



Northern Gateway Toll Road

Operating report to the Minister of Transport
for the twelve months ended 30 June 2012



NZ TRANSPORT AGENCY
WAKA KOTAHI

New Zealand Government

EXECUTIVE SUMMARY

**5.2 million
TRIPS**

While the actual volume of trips increased by 70,000 during this operating period on the same period last year, this is 92,000(1.7%) trips below the figure forecast at the beginning of the year..

**96.6%
TRIP PAYMENT RATE**

96.6% of all chargeable tolls were paid within the reporting period.

**\$0.65c
NET OPERATIONAL COST PER
TRANSACTION**

The net operational cost per transaction of \$0.65c is lower than for the previous year (\$0.78). Administration fees introduced in August 2011 have contributed to reducing the cost of processing toll payments.

**71.4%
NETWORK USAGE**

The percentage of total network traffic using the Northern Gateway Toll Road remains stable.

**\$433,753
WRITTEN OFF**

The amount of toll revenue written off due to age was \$221,181 and administration charge revenue written off due to age was \$212,572. Debt previously written off but recovered during this period was \$63,552.

OUR SUCCESSES

Improved customer service

The number of customers using online services increased this operating year. The number of toll road accounts has continued to grow and this has resulted in an increased percentage of trips paid by account. Casual trip passes purchased online has also increased and the website is now the most popular payment channel used by casual road users.

In August 2011 administration charges were introduced to payments processed through kiosks and the 0800 phone channels as part of a broader effort to reduce the cost of processing toll payments.

Payments processed through the contact centre had an additional \$3.70 administration charge applied per transaction (not per trip) and payments through the roadside kiosks had an additional \$0.40 administration charge applied per transaction (not per trip) to all payments made. No administration charges apply for payments made online or for tolls debited to a toll road account.

As a result, online transactions have increased significantly year on year, with 74.3% of toll payments processed through an online channel (toll road account or website for casual trips) for this operating year, compared to 30% for the prior year.

Infringement Notices payable on the website

For customers issued with an Infringement Notice for overdue toll payment notices, they are now able to settle these online using Mastercard, Visa, or internet banking via POLi (payment online) following introduction of this payment service during the year. Previously these payments could only be accepted through the contact centre.

Toll Payment Notices payable online for longer

Toll payment notices issued for a specific vehicle to the same registered person are now displayed for settlement as long as they are outstanding and have not been referred to our debt collection agency. Previously settlement of toll payment notices through the website could only be undertaken before the notice became overdue. This change has resulted in toll payment notices previously not displayed being settled as people can see that they are outstanding and settle their debts when also paying more recent notices.

Increased compliance

The percentage of trips paid within five days increased this operating year. This has resulted in fewer toll payment notices being issued. There has also been an increase in the level of toll payment notices being paid, as well as a number of older outstanding notices being paid. The number of infringement notices being paid continues to rise and the issuing of these notices, which carry a \$40 penalty per unpaid toll, is having a positive influence on the toll payment notice payment rates.

Continued system improvements

A number of enhancements were also made to the system to ensure ongoing efficiencies continue to be delivered. These enhancements included automating manual processes and improving system functionality and security.

Safety – no serious accidents

The Northern Gateway Toll Road continues to provide a safe journey for motorists with no serious accidents or unscheduled closures occurring this operating year.

THIS YEAR'S CHALLENGES

Kiosks

Finding a viable alternative for customers who choose to pay their tolls with cash continues to be a priority for the NZTA. The costs and the limited ability for the kiosks to manage the high number of users during peak times impacts the customer experience. Kiosk usage has dropped significantly and while the kiosks are reliable, their location means that any faults or problems with the units, power supply or phone connections results in undesirable delays as technicians travel to the site and undertake repairs.

We continue to investigate alternative payment options which will deliver a cost effective and efficient solution for cash payment and optimises new technologies in the payment processing sector.

The work carried out this year has meant that the market is gaining a good understanding of the requirements of an electronic toll collection system and what is needed to ensure full system integration in order to acknowledge payments and financial transactions in real time.

Prosecutions

The overall toll payment percentage is high in terms of industry standards, although there are a number of recidivist toll evaders that require significant time and resource to manage. During the year the NZTA reviewed its approach to dealing with recidivist toll evaders, and began a prosecution process for individuals with large outstanding balances of unpaid tolls, and who have resisted the NZTA's attempts to recover the money and continue to use the toll road without paying. The prosecutions are a matter of fairness in terms of the hundreds of thousands of drivers who use the toll road and pay for doing so.

