>	<b>(18.8)</b>	<b>(23.8)</b>

### Movement of operations net surplus to equity

The table above shows the net result of the operations of Waka Kotahi. The surplus/(deficit) is separated into three retained funds based on the source of funding.

**Waka Kotahi NZ Transport Agency activities** 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 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Revenue</b>				
National Land Transport Fund		3,013.9	2,783.3	2,462.1
Developers' contributions on capital projects		1.1	2.0	21.9
Non-cash revenue	a	9.1	8.0	13.7
<b>Total revenue</b>		<b>3,024.1</b>	<b>2,793.3</b>	<b>2,497.7</b>
<b>Expenditure</b>				
National Land Transport Programme		3,876.2	3,826.7	3,541.7
Public-private partnerships		902.9	471.0	724.3
Depreciation and other non-cash items		620.3	611.3	539.6
Capital expenditure		(2,385.6)	(2,117.7)	(2,329.2)
<b>Total expenditure</b>		<b>3,013.8</b>	<b>2,791.3</b>	<b>2,476.4</b>
<b>Surplus/(deficit)</b>		<b>10.3</b>	<b>2.0</b>	<b>21.3</b>

a. This category includes the initial write-down of interest free loans of \$1 million (2018/19: \$6 million) and amortisation of discount on the Debtor National Land Transport Fund - debt related of \$8 million (2018/19: \$8 million).

### Specific projects funded by the Crown

	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Revenue</b>			
COVID-19 Response and Recovery Fund (CRRF)	94.1	0.0	0.0
SuperGold card administration and public transport concessions	30.6	29.7	29.3
Local road improvements (Provincial Growth Fund)	20.4	5.4	10.9
Investment management (Provincial Growth Fund)	5.5	2.1	5.4
Kaikōura earthquake response	7.3	19.5	41.9
Urban Cycleways Programme	5.0	6.3	12.7
<b>Total revenue</b>	<b>162.9</b>	<b>63.0</b>	<b>100.2</b>
<b>Expenditure</b>			
COVID-19 response and recovery	94.1	0.0	0.0
Kaikōura earthquake response	38.1	65.0	113.1
SuperGold card administration and public transport concessions	30.6	29.7	29.3
New Zealand Upgrade Programme	28.0	0.0	0.0
Accelerated Regional Roding Programme	27.7	54.8	18.8
Local road improvements (Provincial Growth Fund)	20.4	5.4	10.9
Urban Cycleways Programme	9.2	8.0	13.0
Investment management (Provincial Growth Fund)	5.5	2.1	5.4
Regional improvements (Provincial Growth Fund)	5.2	6.0	0.8
Capital expenditure	(95.9)	(108.0)	(91.1)
<b>Total expenditure</b>	<b>162.9</b>	<b>63.0</b>	<b>100.2</b>
<b>Surplus/(deficit)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total surplus/(deficit) of segments</b>	<b>(35.1)</b>	<b>(16.8)</b>	<b>(2.5)</b>

This supplementary information does not form part of the Waka Kotahi audited financial statements.

## NATIONAL LAND TRANSPORT PROGRAMME

The National Land Transport Programme is a three-year programme of funding for land transport infrastructure and services throughout New Zealand. Waka Kotahi 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 second year of the 2018–21 National Land Transport Programme.

### National Land Transport Programme

	Note	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Inflows</b>				
Capital contribution from the National Land Transport Fund (NLTF)		901.7	1,087.2	1,027.9
Capital contribution from the NLTF – public-private partnerships		655.8	471.0	724.3
Funding from the NLTF		2,727.1	2,871.9	2,558.8
COVID-19 Response and Recovery Fund – debt funding	a	325.0	0.0	0.0
NLTF short-term borrowing facility		250.0	0.0	0.0
Funding from the NLTF (rental and interest income)		31.0	24.0	30.2
Funding from state highway disposals		2.4	35.0	35.0
Funding from other activities		35.8	12.5	48.3
<b>Total inflows from the National Land Transport Fund</b>		<b>4,928.8</b>	<b>4,501.6</b>	<b>4,424.5</b>
<b>Outflows</b>				
State highway improvements		1,232.6	1,058.6	1,210.9
Auckland Transport Package		15.0	15.0	12.5
Public-private partnerships		902.9	471.0	724.3
State highway maintenance		765.4	653.5	717.0
Local road improvements		258.2	272.0	225.7
Local road maintenance		617.7	666.0	677.0
Local road improvements (Housing Infrastructure Fund)		11.1	33.0	3.0
Transitional rail		64.6	157.0	19.2
Rapid transit		32.3	180.0	9.9
Public transport		716.4	592.0	511.3
Walking and cycling		70.5	104.5	57.3
Regional improvements		96.7	134.0	138.5
Road safety promotion and demand management		48.6	55.9	44.7
Investment management		79.2	70.8	63.5
Interest and finance costs		17.6	38.3	9.7
<b>Total outflows</b>		<b>4,928.8</b>	<b>4,501.6</b>	<b>4,424.5</b>
<b>Carry over into next year</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Opening balance		1.0	0.0	1.0
<b>Closing balance at the end of the year</b>		<b>1.0</b>	<b>0.0</b>	<b>1.0</b>



a. At 30 June 2020 the amount borrowed was \$125 million. A further \$200 million was borrowed in early July 2020 to pay costs incurred in 2019/20.

This supplementary information does not form part of the Waka Kotahi 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.

Tolling disclosures are presented to the nearest thousand (000) to provide more meaningful information to the users of the financial statements.

