SECTION F: STATEMENT OF FINANCIAL PERFORMANCE

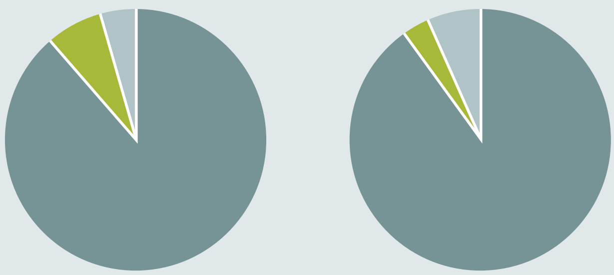
HIGHLIGHTS
FROM OUR FINANCIAL STATEMENTS

$2.1 billion TOTAL INCOME

The largest contribution to our income is from the National Land Transport Fund. We also receive revenue from the Crown to support specific projects such as the Canterbury rebuild and the SuperGold cardholders' scheme. Other revenue comes mostly from our licensing and regulatory activities, as well as motor vehicle licensing. The motor vehicle licensing fee income, previously funded primarily from Crown revenue in 2011/12, is now funded directly to the Transport Agency.

INCOME BY SOURCE

2011/12 **2012/13**



NATIONAL LAND TRANSPORT FUND
2011/12 **88.7%** 2012/13 **90.0%**

OTHER REVENUE
2011/12 **4.2%** 2012/13 **6.5%**

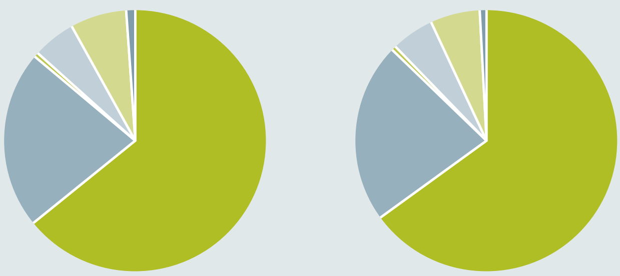
CROWN
2011/12 **7.1%** 2012/13 **3.5%**

2.0 billion TOTAL EXPENDITURE

Our expenditure is guided by the *Government Policy Statement on Land Transport Funding (GPS)* and the priorities identified in our *Statement of intent.* The majority of our expenditure was directly related to maintaining and improving our land transport infrastructure (65%). Depreciation and amortisation, reflecting the cost of asset ownership, contributed 22% of our annual expenditure.

EXPENSE BY TYPE

2011/12 **2012/13**



Transport Agency managed activities – includes the advertising, education and promotion programmes, vehicle impoundment, and sector training and research.

INVESTMENT IN LAND TRANSPORT
2011/12 **63.9%** 2012/13 **64.8%**

DEPRECIATION AND AMORTISATION EXPENSE
2011/12 **22.1%** 2012/13 **22.4%**

OTHER
2011/12 **0.5%** 2012/13 **0.4%**

PERSONNEL COSTS
2011/12 **5.4%** 2012/13 **5.5%**

OPERATING EXPENSES
2011/12 **6.9%** 2012/13 **6.0%**

NZTA MANAGED ACTIVITIES
2011/12 **1.2%** 2012/13 **1.0%**

$56.8 million NET SURPLUS

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

OPERATIONS		INVESTMENT IN LAND TRANSPORT		SPECIFIC PROJECTS FUNDED BY THE CROWN		TOTAL
Income $223.826m	+	Income $1,786.569m	+	Income $49.105m	=	Total income $2 ,059.500m
−		−		−		−
Expenditure $213.934m	+	Expenditure $1,731.283m	+	Expenditure $57.532m	=	Total expenditure $2,002.749m
=		=		=		=
Net surplus/(deficit) $9.892m	+	Net surplus/(deficit) $55.286m	+	Net surplus/(deficit) $(8.427)m	=	Total net surplus/(deficit) $56.751m

OPERATIONS

Activities the Transport Agency is accountable for, and delivers inhouse or contracts out.

This surplus compares favourably to the budgeted surplus of $1.1 million due to:

- higher volumes than forecast for motor vehicle registrations and their accompanying revenue from plates
- volume driven driver licensing revenue being ahead of budget due to higher numbers of licence renewals and reinstatements
- continued close monitoring of costs and seeking efficiencies in operations and projects.

INVESTMENT IN LAND TRANSPORT

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

This surplus was the result of local authorities and approved organisations spending less than planned due to the new National Land Transport Programme (NLTP) being approved after the start of the year.

SPECIFIC PROJECTS FUNDED BY THE CROWN

This includes the reinstatement of local roads in Canterbury transport project and SuperGold card public transport concessions.

This deficit was the result of a catch up from last year of work done to reinstate the local roads in Canterbury, which was funded in 2011/12.

Supplementary information for each of these segments is provided on pages 143 to 150.

$26.3 billion NET ASSETS

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

	Actual 2012/13 $000	Budget 2012/13 $000	Actual 2011/12 $000
Total assets	26,844,828	28,991,696	26,545,024
Less total liabilities	558,273	408,506	523,880
NET ASSETS/EQUITY AT END OF YEAR	**26,286,556**	**28,583,190**	**26,021,144**

We continue to maintain a strong balance sheet, with $26.8 billion of assets and a very low level of liabilities.

The state highway network accounts for 97% of our overall asset base.