The NZTA attended a court hearing in June 2012 at the request of a customer who had received four infringement notices for non payment of a toll, in contravention of section 54 (1) of the Land Transport Management Act 2003. The customer disputed they had committed any offence by not paying a toll and requested a hearing.

The North Shore District Court found that the NZTA had the authority to impose tolls and ruled in favour of the NZTA, ordering the customer to pay the fines imposed, additional court costs, and also prosecution costs.

Drivers of rental cars

Vehicles identified as rental cars make an average of 160,000 trips per year. This is approximately 3% of all chargeable trips. Drivers of rental cars did not pay for approximately 13,400 trips. This is 0.25% of all chargeable trips and results in the transfer of liability from the rental company to the actual hirer. The NZTA and rental companies are keen to reduce the costs of this process for both parties.

The NZTA recently attended a Rental Vehicle Association conference to understand the issues and concerns from an operator's perspective and continues to investigate solutions to maximise toll revenue for the NZTA without introducing additional costs to rental companies.

Improving the toll road experience for vehicle hirers and visitors to New Zealand is also a priority for both the NZTA and the Rental Vehicle Association.

VOLUMES AND REVENUE

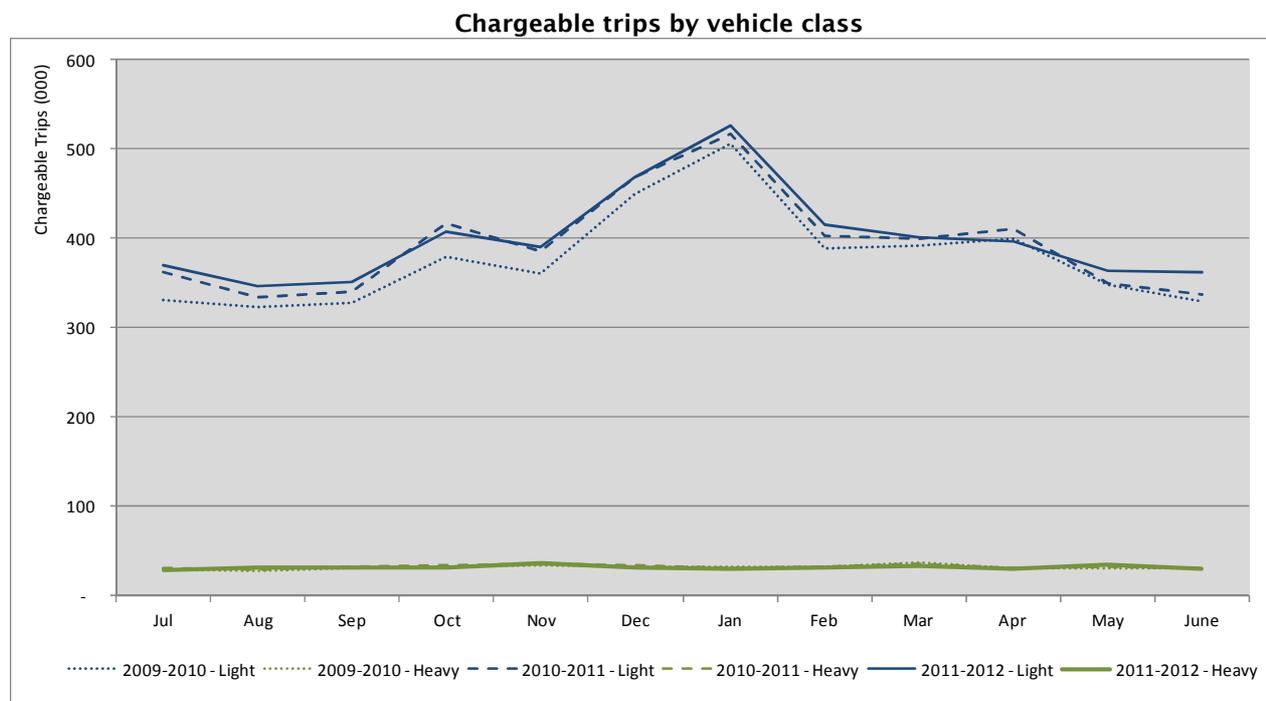
Traffic volumes and toll tariff revenue

This operating year saw the first toll tariff increase applied since the toll road opened in January 2009. On 1 March 2012 tolls were increased from \$2.00 for light vehicles and motorbikes to \$2.20 and from \$4.00 for heavy vehicles to \$4.40.