### Northern Gateway toll road for the year ended 30 June 2020

	Actual 2019/20 000	Budget 2019/20 000	Forecast 2019/20 000	Actual 2018/19 000
<b>Traffic volumes (number of vehicles)</b>				
Light vehicle	6,213	7,067	6,088	6,928
Heavy vehicle	535	581	540	570
Exempt	20	20	20	20
Unidentifiable	1	0	1	0
Technical loss	28	13	20	13
<b>Total</b>	<b>6,797</b>	<b>7,681</b>	<b>6,669</b>	<b>7,531</b>
<b>Toll revenue (portion designated for repayment of debt)</b>				
	Actual 2019/20 \$000	Budget 2019/20 \$000	Forecast 2019/20 \$000	Actual 2018/19 \$000
Light vehicle	8,616	9,801	8,462	9,196
Heavy vehicle	1,868	2,020	1,872	1,956
Interest	13	0	0	46
<b>Total</b>	<b>10,497</b>	<b>11,821</b>	<b>10,334</b>	<b>11,198</b>

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

Waka Kotahi 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 the Crown holds.

### Tauranga Eastern Link toll road for the year ended 30 June 2020

	Actual 2019/20 000	Budget 2019/20 000	Forecast 2019/20 000	Actual 2018/19 000
<b>Traffic volumes (number of vehicles)</b>				
Light vehicle	3,248	3,625	3,115	3,452
Heavy vehicle	452	536	466	511
Exempt	12	13	13	12
Unidentifiable	1	0	1	0
Technical loss	23	20	22	19
<b>Total</b>	<b>3,736</b>	<b>4,194</b>	<b>3,617</b>	<b>3,994</b>
<b>Toll revenue (portion designated for repayment of debt)</b>				
	Actual 2019/20 \$000	Budget 2019/20 \$000	Forecast 2019/20 \$000	Actual 2018/19 \$000
Light vehicle	3,629	4,082	3,520	3,662
Heavy vehicle	1,728	2,050	1,778	1,894
Interest	4	0	0	13
<b>Total</b>	<b>5,361</b>	<b>6,132</b>	<b>5,298</b>	<b>5,569</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 highway via Te Puke.

### Takitimu Drive toll road for the year ended 30 June 2020

	Actual 2019/20 000	Budget 2019/20 000	Forecast 2019/20 000	Actual 2018/19 000
<b>Traffic volumes (number of vehicles)</b>				
Light vehicle	3,471	3,829	3,399	3,647
Heavy vehicle	662	737	673	702
Exempt	15	15	15	15
Unidentifiable	0	0	0	0
Technical loss	34	40	37	38
<b>Total</b>	<b>4,182</b>	<b>4,621</b>	<b>4,124</b>	<b>4,402</b>
<b>Toll revenue (portion designated for repayment to the National Land Transport Fund)</b>				
	Actual 2019/20 \$000	Budget 2019/20 \$000	Forecast 2019/20 \$000	Actual 2018/19 \$000
Light vehicle	3,296	3,646	3,229	3,255
Heavy vehicle	2,419	2,690	2,458	2,483
Interest	4	0	0	13
<b>Total</b>	<b>5,719</b>	<b>6,336</b>	<b>5,687</b>	<b>5,751</b>
<b>Toll revenue inflow to the National Land Transport Fund</b>				
Takitimu Drive	5,651	5,016	5,016	5,680
<b>Total</b>	<b>5,651</b>	<b>5,016</b>	<b>5,016</b>	<b>5,680</b>

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

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

The table below shows the breakdown between tolling revenues used to repay debt and to operating the tolling business.

### Tolling revenues for the year ended 30 June 2020

	Tolling revenue used to repay debt		Tolling revenue used to operate the business		Total tolling revenue	
	Actual 2019/20 \$000	Actual 2018/19 \$000	Actual 2019/20 \$000	Actual 2018/19 \$000	Actual 2019/20 \$000	Actual 2018/19 \$000
Northern Gateway toll road	10,497	11,198	4,595	5,107	15,092	16,305
Tauranga Eastern Link toll road	5,361	5,569	2,508	2,693	7,869	8,262
Takitimu Drive toll road	5,719	5,751	2,842	2,987	8,561	8,738
<b>Total</b>	<b>21,577</b>	<b>22,518</b>	<b>9,945</b>	<b>10,787</b>	<b>31,522</b>	<b>33,305</b>

## FINANCIAL STATEMENTS FOR ROAD TOLLING OPERATIONS

### Statement of comprehensive revenue and expense for the year ended 30 June 2020

	Note	Actual 2019/20 \$000	Budget 2019/20 \$000	Actual 2018/19 \$000
<b>Revenue</b>				
Toll fees	a	14,868	16,435	16,084
<b>Total revenue</b>		<b>14,868</b>	<b>16,435</b>	<b>16,084</b>
Expenditure		17,260	16,399	16,878
<b>Net deficit</b>		<b>(2,392)</b>	<b>36</b>	<b>(794)</b>

a Toll fees includes \$9,945 thousand of tolling revenue used to operate the business (2018/19: \$10,787 thousand) and \$4,923 thousand of customer toll payment notice revenue (2018/19: \$5,297 thousand). 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 the previous pages.