HOW WE HAVE INVESTED IN OUR ASSETS

We have spent $1.2 billion on our capital expenditure programme, which has been invested in the following:

	Actual 2012/13 $000	Budget 2012/13 $000	Actual 2011/12 $000
Investment in state highways	1,182,555	1,187,216	1,087,026
Investment in information technology	8,516	9,883	6,109
Investment in offices and equipment	710	1,175	1,718
TOTAL	**1,191,781**	**1,198,274**	**1,094,853**

This year we delivered more kilometres of renewals than planned, for a lower than planned cost.

Investment in other assets was lower than budgeted due to the timing of projects, with the balance to be carried forward into 2013/14.

$26.3 billion TOTAL EQUITY

Equity is represented by our net worth, which is the total value of our assets of $26.8 billion less total liabilities of $558 million

	Actual 2012/13 $000	Budget 2012/13 $000	Actual 2011/12 $000
Crown's investment in the Transport Agency	5,606	5,606	5,198
Retained funds for operations	44,318	39,917	47,858
Surplus/(deficit)s accumulated from other revenue activities	1,018	(4,385)	(6,568)
Crown's investment in the state highway network	26,235,614	28,542,052	25,974,656
TOTAL EQUITY	**26,286,556**	**28,583,190**	**26,021,144**

Total equity is $2.3 billion lower than budgeted. The 2012/13 budget was set prior to the finalisation of the 2011/12 state highway valuation.

A significant focus on cost reduction has contributed to the positive balance for other revenue activities.

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013

	Note	Actual 2012/13 $000	Budget 2012/13 $000	Actual 2011/12 $000
INCOME				
Revenue from the Crown	3	71,773	137,031	142,149
Revenue from the National Land Transport Fund	3	1,853,425	1,857,227	1,769,352
Revenue from other activities	4	134,302	128,392	84,185
Total income		2,059,500	2,122,650	1,995,686
EXPENDITURE				
Personnel costs	5	109,232	108,224	105,326
Operating expenses	6	139,097	144,322	158,214
Investment in land transport [a]		1,293,497	1,426,502	1,244,440
Interest on borrowing		4,098	3,575	5,326
Depreciation and amortisation expense	7	449,346	421,460	432,134
State highway asset write-off		7,480	17,500	8,870
Total expenditure		2,002,749	2,121,583	1,954,310
NET SURPLUS		**56,751**	**1,067**	**41,376**
OTHER COMPREHENSIVE INCOME				
Gain/(loss) state highway network/bailey bridging revaluations		(411,820)	985,000	140,920
Total other comprehensive income		(411,820)	985,000	140,920
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(355,069)**	**986,067**	**182,296**

a. Investment in land transport refers to funding the NZ Transport Agency provides to approved organisations for local roads (new and improved infrastructure, renewals, maintenance and operations), public transport and road safety, and the NZ Transport Agency's maintenance and operation of the state highway network.

Explanations of major variances against budget are provided in note 34.

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

	Note	Actual 2012/13 $000	Budget 2012/13 $000	Actual 2011/12 $000
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	8	16,580	50,000	58,265
Debtor National Land Transport Fund	9	443,424	349,145	407,453
Debtor Crown	9	80,783	44,450	48,565
Debtors and other receivables	10	72,798	15,000	69,311
Property assets held for sale	11	83,813	0	57,772
Prepayments		7,015	500	2,256
Inventories		257	200	208
Total current assets		704,670	459,295	643,830
NON-CURRENT ASSETS				
Property, plant and equipment	12	18,702	23,761	18,518
State highway network	13	26,071,781	28,462,183	25,836,699
Bailey bridging	14	7,209	6,952	7,375
Intangible assets	15	41,611	39,010	37,747
Loans and advances	16	855	495	855
Total non-current assets		26,140,158	28,532,401	25,901,194
TOTAL ASSETS		**26,844,828**	**28,991,696**	**26,545,024**
LIABILITIES				
CURRENT LIABILITIES				
Creditors and other payables	17	439,296	291,137	373,755
Tolling funds held in trust		2,183	2,924	3,191
Employee entitlements	18	11,934	9,700	12,009
Borrowing	19	100,000	100,000	130,000
Total current liabilities		553,413	403,761	518,955
NON-CURRENT LIABILITIES				
Creditors and other payables	17	207	745	227
Employee entitlements	18	4,653	4,000	4,698
Total non-current liabilities		4,860	4,745	4,925
TOTAL LIABILITIES		**558,273**	**408,506**	**523,880**
NET ASSETS		**26,286,556**	**28,583,190**	**26,021,144**
EQUITY				
General funds		5,606	5,606	5,198
Retained funds	20	44,318	39,917	47,858
Memorandum account – other fees and charges	21	1,018	(4,385)	(6,568)
State highway network [a]	22	26,235,614	28,542,052	25,974,656
TOTAL EQUITY		**26,286,556**	**28,583,190**	**26,021,144**

a. The state highway network includes the state highway investment (including Bailey bridging) and revaluation reserves.

Explanations of major variances against budget are provided in note 34.