	Vehicle volumes (000)		Base rate (GST incl)	Vehicle revenue (\$000)	
	Actual	Forecast		Actual	Forecast
Light vehicles	3,259	3,287	\$2.00	6,518	6,574
	1,514	1,537	\$2.20	3,331	3,381
Heavy vehicles	252	277	\$4.00	1,008	1,108
	129	136	\$4.40	568	598
Total chargeable trips	5,154	5,237		11,425	11,661
Exempt	19	21			
Unidentifiable	11	21			
Technical loss ¹	14	11			
TOTAL	5,198	5,290		11,425	11,661

Although traffic volumes were up on the same period last year by about 70,000 trips (1.4%) this was 1.7% below the forecast of 5.29 million total trips for the 2011/2012 operating year. Consequently, revenue was also \$236,000 (2%) below forecast for the 2011/2012 operating year.

The following graph illustrates that the increase in overall traffic volumes using the Northern Gateway Toll Road year on year is small, indicating vehicle numbers have plateaued.



¹Due to a component failure in December and an Uninterrupted Power Supply (UPS) unit failure in April we were unable to process approximately 38,000 trips during the year. As these trips were not captured by the roadside system they

are not reflected in the technical loss figure reported here. This also explains the 'dip' in trips for April which contributes approximately 33,000 of these lost trips.

To mitigate the risk of repeat UPS unit failure, replacement parts have been sourced from overseas and located onsite to enable faster system recovery. Work continues with both the component providers and electricity suppliers to minimise any future impact an event may have on toll revenue.

TOLL PAYMENTS RECEIVED

Level of tolls paid

Tolls were collected for 96.6% of the 5.2 million chargeable trips undertaken in the operating year ended June 2012.

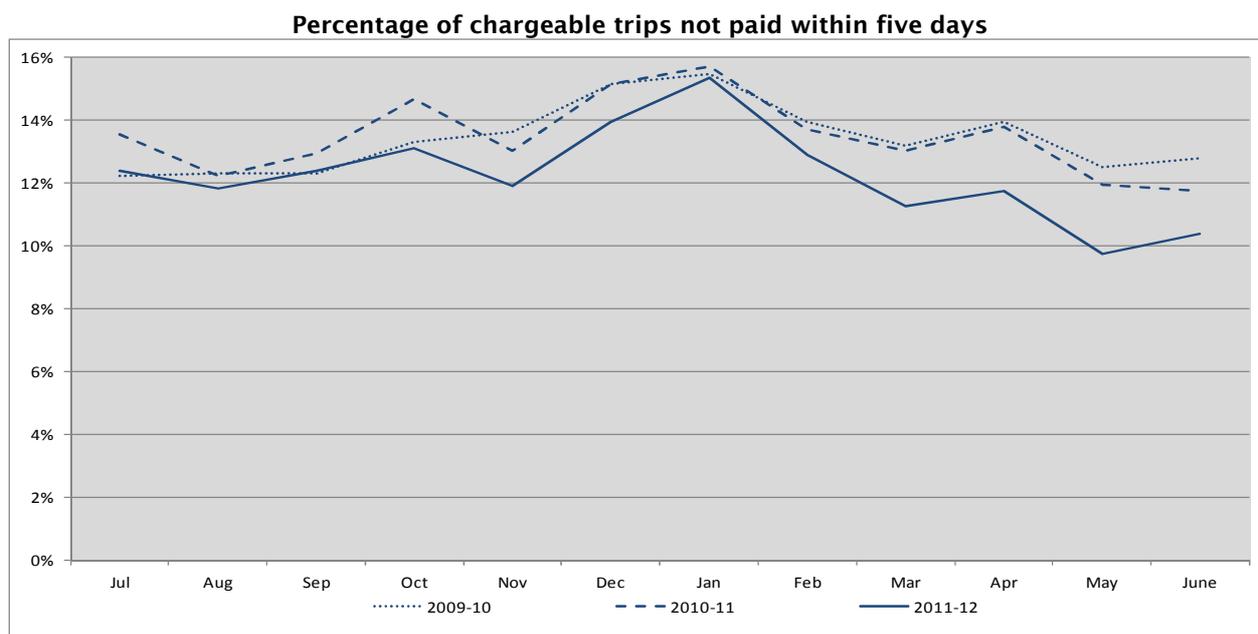
	Trips (000)	Revenue \$(000)
Total chargeable toll trips	5,154	11,425
Total administration charges		2,243
Total tolling revenue		13,668
Paid toll trips	4,981	11,051
Paid administration charges		1,681
Paid tolling revenue		12,732
Unpaid toll trips	173	374
Unpaid administration charges		562
Unpaid tolling revenue		936
Administration charge payment percentage rate		75%
Toll trip payment percentage rate	96.6%	

Administration charges relate to toll payment notices issued for trips not paid for within five days of the trip, of which 75% are subsequently paid (see table on next page).