### Statement of financial position as at 30 June 2020

	Actual 2019/20 \$000	Budget 2019/20 \$000	Actual 2018/19 \$000
<b>Assets</b>			
Current assets	23,787	25,566	22,125
Non-current assets	8,916	6,663	11,025
<b>Total assets</b>	<b>32,703</b>	<b>32,229</b>	<b>33,150</b>
Liabilities	10,805	13,031	12,345
<b>Net assets/equity</b>	<b>21,898</b>	<b>19,198</b>	<b>20,805</b>

### Statement of cash flows for the year ended 30 June 2020

	Actual 2019/20 \$000	Budget 2019/20 \$000	Actual 2018/19 \$000
Net cash from operating activities	22,671	25,069	22,644
Net cash from financing activities	(22,903)	(22,632)	(21,826)
<b>Net increase in cash and cash equivalents</b>	<b>(232)</b>	<b>2,437</b>	<b>818</b>
Cash and cash equivalents at the beginning of the year	12,137	11,319	11,319
<b>Cash and cash equivalents at the end of the year</b>	<b>11,905</b>	<b>13,756</b>	<b>12,137</b>

This supplementary information does not form part of the Waka Kotahi audited financial statements.

## REGIONAL FUEL TAX

The Land Transport Management (Regional Fuel Tax) Amendment Act 2018 introduced a mechanism under which regional fuel taxes could be established to provide a way for regions to fund transport infrastructure programmes. The revenue goes to the regional council responsible for the region where the taxed fuel is delivered for sale or consumption. The regional fuel tax scheme began on 1 July 2018.

Waka Kotahi is mandated to administer and manage the collection of the regional fuel tax. Currently the only regional fuel tax is for Auckland. Proceeds are remitted to Auckland City Council, and Waka Kotahi is paid a fee for the services provided.

This supplementary information has been provided to fulfil the disclosure requirements under section 65Y of Land Transport Management Act 2003.

### Statement of comprehensive revenue and expense for the year ended 30 June 2020

	Actual 2019/20 \$M	Actual 2018/19 \$M
<b>Revenue</b>		
Regional fuel tax	151.8	153.3
Rebates	(5.9)	(8.9)
Crown funds retained	0.0	(1.0)
Interest received	0.1	0.1
<b>Total revenue</b>	<b>145.8</b>	<b>143.5</b>
Distributed to:		
Auckland City Council	145.0	142.7
Transport Agency administration fee	0.8	0.8
<b>Total distributions</b>	<b>145.8</b>	<b>143.5</b>
<b>Net surplus/(deficit)</b>	<b>0.0</b>	<b>0.0</b>

### Statement of financial position as at 30 June 2020

	Actual 2019/20 \$M	Actual 2018/19 \$M
<b>Assets</b>		
Cash and cash equivalents	13.2	18.9
<b>Total assets</b>	<b>13.2</b>	<b>18.9</b>
<b>Liabilities</b>		
Payables	11.7	15.9
Regional fuel tax rebate reserve	1.5	3.0
<b>Total liabilities</b>	<b>13.2</b>	<b>18.9</b>
<b>Net assets/equity</b>	<b>0.0</b>	<b>0.0</b>

### Statement of cash flows for the year ended 30 June 2020

	Actual 2019/20 \$M	Actual 2018/19 \$M
Net cash from operating activities	(5.7)	18.9
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(5.7)</b>	<b>18.9</b>
Cash and cash equivalents at the beginning of the year	18.9	0.0
<b>Cash and cash equivalents at the end of the year</b>	<b>13.2</b>	<b>18.9</b>

This supplementary information does not form part of the Waka Kotahi audited financial statements.

## BORROWING APPORTIONMENT

During the year ended 30 June 2020, Waka Kotahi borrowed funds from the Crown due primarily to the impacts of COVID-19. These borrowings have been identified in the output class income and expenditure summary as the National Land Transport Fund (borrowing facility). Further detail on the impact of the borrowing on the National Land Transport Fund is contained in the National Land Transport Fund financial statements.

Output class	\$175.0 million borrowing facility \$M	\$75.0 million borrowing facility \$M	\$325.0 million borrowing facility \$M	Total \$M
State highway improvements	62.8	26.0	158.3	247.1
State highway maintenance	35.3	49.0	88.9	173.2
Public transport	31.0	0.0	77.8	108.8
Local road maintenance	33.2	0.0	0.0	33.2
Local road improvements	12.7	0.0	0.0	12.7
<b>Total apportionment</b>	<b>175.0</b>	<b>75.0</b>	<b>325.0</b>	<b>575.0</b>

This supplementary information does not form part of the Waka Kotahi audited financial statements.



# Output class income and expenditure

## INVESTMENT MANAGEMENT

	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Operating revenue</b>			
Crown (Crash Analysis System)	0.8	0.8	0.8
Crown (Provincial Growth Fund)	5.5	2.1	5.4
National Land Transport Fund	79.8	70.8	60.1
Other	0.9	0.0	1.9
<b>Total operating revenue</b>	<b>87.0</b>	<b>73.7</b>	<b>68.2</b>
<b>Operating expenses</b>			
Transport Agency (Crash Analysis System)	3.2	0.8	0.2
Transport Agency (ministerial services)	1.8	1.6	0.0
Funding to approved organisations (Provincial Growth Fund)	5.5	2.1	5.4
Funding to approved organisations	24.5	12.1	11.5
Transport Agency operating activities	52.0	57.1	51.1
<b>Total operating expenses</b>	<b>87.0</b>	<b>73.7</b>	<b>68.2</b>
<b>Surplus/(deficit)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Capital funding</b>			
National Land Transport Fund capital contribution	0.9	0.0	0.9
<b>Total capital funding</b>	<b>0.9</b>	<b>0.0</b>	<b>0.9</b>
<b>Capital expenditure</b>			
Capital investment	0.9	0.0	0.9
<b>Total capital expenditure</b>	<b>0.9</b>	<b>0.0</b>	<b>0.9</b>
<b>Net capital movement</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total movement</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**REVENUE COLLECTION AND ADMINISTRATION**