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

	Note	Actual 2012/13 $000	Budget 2012/13 $000	Actual 2011/12 $000
EQUITY – OPENING BALANCES				
General funds		5,198	5,198	5,198
Retained funds		47,858	40,778	66,739
Memorandum account – other fees and charges		(6,568)	(6,341)	(6,088)
State highway network		25,974,656	26,849,516	25,199,643
Total equity – opening balance		26,021,144	26,889,151	25,265,492
CHANGES IN EQUITY				
Equity movements				
Retained funds		(672,751)	(707,536)	(634,093)
Memorandum account – tolling	21	(27)	0	0
State highway network		672,778	707,536	634,093
		0	0	0
Comprehensive income				
Retained funds		49,138	(889)	41,856
Memorandum account – other fees and charges		7,613	1,956	(480)
State highways network – gain/(loss) on revaluations		(411,820)	985,000	140,920
		(355,069)	986,067	182,296
Owner transactions				
Capital contribution – general funds		408	408	0
Capital contribution – Crown		15,000	0	0
Capital contribution – National Land Transport Programme	23	605,073	707,564	573,356
		620,481	707,972	573,356
Total changes in equity		265,412	1,694,039	755,652
EQUITY – CLOSING BALANCE				
General funds		5,606	5,606	5,198
Retained funds		44,318	39,917	47,858
Memorandum account – other fees and charges		1,018	(4,385)	(6,568)
State highway network		26,235,614	28,542,052	25,974,656
TOTAL EQUITY – CLOSING BALANCES		**26,286,556**	**28,583,190**	**26,021,144**

Explanations of major variances against budget are provided in note 34.

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2013

	Note	Actual 2012/13 $000	Budget 2012/13 $000	Actual 2011/12 $000
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Crown revenue		39,555	137,031	142,149
Receipts from National Land Transport Fund revenue		1,787,454	1,948,227	1,765,941
Receipts from other revenue		130,492	128,019	57,146
Interest received		323	373	243
Payments to suppliers		(1,270,241)	(1,613,799)	(1,295,538)
Payments to employees		(109,351)	(108,224)	(104,213)
Goods & services tax (net)		(1,956)	600	(9,093)
Net cash from operating activities	24	576,276	492,227	556,635
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from sale of property, plant and equipment		804	0	3,453
Receipts from sale of state highway held properties		60,771	50,000	20,403
Payments to suppliers		(100,692)	(94,977)	(88,357)
Purchase of property, plant and equipment		(4,671)	(4,050)	(6,381)
Purchase of intangible assets		(8,001)	(5,358)	(7,587)
State highway network		(1,152,555)	(1,092,239)	(1,107,026)
Loan to local authority		(0)	0	27,980
Net cash from investing activities		(1,204,344)	(1,146,624)	(1,157,515)
CASH FLOWS FROM FINANCING ACTIVITIES				
Capital contribution (Crash Analysis System)		408	408	0
Capital contribution from the Crown		15,000	0	0
Capital contribution from the National Land Transport Fund		605,073	707,564	573,356
Borrowing		160,000	150,000	170,000
Repayment of borrowing		(190,000)	(200,000)	(150,000)
Interest paid on borrowing		(4,098)	(3,575)	(5,326)
Net cash from financing activities		586,383	654,397	588,030
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(41,685)	0	(12,850)
Cash and cash equivalents at the beginning of the year		58,265	50,000	71,115
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	8	**16,580**	**50,000**	**58,265**

The GST (net) component of operating activities reflects the net GST paid and received with the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes and to be consistent with the presentation basis of the other primary financial statements. The 2011/12 receipts from other revenue, payments to suppliers and GST (net) have been adjusted to correct mis-classification.

Explanations of major variances against budget are provided in note 34.

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 NEW ZEALAND TRANSPORT TICKETING LIMITED

New Zealand Transport Ticketing Ltd has been established as a Crown Entity Subsidiary, under the governance of the Transport Agency, to execute the operational plan for supporting a national integrated transport ticketing system and managing information services generated from such a system.

New Zealand Transport Ticketing Ltd was incorporated on 14 November 2011.

The Transport Agency has not consolidated its wholly-owned subsidiary, as New Zealand Transport Ticketing Ltd has not traded during the year and has no assets or liabilities as at 30 June 2013.

The Transport Agency is in the course of developing a New Zealand wide public transport automated fare collection system.

2 STATEMENT OF ACCOUNTING POLICIES

Reporting entity

The Transport Agency is a Crown entity as defined by the Crown Entities Act 2004 and is domiciled in New Zealand. As such, the Transport Agency's ultimate parent is the New Zealand Crown.

The Transport Agency's primary objective is to provide services to the NZ public, as opposed to making a financial return. Accordingly, the Transport Agency has designated itself a public benefit entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements for the Transport Agency are for the year ended 30 June 2013, and were approved by the Board on 25 September 2013.

Basis of preparation

Statement of compliance

The financial statements of the Transport Agency have been prepared in accordance with the requirements of the Crown Entities Act 2004, which includes the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

These financial statements have been prepared in accordance with NZ GAAP as appropriate for public benefit entities and they comply with NZ IFRS.

Measurement base

The financial statements have been prepared on a historical cost basis, except where modified by the revaluation of the state highway network and Bailey bridging stock. The measurement of financial assets and financial liabilities is at amortised cost.

Functional and presentation currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000). The functional currency of the Transport Agency is New Zealand dollars (NZ$).

Changes in accounting policies

There have been no changes in accounting policies during the financial year.