TOLL PAYMENTS NOT MADE

Trips not allocated to an account or pass

The graph below highlights the percentage of chargeable trips that have not been allocated to an account or a trip pass after the required five days. These are the tolls that result in a toll payment notice being issued.



Toll payment notices

A toll payment notice is sent to the registered person in relation to a vehicle, five days after a toll has been incurred, if payment has not been received.

A \$4.90 administration charge is added to the outstanding tolls (increased from \$2.20 on 1 August 2011).

Toll payment notices	Number	Amount	%
Issued	483,547	\$3,608,049	
Paid	363,740	\$2,707,416	75%
Unpaid	77,328	\$595,514	17%
Written off	36,257	\$259,240	7%
Reissued ²	6,222	\$45,879	1%

²Toll payment notices can be reissued where a statutory declaration is provided by the registered person detailing the driver at the time and transferring liability to that person.

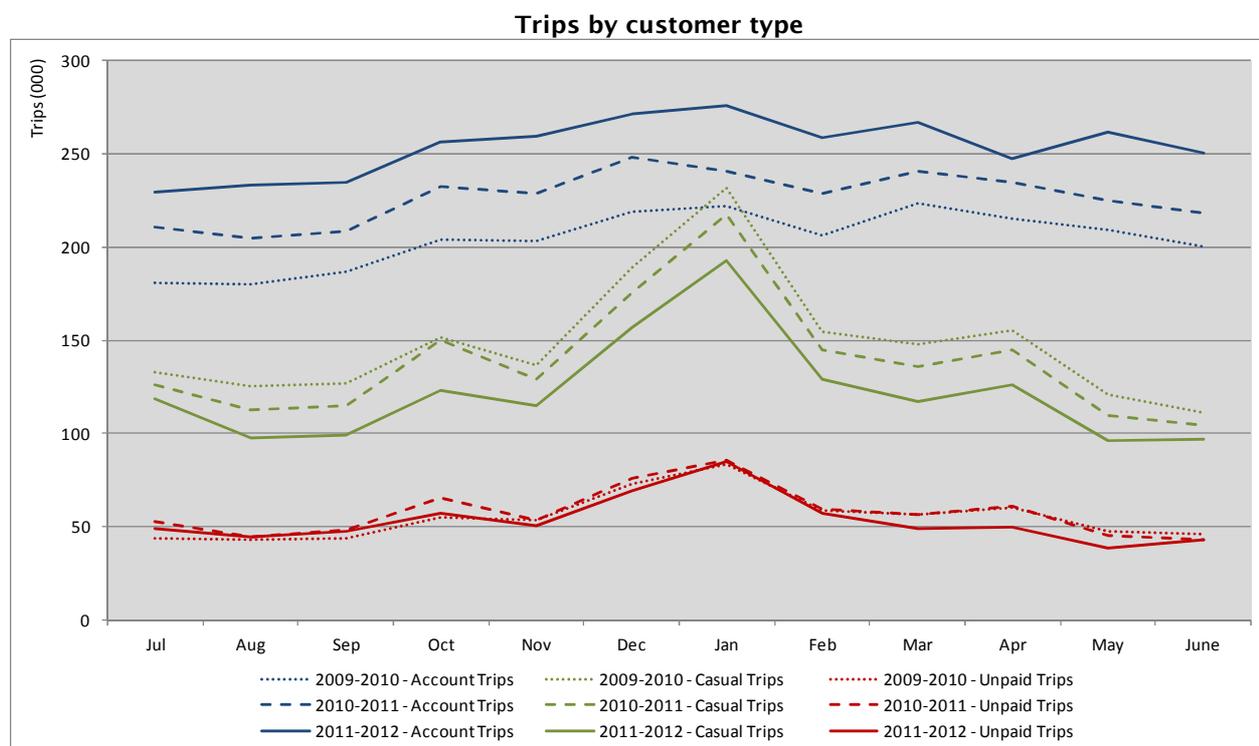
The table below highlights that the average toll debt is of a low value, with 78% of total debt associated with debtors who owed less than \$50 in unpaid tolls and administration charges.