	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Operating revenue</b>			
Crown (protection of core regulatory functions - road user charges)	0.5	0.0	0.0
National Land Transport Fund (refund of fuel excise duty)	0.6	0.7	0.6
National Land Transport Fund (investigation and enforcement)	3.8	3.8	3.8
National Land Transport Fund (road user charges refund)	0.5	0.5	0.5
Fees and charges (tolling)	14.9	16.4	16.1
Fees and charges (road user charges)	12.3	13.5	13.1
Regional fuel tax administration	0.8	1.1	0.7
Other (refund of fuel excise duty)	0.1	0.0	0.2
<b>Total operating revenue</b>	<b>33.5</b>	<b>36.0</b>	<b>35.0</b>
<b>Operating expenses</b>			
Refund of fuel excise duty	0.7	1.0	0.8
Regional fuel tax administration	1.2	1.1	0.3
Tolling	17.3	16.4	16.9
Transport Agency operating activities (investigation and enforcement)	1.1	1.5	2.5
Transport Agency operating activities (road user charges refund)	3.3	3.1	2.5
Transport Agency operating activities (collections)	14.9	15.7	16.5
<b>Total operating expenses</b>	<b>38.5</b>	<b>38.8</b>	<b>39.5</b>
<b>Surplus/(deficit)</b>	<b>(5.0)</b>	<b>(2.8)</b>	<b>(4.5)</b>

**STATE HIGHWAY IMPROVEMENTS**

	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Operating revenue</b>			
National Land Transport Fund	715.7	592.8	548.0
Crown (COVID-19 Response and Recovery Fund)	94.1	0.0	0.0
National Land Transport Fund (tolling)	11.1	10.5	11.3
Developer contributions	0.0	2.0	20.5
Interest and finance income	7.9	0.0	13.7
Other income	1.5	0.0	0.8
<b>Total operating revenue</b>	<b>830.3</b>	<b>605.3</b>	<b>594.3</b>
<b>Operating expenses</b>			
Assets vested to local authorities	0.0	23.0	24.4
Depreciation and state highway write-offs	620.3	550.0	539.6
Interest on Tauranga Eastern Link borrowings	5.3	0.0	4.7
Other interest and finance costs	4.7	30.3	5.0
Crown (COVID-19 Response and Recovery Fund)	94.1	0.0	0.0
Other expenses	105.9	0.0	0.1
<b>Total operating expenses</b>	<b>830.3</b>	<b>603.3</b>	<b>573.8</b>
<b>Surplus/(deficit)</b>	<b>0.0</b>	<b>2.0</b>	<b>20.5</b>
<b>Capital funding</b>			
Crown (Accelerated Regional Roding Programme)	26.9	54.7	18.8
Crown (New Zealand Upgrade Programme)	18.4	0.0	0.0
Crown (Palmerston North leasehold improvements)*	2.1	0.0	0.0
National Land Transport Fund capital contribution	275.8	448.6	591.4
National Land Transport Fund (borrowing facility)	247.1	0.0	0.0
National Land Transport Fund (Auckland Transport Package)	0.0	0.0	12.5
National Land Transport Fund (public-private partnerships)	902.9	471.0	724.3
National Land Transport Fund (state highway disposals)	2.4	35.0	35.0
Depreciation funding utilised for investment in the state highway network	620.3	550.0	539.6
Net non-cash funding for losses/(income) utilised for investment in state highway network	0.0	23.0	24.4
<b>Total capital funding</b>	<b>2,095.9</b>	<b>1,582.3</b>	<b>1,946.0</b>

	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Capital expenditure</b>			
Crown investment (Accelerated Regional Rooding Programme)	26.9	54.7	18.8
Crown investment (New Zealand Upgrade Programme)	18.4	0.0	0.0
Auckland Transport Package	0.0	0.0	12.5
Public-private partnerships**	902.9	471.0	724.3
Capital investment in the state highway network	1,103.2	1,011.8	1,167.3
Transport Agency capitalised expenditure	44.5	46.8	43.6
<b>Total capital expenditure</b>	<b>2,095.9</b>	<b>1,584.3</b>	<b>1,966.5</b>
<b>Net capital movement</b>	<b>0.0</b>	<b>(2.0)</b>	<b>(20.5)</b>
<b>Borrowing funding</b>			
National Land Transport Fund (Auckland Transport Package)	15.0	15.0	0.0
<b>Total borrowing funding</b>	<b>15.0</b>	<b>15.0</b>	<b>0.0</b>
<b>Borrowing repayment</b>			
Repayment of borrowing (Auckland Transport Package)	15.0	15.0	0.0
<b>Total borrowing repayment</b>	<b>15.0</b>	<b>15.0</b>	<b>0.0</b>
<b>Net borrowing</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total movement</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

\* Crown funding of \$4.3 million was provided to fund leasehold improvements for new Palmerston North premises. The funding and expenditure are reflected in two output classes - drivers licensing and testing (\$2.2million) and state highway improvements (\$2.1 million).

\*\* During the year, the total public-private partnership construction costs were \$633.8 million (2018/19: \$460.9 million). This capital expenditure item included the cash flow hedge reserve movement during the year of \$269.1 million deficit (2018/19: \$263.4 million deficit).