Standards, amendments and interpretations issued that are not yet effective and have not been early adopted

Standards, amendments and interpretations issued but not yet effective that have not been early adopted and which are relevant to the Transport Agency, are:

- NZ IFRS 9 *Financial instruments* will eventually replace NZ IAS 39 Financial instruments: recognition and measurement. NZ IAS 39 is being replaced through the following three main phases: Phase 1 Classification and measurement, Phase 2 Impairment methodology, and Phase 3 Hedge accounting. Phase 1 has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus/deficit. The new standard is required to be adopted for the year ended 30 June 2016. However, as a new Accounting Standards Framework will apply before this date, there is no certainty when an equivalent standard to NZ IFRS 9 will be applied by public benefit entities.

The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a Tier Strategy) developed by the External Reporting Board (XRB). Under this Accounting Standards Framework, the Transport Agency is classified as a Tier 1 reporting entity and it will be required to apply full Public Benefit Entity Accounting Standards (PAS). These standards are being developed by the XRB based on current International Public Sector Accounting Standards. The effective date for the new standards for public sector entities is expected to be for reporting periods beginning on or after 1 July 2014. This means the Transport Agency expects to transition to the new standards in preparing its 30 June 2015 financial statements. As the PAS are still under development, the Transport Agency is unable to assess the implications of the new Accounting Standards Framework at this time.

Due to the change in the Accounting Standards Framework for public benefit entities, it is expected that all new NZ IFRS and amendments to existing NZ IFRS will not be applicable to public benefit entities. Therefore, the XRB has effectively frozen the financial reporting requirements for public benefit entities up until the new Accounting Standard Framework is effective. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope. The Transport Agency is still to assess the impact of the changes as they are only exposure drafts at this stage.

Significant accounting policies

REVENUE

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

Revenue from the Crown and the National Land Transport Fund

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

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

Interest

Interest income is recognised using the effective interest method. Interest income on an impaired financial asset is recognised using the original effective interest rate.

Rental income

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

BORROWING COSTS

The Transport Agency has elected to defer adoption of the revised NZ IAS 23 Borrowing costs (revised 2007) in accordance with the transitional provisions of NZ IAS 23 that are applicable to public benefit entities. Consequently, all borrowing costs are recognised as an expense in the financial year in which they are incurred.

FOREIGN CURRENCY TRANSACTIONS

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

LEASES

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

CASH AND CASH EQUIVALENTS

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

DEBTORS AND OTHER RECEIVABLES

Short-term debtors and other receivables are recorded at their face value, less any provision for impairment.

Impairment of a receivable is established when there is objective evidence that the Transport Agency will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership or liquidation, and default in payments are considered indicators that the debt is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectible, it is written off against the allowance account for receivables. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due).

INVENTORIES

Inventories held for distribution in the provision of services that are not supplied on a commercial basis are measured at the lower of cost (calculated using the weighted average method), adjusted, when applicable, for any loss of service potential. Where inventory is acquired at no cost or for nominal consideration, the cost is the current replacement cost at the date of acquisition.

Inventory held for use in the provision of goods and services on a commercial basis are valued at the lower of cost and net realisable value. The cost of purchased inventory is determined using the weighted average cost method.

The amount of any write-down for the loss of service potential or from cost to net realisable value is recognised in the surplus or deficit in the period of the write-down.

PROPERTY ASSETS HELD FOR SALE

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

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

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

Property assets held for sale (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

PROPERTY, PLANT AND EQUIPMENT

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

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

Additions

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

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

In most instances, an item of property, plant, and equipment is initially recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at its fair value as at the date of acquisition.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit. When revalued assets are sold, the amounts included in revaluation reserves in respect of those assets are transferred to general funds.

Subsequent costs

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

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

VALUATION OF STATE HIGHWAY NETWORK AND BAILEY BRIDGING

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

Bailey bridging is valued at optimised depreciated replacement cost based on the optimum size of asset holding by the unit cost for each category of asset.

A cyclical basis is used so that each region is revalued at an interval not exceeding 3.5 years. Those regions that are not subject to full revaluation in a particular year will be subject to a valuation update through the use of price indices.

Increases in the carrying amount arising on revaluation of the state highway are credited to the asset revaluation reserve. Decreases that offset previous increases of the same asset are charged against the asset revaluation reserve. All other decreases are charged to the statement of comprehensive income. Each year the depreciation, based on the revalued carrying amount of the asset, is charged to the statement of comprehensive income. The gain or loss on the asset revaluation reserve is also charged to the statement of comprehensive income.

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 economic benefits associated with the item will flow to the Transport Agency and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the statement of comprehensive income. When revalued assets are sold, the amounts included in the assets revaluation reserve in respect of those assets are transferred to general funds.

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

Brownfield costs have been accounted for where they can be reliably measured. Brownfield cost is a generic term for the additional costs of constructing in a particular location because of the increased intensity of surrounding land use compared to the cost of constructing in a vacant Greenfield situation. A major component of brownfield costs are one-off costs necessary to make the land freely available to build the state highway, and are not part of the physical construction cost. They include capital works relating to relocation and refurbishment of assets owned by other parties, work to protect the privacy and environment of adjoining properties, and compensation to landowners.

Other components of brownfield cost result from the increased constraints or requirements imposed when constructing in an already developed location. Examples include increased traffic management and security, limitations on available contractor areas for storage, parking, buildings and general operations, noise and dust limitations, and restricted hours of work.