Toll payment notice debtor schedule	Number	Value	% of Total
>\$300 debt	57	27,071	5%
\$200≤debt<\$300	53	12,856	2%
\$100≤debt<\$200	247	33,329	6%
\$50≤debt<\$100	841	56,247	9%
\$20≤debt<\$50	5,036	145,898	24%
\$10≤debt<\$20	10,234	148,463	25%
\$5≤debt<\$10	21,682	170,914	29%
<\$5	157	599	0%
TOTAL	38,307	\$595,377	100%

METHOD OF PAYMENT

Payment channels

The use of toll road accounts continues to grow from the 53% of trips charged to accounts last year to approximately 59% this year.



The use of the website also continues to grow for non-account payments, accounting for approximately 15% of trips paid this operating year as compared to 11% last year. This was influenced by the introduction of administration charges for kiosk and 0800 transactions that were applied in August 2011, and also a significant website marketing campaign over the Christmas holiday period.

Trips paid via the kiosks and contact centre dropped approximately 5% and 4% respectively from the previous operating year.

Toll payment by channel		2011/12 Number of trips	2011/12 %	2010/11 Number of trips	2010/11 %
Toll road account debited		3,045,157	59.1%	2,719,702	53.6%
Casual purchase of trip pass	Website	785,641	15.2%	532,890	10.5%
	Kiosk	580,914	11.3%	835,074	16.5%
	Contact Centre	101,115	2.0%	295,888	5.8%
Unpaid trips after five days		640,740	12.4%	689,785	13.6%

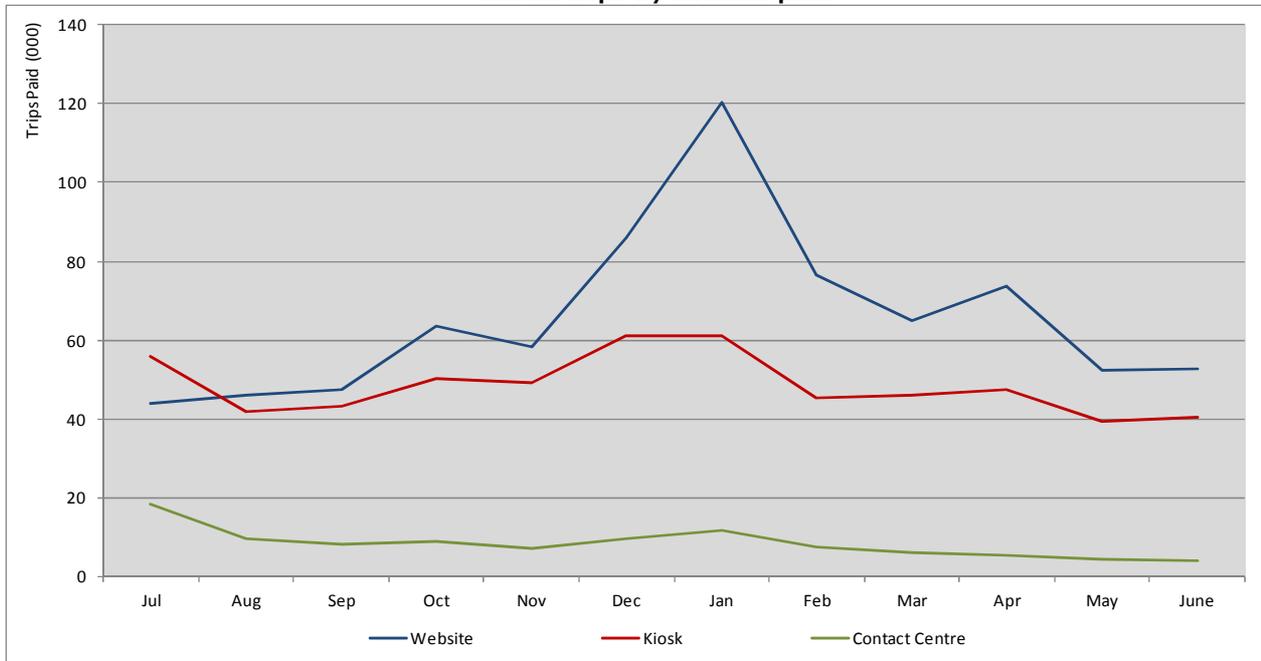
The number of trips being paid within five days increased by 1% this operating year.