**STATE HIGHWAY MAINTENANCE**

	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Operating revenue</b>			
Crown (Kaikōura earthquake response)	7.3	19.5	41.9
National Land Transport Fund	340.5	397.4	466.6
National Land Transport Fund (borrowing facility)	173.2	0.0	0.0
National Land Transport Fund (rental and interest income)	19.9	16.0	18.9
Other revenue*	23.2	1.9	9.5
<b>Total operating revenue</b>	<b>564.1</b>	<b>434.8</b>	<b>536.9</b>
<b>Operating expenses</b>			
Maintenance of the state highway network (Kaikōura earthquake response)	7.3	19.5	41.9
Maintenance of the state highway network	492.4	371.9	449.9
Works funded by third party contributions	20.3	1.9	5.5
Transport Agency operating activities	43.9	41.5	38.7
<b>Total operating expenses</b>	<b>563.9</b>	<b>434.8</b>	<b>536.0</b>
<b>Surplus/(deficit)</b>	<b>0.2</b>	<b>0.0</b>	<b>0.9</b>
<b>Capital funding</b>			
Crown (Kaikōura earthquake response)	30.8	45.5	71.2
National Land Transport Fund capital contribution	208.6	240.1	222.0
<b>Total capital funding</b>	<b>239.4</b>	<b>285.6</b>	<b>293.2</b>
<b>Capital expenditure</b>			
Crown investment (Kaikōura earthquake response)	30.8	45.5	71.2
Capital investment	208.8	240.1	222.9
<b>Total capital expenditure</b>	<b>239.6</b>	<b>285.6</b>	<b>294.1</b>
<b>Net capital movement</b>	<b>(0.2)</b>	<b>0.0</b>	<b>(0.9)</b>
<b>Total movement</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

\* Includes contributions from third parties of \$20.3 million (2018/19: \$5.5 million).

**WALKING AND CYCLING**

	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Operating revenue</b>			
Crown (Urban Cycleways Programme)	5.0	6.3	12.7
National Land Transport Fund	44.1	54.5	42.7
<b>Total operating revenue</b>	<b>49.1</b>	<b>60.8</b>	<b>55.4</b>
<b>Operating expenses</b>			
Funding to approved organisations (Urban Cycleways Programme)	5.0	6.3	12.7
Funding to approved organisations	44.1	54.5	42.7
<b>Total operating expenses</b>	<b>49.1</b>	<b>60.8</b>	<b>55.4</b>
<b>Surplus/(deficit)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Capital funding</b>			
Crown (Urban Cycleways Programme)	4.2	1.7	0.3
Crown (New Zealand Upgrade Programme)	9.6	0.0	0.0
National Land Transport Fund capital contribution	26.4	50.0	14.6
<b>Total capital funding</b>	<b>40.2</b>	<b>51.7</b>	<b>14.9</b>
<b>Capital expenditure</b>			
Capital investment (Urban Cycleways Programme)	4.2	1.7	0.3
Capital investment (New Zealand Upgrade Programme)	9.6	0.0	0.0
Capital investment	26.4	50.0	14.6
<b>Total capital expenditure</b>	<b>40.2</b>	<b>51.7</b>	<b>14.9</b>
<b>Net capital movement</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total movement</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**PUBLIC TRANSPORT**

	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Operating revenue</b>			
National Land Transport Fund	532.3	510.0	449.2
National Land Transport Fund (borrowing facility)	108.8	0.0	0.0
Developer contributions	0.5	0.0	1.4
Other	0.0	0.0	0.1
<b>Total operating revenue</b>	<b>641.6</b>	<b>510.0</b>	<b>450.7</b>
<b>Operating expenses</b>			
Funding to approved organisations	641.0	509.8	448.7
Transport Agency operating activities	0.0	0.2	0.6
<b>Total operating expenses</b>	<b>641.0</b>	<b>510.0</b>	<b>449.3</b>
<b>Surplus/(deficit)</b>	<b>0.6</b>	<b>0.0</b>	<b>1.4</b>
<b>Capital funding</b>			
National Land Transport Fund capital contribution	74.8	82.0	60.6
<b>Total capital funding</b>	<b>74.8</b>	<b>82.0</b>	<b>60.6</b>
<b>Capital expenditure</b>			
Capital investment	75.4	82.0	62.0
<b>Total capital expenditure</b>	<b>75.4</b>	<b>82.0</b>	<b>62.0</b>
<b>Net capital movement</b>	<b>(0.6)</b>	<b>0.0</b>	<b>(1.4)</b>
<b>Total movement</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

## SUPERGOLD CARD ADMINISTRATION AND PUBLIC TRANSPORT CONCESSIONS

	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Operating revenue</b>			
Crown	30.7	29.7	29.4
<b>Total operating revenue</b>	<b>30.7</b>	<b>29.7</b>	<b>29.4</b>
<b>Operating expenses</b>			
Funding to approved organisations	30.6	29.7	29.3
Transport Agency operating activities	0.1	0.0	0.1
<b>Total operating expenses</b>	<b>30.7</b>	<b>29.7</b>	<b>29.4</b>
<b>Surplus/(deficit)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