DEPRECIATION

Depreciation is provided on a straight-line basis on all property, plant and equipment other than land, held properties, formation and the sub-base component of pavement (base), at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

ASSETS	USEFUL LIFE (YEARS)	DEPRECIATION RATE (%)
State highways – pavement (base)	50	2.0
State highways – pavement (surface)	7	14.3
State highways – drainage	60	1.7
State highways – traffic facilities	15	6.7
State highways – bridges	90–100	1.0–1.1
State highways – culverts and subways	50–75	1.3–2.0
State highways – other structures	100	1.0
Bailey bridging – panels	70	1.4
Bailey bridging – transoms	103	0.97
Bailey bridging – stringers	100	1.0
Bailey bridging – chord reinforcing	69	1.4
Bailey bridging – other miscellaneous	76	1.3
Motor vehicles	4	25.0
Computer equipment	3	33.3
Plant	5–10	10.0–20.0
Equipment	5–8	12.5–20.0
Furniture and fittings	5–10	10.0–20.0
Office equipment	4–5	20.0–25.0
Leasehold improvements	Life of lease	7.7–33.0

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

INTANGIBLE ASSETS

Software acquisition and development

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

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

Staff training costs are recognised as an expense when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred.

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

Amortisation

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

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

ASSETS	USEFUL LIFE (YEARS)	DEPRECIATION RATE (%)
Computer software	3–10	10–33.3

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

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

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the Transport Agency would, if deprived of the asset, replace its remaining future economic benefits or service potential.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. For re-valued assets, the impairment loss is recognised in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation reserve in equity for the class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the surplus or deficit.

For assets not carried at a re-valued amount, the total impairment loss is recognised in the surplus or deficit.

The reversal of an impairment loss on a re-valued asset is credited to the other comprehensive income and increases the asset revaluation reserve for that class of asset. However, to the extent that an impairment loss for that class of asset was previously recognised in the surplus or deficit, a reversal of the impairment loss is also recognised in the surplus or deficit.

For assets not carried at a re-valued amount, the reversal of an impairment loss is recognised in the surplus or deficit.

FINANCIAL ASSETS

Financial assets are classified as loans and receivables.

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

Loan to local authority

Loans to the local authorities, made at the government bond rate, are initially recognised at present value of their future cash flows, discounted at the current market rate of return for a similar financial instrument. The difference between the face value and present value of the expected future cash flows of the loan is recognised in the statement of comprehensive income.

CREDITORS AND OTHER PAYABLES

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

BORROWING

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

EMPLOYEE ENTITLEMENTS

Short-term employee entitlements

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

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

A liability for sick leave is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that it will be used by staff to cover those future absences.

A liability and an expense are recognised for bonuses where there is a contractual obligation or where there is a past practice that has created a constructive obligation.

Long-term employee entitlements

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

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

Presentation of employee entitlements

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

SUPERANNUATION SCHEMES

Defined contribution schemes

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

PROVISIONS

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

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

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are lower than the unavoidable cost of meeting the obligations under the contract.

The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

JOINTLY CONTROLLED OPERATIONS

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

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

EQUITY

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

› general funds
› retained funds
› memorandum account – other fees and charges
› state highway investment and revaluation reserve.

State highway revaluation reserve

This reserve relates to the revaluation of the state highway network and Bailey bridging.

GOODS AND SERVICES TAX

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

INCOME TAX

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

BUDGET FIGURES

The budget figures are derived from the Statement of intent as approved by the Board at the beginning of the financial year. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Board in preparing these financial statements.

COST ALLOCATION

The Transport Agency has determined the cost of outputs using the cost allocation system outlined below.

Direct costs are those costs directly attributed to an output. Indirect costs are those costs that cannot be identified in an economically feasible manner, with a specific output.

Direct costs are charged directly to outputs. Indirect costs are charged to outputs based on cost drivers and related activity/usage information. The three types of indirect costs are:

1. Corporate overheads – costs arising from the Board, Chief Executive, Group Managers (Organisational Support, People and Capability, Strategy, Communications and Performance) and business support units such as Finance, Human Resources, Information Technology, Legal, Audit and others. These costs are allocated to output classes then to business activities using full time equivalents responsible for delivering the output and their corresponding salaries as the cost drivers.
2. Regional office costs – costs relating to operating and maintaining a regional office such as office rent and building management. These costs are allocated to output classes then to business activities using the number of full time equivalents in each region as the cost driver.
3. Operational cost centres' own shared costs – costs incurred directly on account of more than one business activity within that operational cost centre. These shared costs are assigned to business activities based on the proportion of the estimated time spent on the affected business activities.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Property, plant and equipment useful lives and residual value

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

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

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

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

Retirement and long service leave

Note 18 provides an analysis of the exposure in relation to estimates and uncertainties surrounding retirement and long service leave liabilities.

CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Management has exercised the following critical judgements in applying accounting policies:

State highway network and Bailey bridging

State highways are valued at depreciated replacement cost based on the estimated present cost of constructing the existing assets by the most appropriate method of construction, reduced by factors for the age and condition of the asset. Land associated with the state highway is valued using an opportunity cost based on adjacent use, as an approximation to fair value.

Bailey bridging is valued at optimised depreciated replacement cost based on the optimum size of asset holding by the unit cost for each category of asset.