Increased activity around debt collection as well as publicity about prosecuting recidivist toll evaders appears to have contributed to this result.

Casual payment channels

Targeted cost recovery was introduced on 1 August 2011. This took the form of new administration charges applied to each payment processed through the channels which carry a high cost to provide and administer. Payments processed through the contact centre 0800 service had an additional \$3.70 administration charge applied per transaction (not per trip), and payments through the roadside kiosks had an additional \$0.40 administration charge applied per transaction (not per trip) to all payments made. No administration charges apply to payments made through the website, or if tolls are debited to a toll road account.

Casual trips by channel paid



RECOVERY OF UNPAID TOLLS AFTER 5 DAYS

TOLL DEBT REFERRAL, DEBT RECOVERY AND WRITE OFFS

On average 75% of toll payment notices issued this financial year have been paid. Those not paid by their due date are referred to our collection agent to pursue.

Total toll payment notices financially written off this operating period, due to the length of time outstanding is \$433,753, which consists of both toll debt \$221,181, and unpaid administration charges \$212,572. These toll payment notices are still payable, and the debt continues to be pursued by our debt collection agency. Where recovery can be achieved, the total debt owed including previously written off debt, is sought and recovered.

During this operating period \$63,552 of previously written off debt was recovered.

Toll payment notices written off due to age

	2011/2012 Amount	2010/2011 Amount
Toll	\$221,181	\$420,993
Administration charge	\$212,572	\$301,828
	\$433,753	\$722,821

Note: The first toll write offs for aged debt were completed in December 2010.

Toll debt previously written off and recovered this year

	2011/2012 Amount	2010/2011 Amount
Toll	\$36,323	\$17,476
Administration charge	\$27,229	\$12,414
	\$ 63,552	\$29,890

Toll payment notices which cannot be collected

	2011/2012 Amount	2010/2011 Amount
Statutory declarations completed where stated driver (hirer) resides overseas	\$76,446	\$38,470
Statutory declarations completed where the vehicle has been reported stolen	\$717	\$398
Toll payment notices incorrectly issued	\$25,452	\$0
Insufficient registered owner/plate information for the vehicle	\$32,821	\$29,980
	\$135,436	\$68,848

REVENUE AND EXPENDITURE

The toll tariff consists of toll revenue that is designated to be used to repay the debt, toll operating revenue retained by the NZTA, and GST. A breakdown of how tolls are allocated is contained in the table below and reflects the 1 March 2012 tariff increase:

	Tariff to 29/02/2012		Tariff from 01/03/2012	
	\$2.00	\$4.00	\$2.20	\$4.40
Toll revenue (amount to be paid to the MOT to repay loan)	\$1.09	\$2.83	\$1.21	\$3.13
Toll operating revenue (amount retained by the NZTA to administer system)	\$0.65	\$0.65	\$0.70	\$0.70
GST	\$0.26	\$0.52	\$0.29	\$0.57

Toll revenue collection

The statement of toll revenue collection reports on the toll revenue portion of the toll tariff only which is paid to the Ministry of Transport to meet debt repayments.

STATEMENT OF TOLL REVENUE FOR THE YEAR ENDED 30 JUNE 2012

	Note	Actual 2011/12 \$000	Budget 2011/12 \$000	Actual 2010/11 \$000
Paid toll Revenue				
Light		5,266	5,035	5,014
Heavy		1,105	1,152	1,091
Total Paid Revenue	1	6,371	6,187	6,105
Interest on toll revenue	2	43	39	46
Total funds available to be paid to Ministry of Transport for debt repayment:	3	6,414		6,151
Funds paid to Ministry of Transport in current financial year		4,775		4,690
Funds held by NZ Transport Agency subject to pay over to Ministry of Transport		1,639		1,461
Unpaid toll revenue				
Light		153	108	(122)
Heavy		12	7	(9)
Total unpaid toll revenue	4	165	115	(131)

1. Paid toll revenue – Paid toll revenue is the portion of all paid tolls that is designated to be used to repay the debt to build the road. Total paid toll revenue is 3% (\$184,000) greater than budget.

2. Interest on toll revenue – Interest is earned daily on balances held for payover to the Ministry of Transport and credited to the toll revenue account on a monthly basis. This interest is included in the debt repayment to the Ministry of Transport memorandum account.