## LOCAL ROAD IMPROVEMENTS

	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Operating revenue</b>			
National Land Transport Fund	245.5	272.0	225.7
National Land Transport Fund (borrowing facility)	12.7	0.0	0.0
National Land Transport Fund (Housing Infrastructure Fund)	11.1	33.0	3.0
Crown (Provincial Growth Fund)	20.4	5.4	10.9
Interest and finance income	1.2	8.0	0.0
<b>Total operating revenue</b>	<b>290.9</b>	<b>318.4</b>	<b>239.6</b>
<b>Operating expenses</b>			
Funding to approved organisations	258.2	272.0	225.7
Funding to approved organisations (Housing Infrastructure Fund)	11.1	33.0	3.0
Funding to approved organisations (Provincial Growth Fund)	20.4	5.4	10.9
Interest and finance costs	1.2	8.0	0.0
<b>Total operating expenses</b>	<b>290.9</b>	<b>318.4</b>	<b>239.6</b>
<b>Surplus/(deficit)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>



**LOCAL ROAD MAINTENANCE**

	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Operating revenue</b>			
National Land Transport Fund	584.5	666.0	653.4
National Land Transport Fund (borrowing facility)	33.2	0.0	0.0
<b>Total operating revenue</b>	<b>617.7</b>	<b>666.0</b>	<b>653.4</b>
<b>Operating expenses</b>			
Funding to approved organisations	617.7	666.0	653.4
<b>Total operating expenses</b>	<b>617.7</b>	<b>666.0</b>	<b>653.4</b>
<b>Surplus/(deficit)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Borrowing funding</b>			
National Land Transport Fund (reinstatement of earthquake-damaged roads in Christchurch)	0.0	0.0	23.6
<b>Total borrowing funding</b>	<b>0.0</b>	<b>0.0</b>	<b>23.6</b>
<b>Borrowing repayment</b>			
Repayment of borrowing (reinstatement of earthquake-damaged roads in Christchurch)	0.0	0.0	23.6
<b>Total borrowing repayment</b>	<b>0.0</b>	<b>0.0</b>	<b>23.6</b>
<b>Net borrowing</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total movement</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**REGIONAL IMPROVEMENTS**

	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Operating revenue</b>			
National Land Transport Fund	30.2	49.0	23.6
<b>Total operating revenue</b>	<b>30.2</b>	<b>49.0</b>	<b>23.6</b>
<b>Operating expenses</b>			
Funding to approved organisations	30.2	49.0	23.6
<b>Total operating expenses</b>	<b>30.2</b>	<b>49.0</b>	<b>23.6</b>
<b>Surplus/(deficit)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Capital funding</b>			
Crown (Provincial Growth Fund)	5.2	6.0	0.8
Crown (Regional Investment Opportunities)	0.8	0.0	0.0
National Land Transport Fund capital contribution	66.5	85.0	114.9
<b>Total capital funding</b>	<b>72.5</b>	<b>91.0</b>	<b>115.7</b>
<b>Capital expenditure</b>			
Funding to approved organisations (Provincial Growth Fund)	5.2	6.0	0.8
Capital investment (regional investment opportunities)	0.8	0.0	0.0
Capital investment	66.5	85.0	114.9
<b>Total capital expenditure</b>	<b>72.5</b>	<b>91.0</b>	<b>115.7</b>
<b>Net capital movement</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total movement</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**REGULATION OF THE RAIL TRANSPORT SYSTEM**

	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Operating revenue</b>			
Crown (protection of core regulatory functions)	0.9	0.0	0.0
Fees and charges	1.6	2.7	1.2
<b>Total operating revenue</b>	<b>2.5</b>	<b>2.7</b>	<b>1.2</b>
<b>Operating expenses</b>			
Fees and charges funded activities	2.9	3.6	2.6
<b>Total operating expenses</b>	<b>2.9</b>	<b>3.6</b>	<b>2.6</b>
<b>Surplus/(deficit)</b>	<b>(0.4)</b>	<b>(0.9)</b>	<b>(1.4)</b>

**ROAD SAFETY PROMOTION AND DEMAND MANAGEMENT**

	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Operating revenue</b>			
National Land Transport Fund	46.5	54.4	43.7
Community Road Safety Programme	3.9	3.3	3.8
Other	0.6	0.0	0.6
<b>Total operating revenue</b>	<b>51.0</b>	<b>57.7</b>	<b>48.1</b>
<b>Operating expenses</b>			
Transport Agency (Community Road Safety Programme)	1.5	0.9	0.6
Funding to approved organisations	45.4	52.7	18.3
Transport Agency (vehicle impoundment)	0.2	0.2	0.0
Transport Agency operating activities	1.4	1.5	26.0
<b>Total operating expenses</b>	<b>48.5</b>	<b>55.3</b>	<b>44.9</b>
<b>Surplus/(deficit)</b>	<b>2.5</b>	<b>2.4</b>	<b>3.2</b>
<b>Capital funding</b>			
National Land Transport Fund capital contribution	1.6	1.5	1.0
<b>Total capital funding</b>	<b>1.6</b>	<b>1.5</b>	<b>1.0</b>
<b>Capital expenditure</b>			
Capital investment	1.6	1.5	1.0
<b>Total capital expenditure</b>	<b>1.6</b>	<b>1.5</b>	<b>1.0</b>
<b>Net capital movement</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total movement</b>	<b>2.5</b>	<b>2.4</b>	<b>3.2</b>