Critical judgements relate to:

› estimating the replacement cost of existing assets, including the impact of cost allocation and whether a cost should be capitalised or expensed. The Transport Agency incurs expenditure on maintaining state highways and on new and improved infrastructure for state highways. Professional judgement and engineering assessments are used to determine whether costs incurred on State highways should be capitalised or expensed
› the age, condition and remaining economic life of existing assets, including the impact of maintenance thereon
› determining the optimum level of Bailey bridging stock.

The asset base has been compiled over a number of years and has a degree of inaccuracy as some historic records are incomplete.

Brownfield construction costs are included in the valuation where they can be reliably measured. Brownfield construction costs include:

› temporary traffic management
› demolition and removal of displaced assets
› restoration of damaged/severed utility infrastructure
› re-establishment of the interface between the new and existing development (landscaping, footpaths, roads, fences, driveways etc)
› environment compliance
› work restrictions (noise, hours, limitations on available site area for contractors, storage/plant/offices etc).

Further work is currently being carried out to determine a reliable measure of brownfield costs not included in the state highway assets.

Leases classification

Determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the Transport Agency.

Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term, and determining an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset is recognised in the statement of financial position as property, plant, and equipment, whereas for an operating lease no such asset is recognised.

The Transport Agency has exercised its judgement on the appropriate classification of equipment leases, and has determined a number of lease arrangements are finance leases.

3 REVENUE FROM THE CROWN AND NATIONAL LAND TRANSPORT FUND

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

4 REVENUE FROM OTHER ACTIVITIES

	Note	Actual 2012/13 $000	Actual 2011/12 $000
Border inspection fees		1,794	1,691
Certification review fees		7,516	7,674
Driver licensing fees		29,090	28,381
Driver testing fees		16,478	15,385
Motor vehicle licensing fees	a	52,535	0
Over-dimension and overweight permits		459	441
Rail licensing fees		1,230	656
Standards development fee and certification levies		6,106	5,971
Transport licensing fees		6,707	8,319
Total fees and charges		121,914	68,518
Administration fee from Accident Compensation Corporation	b	855	5,300
Business units	c	1,040	1,166
Crash analysis system support		39	257
Levy on personalised plates for community road safety initiatives		84	584
Road Safety Trust administration		106	85
Tolling fees and contributions		5,839	5,539
Interest income		323	243
Net gain on disposal of assets		0	723
Kiwisaver		158	970
Recoveries from state highway activities (eg damages to state highway furniture)		3,498	459
Miscellaneous revenue		444	341
TOTAL REVENUE FROM OTHER ACTIVITIES		**134,302**	**84,185**

a. Motor vehicle licensing, previously funded primarily from Crown revenue, is now funded directly to the Transport Agency.

b. ACC no longer contributes to the cost of administration.

c. These are activities the Transport Agency has undertaken, which are not funded from the National Land Transport Programme, but where operating costs are covered by the income generated from these activities.

	Bailey bridging $000	CAPTIF $000	Training & education $000	Total $000
Revenue earned in 2012/13	0	372	668	1,040
Revenue earned in 2011/12	74	521	571	1,166

CAPTIF – Canterbury Accelerated Pavement Testing Indoor Facility

5 PERSONNEL COSTS

	Note	Actual 2012/13 $000	Actual 2011/12 $000
Salaries and wages	a	106,243	101,064
Defined contribution plan employer contributions		1,640	1,264
Other personnel costs		1,349	2,998
TOTAL PERSONNEL COSTS		**109,232**	**105,326**

a. An additional $12.125 million (2012: $11.535 million) was incurred for staff who are employed to manage state highway capital projects. These project management staff are charged directly to the projects and the costs capitalised.

6 OPERATING EXPENSES

	Note	Actual 2012/13 $000	Actual 2011/12 $000
Fees to principal auditors:			
– audit fees for financial statement audit		379	320
– fees to Audit New Zealand for probity audit services		11	0
Operating lease expense		18,026	21,928
Impairment of receivables		296	248
Commissions		43,927	45,378
Transaction costs		17,300	17,526
Professional services		14,715	20,564
Road user safety advertising		13,277	14,388
Publications and promotions		1,965	2,308
Information technology	a	12,348	17,654
Meetings and conferences		873	773
Staff travel		6,061	5,968
Communications		2,053	1,877
Office management		2,871	2,832
Building management		2,555	2,364
Fees for Board members		292	305
Courses, training and professional subscriptions		1,994	2,802
Other		151	980
TOTAL OPERATING EXPENSES		**139,097**	**158,214**

a. Following successful implementation of the registry modernisation programme, a reduction in ongoing operating costs for support/operation of the registers (drivers, motor vehicle, safety, RUC) is now being realised.

7 DEPRECIATION AND AMORTISATION EXPENSE

	Actual 2012/13 $000	Actual 2011/12 $000
Depreciation (note 12)	3,668	4,013
Depreciation on state highway network (note 13)	441,332	423,474
Depreciation on Bailey bridging (note 14)	194	186
Amortisation (note 15)	4,151	4,461
TOTAL DEPRECIATION AND AMORTISATION EXPENSE	**449,346**	**432,134**

8 CASH AND CASH EQUIVALENTS

	Actual 2012/13 $000	Actual 2011/12 $000
Cash at bank and on hand	11,786	53,481
Cash at bank and on hand (for tolling accounts)	4,795	4,784
TOTAL CASH AND CASH EQUIVALENTS	**16,580**	**58,265**

The carrying value of cash at bank and short-term deposits with maturities less than three months approximates their fair value.