3. Funds available to be paid to the Ministry of Transport for debt repayment – Total toll revenue collected in this reporting year was \$6.414 million, of which \$4.775 million was paid to the Ministry of Transport within the reporting period. The balance of the collected toll revenue (\$1.639 million) was paid to the Ministry of Transport on 6 July 2012.

4. Unpaid toll revenue – Unpaid toll revenue is the portion of all unpaid tolls that is designated to be used to repay the debt to construct the road. Once collected this amount will be paid to the Ministry of Transport for debt repayment.

Operating revenue and expenditure

The statement of comprehensive income reports on the operating revenue portion of the toll tariff and administration revenues which are retained by the NZTA to cover direct operating costs. As tolling is currently a marginal cost business, this expenditure does not include any overhead expenses.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2012				
	Note	Actual 2011/12 \$000	Budget 2011/12 \$000	Actual 2010/11 \$000
INCOME				
Operating charges	1	3,433	4,104	3,292
Administration revenues		2,095	1,176	1,007
Toll recoveries		0	0	559
Interest		12	14	16
Total income		5,540	5,294	4,874
EXPENDITURE				
Transaction related costs	2	968	816	663
System support and maintenance costs	3	1,605	2,011	1,721
Operating costs	4	2,810	2,467	2,490
Total expenditure		5,383	5,294	4,874
NET SURPLUS/(DEFICIT)		157	0	0

1. Income - Revenue from third parties to date is 5% (\$246,000) higher than budget. This is driven by an increase in administration charges paid following the implementation of payment channel charges, and the increase in the administration charge on toll payment notices, which was not anticipated at the time of setting the budget.

2. Transaction related expenses – Credit card commissions are \$114,000 (26%) over budget as a consequence of higher dollar value transactions and additional revenue being collected following the implementation of the payment channel charges and increases in the toll tariff and administration charge on toll payment notices. Costs associated with kiosk cash handling were \$58,000 (97%) greater than budget due to the additional clearances and security requirements following the vandalism of the Puhoi based kiosks.

3. System support and maintenance costs – A positive variance of \$406,000 is driven by system development which is \$596,000 below budget due to changes covered by the system support contract being prioritised this year. Kiosk support and maintenance costs are \$299,000 over budget, largely as a result of the purchase of a new kiosk and additional repair and maintenance costs associated with the vandalism of the Puhoi kiosks. Road side support and maintenance was \$115,000 above budget due to the new road signage costs in line with the tariff increase.

4. Operating expenses – Personnel costs were less than budget this year, off-set by over-plan results in other expense lines, particularly bad debts and depreciation.

Operational cost per transaction

The operational cost per transaction reflects the operating costs of the tolling business, net of administration charges recovered from customers, divided by the number of revenue generating toll trips within the year.

Operational expenditure	2011/12 (000)	2010/11 (000)
Operational expenditure (net of doubtful and bad debts)	\$5,134	\$4,808
Total toll trips	5,154	5,080
Gross operational cost per transaction	\$1.00	\$0.95
Less costs covered by administration revenue collected	\$1,777	\$852
Net operational expenditure	\$3,357	\$3,956
Total toll trips	5,154	5,080
Net operational cost per transaction	\$0.65	\$0.78

Administration revenue relates to charges associated with toll payment notices, postal delivery of tax invoices and statements, dishonour charges, and payment channel charges. These charges are appropriately calculated through cost modeling and intended to recover the true cost associated with those customers who interact with us through the more expensive channels. It is not expected that the delivery of these more expensive channels be provided within the set tolling operating revenue of \$0.70 per toll².

Where these costs have been recovered through the above charges, they are no longer a cost to other compliant road users required to be met by the \$0.70 operating charge per toll trip.

The gross cost of running the tolling business was \$1.00 per chargeable toll trip. With the collection of the administration fees this means that the tolling business required \$0.65 cents of the allocated revenue per toll to cover operational costs.

Taxation applying to gross tolling revenue

GST is applied to all toll trips at the time the trip is recognised by the toll system. GST is therefore charged on an invoice basis.