**DRIVER LICENSING AND TESTING**

	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Operating revenue</b>			
Crown (protection of core regulatory functions)	4.2	0.0	0.0
Crown (driver licensing stop orders)	0.1	0.1	0.1
Crown (driver test subsidy)	2.1	1.4	1.4
Crown (drug and alcohol assessments)	0.5	1.0	0.7
Crown (ministerial advice and official correspondence)	0.5	0.5	0.5
Better Public Services seed funding	0.0	0.0	2.8
Fees and charges	57.1	62.2	60.9
Other	0.0	0.0	0.4
<b>Total operating revenue</b>	<b>64.5</b>	<b>65.2</b>	<b>66.8</b>
<b>Operating expenses</b>			
Drug and alcohol assessments	1.1	1.4	0.8
Ministerial advice and official correspondence	1.8	1.6	3.3
Fees and charges funded activities	73.3	72.0	69.8
Better Public Services seed funding	0.0	0.0	2.8
Other	2.7	1.4	1.3
<b>Total operating expenses</b>	<b>78.9</b>	<b>76.4</b>	<b>78.0</b>
<b>Surplus/(deficit)</b>	<b>(14.4)</b>	<b>(11.2)</b>	<b>(11.2)</b>
<b>Capital funding</b>			
Crown - Palmerston North leasehold improvements*	2.2	0.0	0.0
<b>Total capital funding</b>	<b>2.2</b>	<b>0.0</b>	<b>0.0</b>
<b>Capital expenditure</b>			
Palmerston North leasehold improvements capital expenditure	2.2	0.0	0.0
<b>Total capital expenditure</b>	<b>2.2</b>	<b>0.0</b>	<b>0.0</b>
<b>Net capital movement</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total movement</b>	<b>(14.4)</b>	<b>(11.2)</b>	<b>(11.2)</b>

\* Crown funding of \$4.3 million was provided to fund leasehold improvements for new Palmerston North premises. Funding and expenditure are reflected in two output classes - drivers licensing and testing (\$2.2 million) and state highway improvements (\$2.1 million).

**VEHICLE SAFETY AND CERTIFICATION**

	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Operating revenue</b>			
Crown (protection of core regulatory functions)	1.8	0.0	0.0
Crown (rules development)	0.8	0.9	0.8
Fees and charges	68.5	72.1	71.8
<b>Total operating revenue</b>	<b>71.1</b>	<b>73.0</b>	<b>72.6</b>
<b>Operating expenses</b>			
Rules development	0.9	0.5	0.5
Fees and charges funded activities	78.0	72.2	79.7
<b>Total operating expenses</b>	<b>78.9</b>	<b>72.7</b>	<b>80.2</b>
<b>Surplus/(deficit)</b>	<b>(7.8)</b>	<b>0.3</b>	<b>(7.6)</b>

**REGULATION OF COMMERCIAL TRANSPORT OPERATORS**

	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Operating revenue</b>			
Crown (protection of core regulatory functions)	0.7	0.0	0.0
Fees and charges	12.6	13.1	12.6
<b>Total operating revenue</b>	<b>13.3</b>	<b>13.1</b>	<b>12.6</b>
<b>Operating expenses</b>			
Transport Agency operating activities	24.0	19.7	16.3
<b>Total operating expenses</b>	<b>24.0</b>	<b>19.7</b>	<b>16.3</b>
<b>Surplus/(deficit)</b>	<b>(10.7)</b>	<b>(6.6)</b>	<b>(3.7)</b>

**RAPID TRANSIT**

	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Operating revenue</b>			
National Land Transport Fund	32.3	0.0	0.0
<b>Total operating revenue</b>	<b>32.3</b>	<b>0.0</b>	<b>0.0</b>
<b>Operating expenses</b>			
Impairment expense*	32.3	0.0	0.0
<b>Total operating expenditure</b>	<b>32.3</b>	<b>0.0</b>	<b>0.0</b>
<b>Surplus/(deficit)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Capital funding</b>			
National Land Transport Fund capital contribution			
<b>Total capital funding</b>	<b>0.0</b>	<b>180.0</b>	<b>9.9</b>
<b>Capital expenditure</b>	0.0	180.0	9.9
Capital investment			
<b>Total capital expenditure</b>	<b>0.0</b>	<b>180.0</b>	<b>9.9</b>
<b>Net capital movement</b>	<b>0.0</b>	<b>180.0</b>	<b>9.9</b>
<b>Total movement</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

\* On 24th June 2020 the Minister of Transport announced that the current process to develop light rail between Auckland's city centre and Māngere had been discontinued and the next steps for an alternative solution would be developed later in the year. As a result, the costs incurred to date were impaired.

**TRANSITIONAL RAIL**

	Actual 2019/20 \$M	Budget 2019/20 \$M	Actual 2018/19 \$M
<b>Operating revenue</b>			
National Land Transport Fund	64.6	157.0	19.2
<b>Total operating revenue</b>	<b>64.6</b>	<b>157.0</b>	<b>19.2</b>
<b>Operating expenses</b>			
Funding to approved organisations	64.6	157.0	19.2
<b>Total operating expenses</b>	<b>64.6</b>	<b>157.0</b>	<b>19.2</b>
<b>Surplus/(deficit)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

# Independent auditors report



## **TO THE READERS OF WAKA KOTAHI NZ TRANSPORT AGENCY'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2020**

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

### **Opinion**

We have audited:

- the financial statements of Waka Kotahi on pages 109 to 155, that comprise the statement of financial position as at 30 June 2020, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies and other explanatory information; and
- the performance information of Waka Kotahi on pages 25 to 104.

In our opinion:

- the financial statements of Waka Kotahi on pages 109 to 155:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2020; 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 performance information on pages 25 to 104:
  - presents fairly, in all material respects, Waka Kotahi's performance for the year ended 30 June 2020, 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 18 September 2020. 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 for our 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 – Impact of Covid-19**

Without modifying our opinion, we draw your attention to the disclosures about the impact of Covid-19 on Waka Kotahi as set out in note 1 to the financial statements.