9 DEBTOR NATIONAL LAND TRANSPORT FUND AND CROWN

The Debtor National Land Transport Fund represents amounts owed by the National Land Transport Fund to the Transport Agency. This is for activities completed by the Transport Agency where the National Land Transport Fund is the source of the funding. The Debtor Crown represents amounts owed by the Crown to the Transport Agency. This is for activities completed by the Transport Agency where the Crown directly sources the funding.

10 DEBTORS AND OTHER RECEIVABLES

	Actual 2012/13 $000	Actual 2011/12 $000
Debtors and other receivables	76,137	71,660
Less: Provision for impairment	3,339	2,349
TOTAL DEBTORS AND OTHER RECEIVABLES	**72,798**	**69,311**

Fair value

The carrying value of receivables approximates their fair value.

Actual 2011/12 debtors and other receivables has been adjusted for GST receivable, which was previously reported as an offset to creditors and other payables. The adjustment is an increase of $43.3m.

Impairment

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

		2012/13			2011/12	
	Gross $000	Impairment $000	Net $000	Gross $000	Impairment $000	Net $000
Not past due date	71,252	0	71,252	64,032	0	64,032
Past due 1–30 days	1,035	0	1,035	1,824	0	1,824
Past due 31–60 days	556	(45)	511	359	0	359
Past due 61–90 days	663	(663)	0	2,462	0	2,462
Past due over 90 days	2,631	(2,631)	0	2,983	(2,349)	634
TOTAL	**76,138**	**(3,339)**	**72,798**	**71,660**	**(2,349)**	**69,311**

All receivables greater than 30 days in age are considered to be past due.

Impairment is determined by review of individual overdue debts. However, all old debts are vigorously followed up.

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

	Actual 2012/13 $000	Actual 2011/12 $000
Balance at 1 July	2,349	5,668
Operating provisions made during the year	296	248
Additional provisions made during the year	1,200	654
Receivables written off during the year	(506)	(4,221)
BALANCE AT 30 JUNE	**3,339**	**2,349**

11 PROPERTY ASSETS HELD FOR SALE

The Transport Agency owns 280 properties valued at $83.813 million (2012: $57.772 million) which have been classified as held for sale. It is expected that these properties will be sold by 30 June 2014.

12 PROPERTY, PLANT AND EQUIPMENT

Movements for each class of property, plant and equipment are as follows:

	Motor vehicles $000	Computer equipment $000	Furniture fittings $000	Leasehold improvements $000	Office, plant & equipment $000	Total $000
COST OR VALUATION						
Balance at 1 July 2011	222	7,920	4,760	15,938	1,624	30,464
Additions	0	2,159	807	2,545	109	5,620
Reclassification	0	453	(36)	(56)	(363)	(2)
Work in progress	0	0	0	(2,308)	0	(2,308)
Disposals	(164)	(2,272)	(635)	(327)	(55)	(3,453)
Balance at 30 June 2012	58	8,260	4,896	15,792	1,315	30,321
Balance at 1 July 2012	58	8,260	4,896	15,792	1,315	30,321
Additions	0	2,382	105	379	226	3,092
Reclassification	0	(103)	(74)	0	0	(177)
Work in progress	0	0	0	831	81	912
Disposals	0	(562)	(64)	(143)	(35)	(804)
Balance at 30 June 2013	58	9,977	4,863	16,859	1,587	33,344
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES						
Balance at 1 July 2011	187	4,964	1,772	3,007	998	10,928
Depreciation expense	22	1,801	594	1,310	286	4,013
Reclassification	0	296	23	(15)	(305)	(1)
Impairment losses	0	(129)	(62)	(57)	(6)	(254)
Elimination on disposal	(151)	(2,081)	(455)	(151)	(45)	(2,883)
Balance at 30 June 2012	58	4,851	1,872	4,094	928	11,803
Balance at 1 July 2012	58	4,851	1,872	4,094	928	11,803
Depreciation expense	1	1,714	444	1,396	113	3,668
Reclassification	0	(214)	120	0	59	(35)
Impairment losses	0	(41)	(6)	0	0	(47)
Elimination on disposal	(1)	(560)	(61)	(91)	(34)	(747)
Balance at 30 June 2013	58	5,750	2,369	5,399	1,066	14,642
CARRYING AMOUNTS						
At 30 June 2012	0	3,409	3,024	11,698	387	18,518
At 30 June 2013	0	4,227	2,494	11,460	521	18,702

13 STATE HIGHWAY NETWORK

Movements for the state highway network are as follows:

	Actual 2012/13 $000	Actual 2011/12 $000
COST OR VALUATION		
Balance at 1 July	25,836,699	25,119,414
Additions – capital expenditure	1,182,555	1,087,026
Revaluation gains/(losses)	(411,848)	140,671
Depreciation expense	(441,332)	(423,474)
Disposals	(60,771)	(20,403)
Asset write-off	(7,480)	(8,870)
Change in non-current assets held for sale	(26,041)	(57,772)
Tolling system assets	0	107
BALANCE AT 30 JUNE	**26,071,782**	**25,836,699**

The most recent valuation of the state highway network and Bailey bridging was performed by a registered independent valuer, J Vessey, BE (Civil), BA (Economics), FIPENZ (Civil), CPEng, of Opus International Consultants Ltd. The total fair value amounted to $26.072 billion (2012: $25.837 billion) and this valuation is effective as at 30 June 2013.