Revenue classification	\$ (000)
Toll revenue	6,537
Operating charge	3,433
Payment channel and administration charges	2,095
Total toll revenue	12,065
GST	1,784
Total toll revenue (GST incl)	13,849

² The CPI adjusted tariff increase introduced 1 March 2012 has raised the toll operating revenue from \$0.65 to \$0.70.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2012

	Actual 2011/12 \$000	Budget 2011/12 \$000	Actual 2010/11 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from third party revenue	15,657	12,652	13,177
Interest received	54	53	61
Payments to third parties	(6,913)	(5,354)	(4,839)
Payments to employees	(1,675)	(2,382)	(1,734)
Net cash from operating activities	7,123	4,969	6,665
CASH FLOWS FROM FINANCING ACTIVITIES			
Pay over to Ministry of Transport for repayment of debt	(6,237)	(6,188)	(6,139)
Net cash from financing activities	(6,237)	(6,188)	(6,139)
NET (DECREASE)/INCREASE CASH AND CASH EQUIVALENTS	886	(1,219)	526
Cash and cash equivalents at the beginning of the year	3,898	3,897	3,372
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4,784	2,678	3,898

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012

	Note	Actual 2011/12 \$000	Budget 2011/12 \$000	Actual 2010/11 \$000
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	1	4,784	2,678	3,898
Debtors and other receivables	2	3,295	3,201	2,721
Total current assets		8,079	5,879	6,619
NON-CURRENT ASSETS				
Roadside hardware/software		3,298	3,299	3,920
Total non-current assets	3	3,298	3,299	3,920
TOTAL ASSETS		11,377	9,178	10,539
LIABILITIES				
CURRENT LIABILITIES				
Creditors and other payables	4	2,668	1,690	2,170
Tolling funds held in trust	5	3,126	2,988	2,943
TOTAL LIABILITIES		5,794	4,678	5,113
NET ASSETS		5,583	4,500	5,426
EQUITY				
Retained funds - NZ Transport Agency	6	5,583	4,500	5,426
TOTAL EQUITY		5,583	4,500	5,426

1. Cash and cash equivalents – Three bank accounts are maintained by the tolling operation to facilitate cash management and payovers. The toll trust account (\$1.3m) holds the funds pre-paid by account holders. The toll operating account (\$2.9m) holds the funds to be paid over to the Ministry of Transport, and also receives all casual toll payments. The toll payments account (\$0.5m) receives the operating charge and administration revenues, and operational expenditure is paid from this account. Deposits in transit are also included to reflect deposits for cash received at the kiosks and credit card payments, where the cash has not yet been deposited in the bank account.

2. Debtors and other receivables – Toll debtor balances consist of multiple groups. Toll casual debtors is the total of all outstanding toll payment notices and unpaid toll trips that are yet to receive a toll payment notice. Toll Infringement Debtors is the sum of all infringement notices issued and still unpaid and not yet referred to the courts, these fees are collected on behalf of the Crown and are offset by a corresponding liability. Account debtors reflect the balance of any pre-pay accounts with a negative balance as at the end of June, and post-pay account balances invoiced for June to be paid on the 20th July.

3. Non current assets - The Non Current Assets reflect the Tolling System and Roadside assets held by NZTA and the associated accumulated depreciation of these assets. The tolling system assets represent a share of the total cost of these assets, as the system has the ability to handle multiple roads and hence only one-fifth of these shared assets is allocated to this road.

4. Creditors and payables – The toll creditors consists primarily of the balances on pre-pay accounts (\$1.3m) and pre-paid casual trip purchases not yet used (\$0.9m).

5. Tolling funds held in trust – This represents the funds held to be paid over to the Ministry of Transport for repayment of the debt for construction of the Northern Gateway Toll Road. Also included is GST payable to Inland Revenue for June and infringement payments for the Ministry of Transport.

6. Equity – This includes the full year operating surplus of \$157,000 from the statement of comprehensive income.

CHARGES RECEIVED IN CONNECTION WITH SECTION 51(4) OF THE LAND TRANSPORT MANAGEMENT ACT 2003

The following GST inclusive charges were received in connection with section 51(4) of the Land Transport Management Act (2003). This section reads:

“the toll operator may impose reasonable charges in connection with the administration of any method of payment”.

	Amount
Total Charges Received under s51(4) of the Land Transport Management Act (2003)	\$197,943

DISCLOSURES TO THE MINISTER

This section covers the requirements under section 16 of the Land Transport Management (Road Tolling Scheme for ALPURT B2) Order 2005.

The designated feasible, un-tolled, alternative route remains available to road users being SH17 through Orewa with an additional alternative route also being available through SH16.

The NZ Transport Agency provides a payment method that does not record the personal information in relation to the person paying the toll. The kiosks at either end of the Northern Gateway Toll Road do not record personal information of the person paying a toll. There have been no changes to this method of payment other than the introduction of the additional 40 cent administration charge per payment made through these facilities.

Details on the network utilisation can be found on www.tollroad.govt.nz/Documents/Reports.