### **Emphasis of matter – State Highway valuation**

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 Waka Kotahi 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 Waka Kotahi 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 Waka Kotahi for assessing Waka Kotahi'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 Waka Kotahi, 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 Waka Kotahi'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 Waka Kotahi'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 Waka Kotahi'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 Waka Kotahi'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 Waka Kotahi 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 24, 25 to 104 (excluding key performance indicators, service delivery and investment performance measures), 106 to 108, 156 to 182, 187 to 188 and 191 to 247, 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 Waka Kotahi in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit we have carried out other assurance-type engagements over Waka Kotahi's half-year financial statements and the application of the Scrutiny Principle, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in Waka Kotahi.

A handwritten signature in black ink, appearing to read 'Ed Loudon', with a long, sweeping flourish extending to the right.

### **Ed Loudon**

KPMG Wellington

On behalf of the Auditor-General

Wellington, New Zealand

# Putting the scrutiny principle in 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 Waka Kotahi 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.*

Waka Kotahi 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

Waka Kotahi 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 Waka Kotahi 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.

The webpage also has links to two other webpages that list all funding decisions made by the Waka Kotahi Board<sup>2</sup> and delegated Waka Kotahi staff<sup>3</sup> since 1 August 2008.<sup>4</sup> Both pages are updated regularly once the Board's decisions have been confirmed.

- 1 Waka Kotahi NZ Transport Agency. 2020. Scrutiny principle. <https://www.nzta.govt.nz/planning-and-investment/planning-and-investment-knowledge-base/201821-nltp/planning-and-investment-principles-and-policies/investment-principles/planning-and-investment-principles/#scrutiny-principle>
- 2 Waka Kotahi NZ Transport Agency. 2020. Board funding decisions. <https://www.nzta.govt.nz/planning-and-investment/funding-and-investing/investmentdecisions/board-decisions/>
- 3 Waka Kotahi NZ Transport Agency. 2020. Delegated funding decisions. <https://www.nzta.govt.nz/planning-and-investment/funding-and-investing/investment-decisions/delegated-decisions/>
- 4 The prescribed date in the Land Transport Management Act 2003 for reporting on these decisions is 1 October 2008

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 Waka Kotahi for its own activities), and the information required for assessing and evaluating the activities for funding. The system records the decisions made by Waka Kotahi, including any conditions applied to the funding. The system is transparent with approved organisations able to see the details of their proposals and Waka Kotahi recommendations and decisions.

An internal audit review of our funding approval process during the period has concluded some of these processes, that are related to giving effect to the Scrutiny Principle, are not effective, which results in an increased risk that the Agency may not have given effect to the Scrutiny Principle. Waka Kotahi is satisfied that this risk has not had a material impact on the application of the Scrutiny Principle during the year to 30 June 2020.



# Independent limited assurance report

## **Independent Limited Assurance Report to the Readers of the Waka Kotahi NZ Transport Agency's Report on Putting the Scrutiny Principle into Practice for the year ended 30 June 2020**

We have undertaken a limited assurance engagement on Waka Kotahi NZ Transport Agency's ("Waka Kotahi") implementation of the systems and procedures required by Section 96(2) of the Land Transport Management Act 2003 (the Act), as reported under Section 96(2)(b) of the Act.

The Auditor-General is the auditor of Waka Kotahi. The Auditor-General has appointed me, Ed Loudon, using the staff and resources of KPMG, to carry out this work on his behalf.

### **Responsibilities of the Directors**

The Directors are responsible under Section 96(1)(d)(ii) of the Act to ensure that Waka Kotahi gives 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. Waka Kotahi refers to this as the "scrutiny principle".

The Directors are further responsible under Section 96(2) to have systems and procedures in place to enable it to give effect to the "scrutiny principle" and to report on the implementation of those systems and procedures in the annual report. The *Putting the Scrutiny Principle into Practice* report on pages 187 to 188 is intended to meet this requirement.

### **Responsibility of the Auditor**

Section 96(3) of the Act requires the Auditor-General to report on Waka Kotahi's implementation of the systems and procedures referred to in Section 96(2) of the Act.

To meet this requirement, we conducted a 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 express a limited assurance conclusion on Waka Kotahi's implementation, in all material respects, of the systems and procedures required by Section 96(2) as reported in terms of Section 96(2)(b) for the year ended 30 June 2020.

Our limited assurance engagement consists of making enquiries, primarily of persons responsible for implementing the systems and procedures associated with giving effect to the "scrutiny principle", and performing 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 and Quality Control**

When carrying out the limited assurance engagement we complied with the Auditor-General’s:

- independence and other ethical requirements, which incorporate the independence and ethical requirements of Professional and Ethical Standard 1 (Revised) issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB); and
- quality control requirements, which incorporate the quality control requirements of the Professional and Ethical Standard 3 (Amended) issued by the NZAuASB.

### **Conclusion**

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that Waka Kotahi has not implemented, in all material respects, the systems and procedures to give effect to the “scrutiny principle” in accordance with Section 96(2) of the Act as reported in terms of Section 96(2)(b), for the year ended 30 June 2020.

Our limited assurance engagement was completed on 18 September 2020 and our opinion expressed as at that date.

A handwritten signature in black ink, appearing to read 'Ed Loudon', written over a light blue background.

### **Ed Loudon**

KPMG Wellington

On behalf of the Auditor-General

Wellington, New Zealand