Depreciated replacement cost is used to value these assets and is calculated by deducting an allowance for accumulated depreciation from the replacement cost, using a number of significant assumptions. These significant assumptions include:

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

	Replacement cost $000	Accum deprn $000	Valuation 2012/13 $000	Replacement cost $000	Accum deprn $000	Valuation 2011/12 $000
State highway corridor land	6,930,313	0	6,930,313	7,393,681	0	7,393,681
Held properties	988,685	0	988,685	901,388	0	901,388
Formation	7,287,210	0	7,287,210	7,232,840	0	7,232,840
Pavement (other)	4,426,196	1,333,932	3,092,264	4,175,530	1,005,500	3,170,030
Pavement (surface)	1,202,600	598,470	604,130	1,171,180	575,020	596,160
Drainage	1,207,270	545,920	661,350	1,170,170	530,250	639,920
Traffic facilities	1,709,550	761,430	948,120	1,634,560	691,480	943,080
Bridges	6,473,360	2,580,470	3,892,890	6,105,680	2,605,820	3,499,860
Culverts and subways	490,710	191,520	299,190	470,620	191,480	279,140
Other structures	1,764,590	396,960	1,367,630	1,548,420	367,820	1,180,600
TOTAL	**32,480,484**	**6,408,702**	**26,071,782**	**31,804,069**	**5,967,370**	**25,836,699**

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

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

The Transport Agency has identified a few instances where some of the quantities have been understated and some actual costs have not been included in the underlying databases.

The valuer has valued the state highway on the basis of the information in the databases. In arriving at a value, the valuer has noted that the reported valuation is potentially understated due to the issues described above.

Brownfield costs are assessed as being the most significant part of the potential undervaluation with the remaining due to incomplete records.

The Transport Agency has a plan to improve the accuracy of the asset databases and identify all costs able to be capitalised, which will serve to reduce the understatement of the value of the state highway network.

Work in progress

The total amount of the state highway network in the course of construction is $919.420 million (2012: $797.050 million).

14 BAILEY BRIDGING

Movements for Bailey bridging are as follows:

	Actual 2012/13 $000	Actual 2011/12 $000
COST OR VALUATION		
Balance at 1 July	7,375	7,312
Revaluation gains/(losses)	28	249
Depreciation expense	(194)	(186)
BALANCE AT 30 JUNE	**7,209**	**7,375**

Note 13 has commentary on the valuation which is also relevant to Bailey bridging.

	Replacement cost $000	Accumulated depreciation $000	Valuation 2012/13 $000	Replacement cost $000	Accumulated depreciation $000	Valuation 2011/12 $000
Panels	4,838	2,794	2,044	5,363	3,236	2,127
Transoms	1,810	764	1,046	1,718	667	1,051
Stringers	2,057	984	1,073	1,952	872	1,080
Chord reinforcing	3,218	1,865	1,353	3,054	1,659	1,395
Other miscellaneous	3,765	2,072	1,693	3,573	1,851	1,722
TOTAL	**15,688**	**8,479**	**7,209**	**15,660**	**8,285**	**7,375**

15 INTANGIBLE ASSETS

Movements within acquired software assets are as follows:

	Actual 2012/13 $000	Actual 2011/12 $000
COST		
Balance at 1 July	60,445	54,304
Additions	6,134	11,758
Reclassification	97	2
Work in progress movements	1,867	(4,171)
Disposals	(164)	(1,448)
Balance at 30 June	68,379	60,445
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES		
Balance at 1 July	22,698	19,511
Amortisation expense	4,151	4,461
Reclassification	34	0
Disposals	(116)	(1,274)
Balance at 30 June	26,767	22,698
CARRYING AMOUNTS		
At 30 June 2012	37,747	34,793
At 30 June 2013	41,611	37,747

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

Work in progress

The total amount of intangible assets in the course of development is $22.065 million (2012: $20.198 million). This includes $20 million for a New Zealand wide public transport automated fare collection system.

16 LOANS AND ADVANCES

Statutory advances

Under the Public Works Act, the Transport Agency has provided statutory advances of $0.855 million (2012: $0.855 million).

17 CREDITORS AND OTHER PAYABLES

	Actual 2012/13 $000	Actual 2011/12 $000
CURRENT PORTION		
Creditors	432,042	368,379
Income in advance	4,625	3,148
Income in advance (for tolling)	2,521	2,110
Lease make-good provision	70	70
Onerous contracts	38	48
Total current portion	439,296	373,755
NON-CURRENT PORTION		
Onerous contracts	207	227
Total non-current portion	207	227
TOTAL CREDITORS AND OTHER PAYABLES	**439,503**	**373,982**

Actual 2011/12 creditors and other payables has been adjusted for GST receivable, which was previously reported as an offset to creditors and other payables. The adjustment is an increase of $43.3m.

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

Lease make-good provision

In respect of a number of its leased premises, the Transport Agency is required at the expiry of the lease term to make good any damage caused to the premises and to remove any fixtures or fittings installed by the Transport Agency. In many cases, the Transport Agency has the option to renew these leases, which affects the timing of expected cash outflows to make-good the premises. Information about the Transport Agency's leasing arrangements is disclosed in note 25.

Onerous contracts provision

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

18 EMPLOYEE ENTITLEMENTS

	Actual 2012/13 $000	Actual 2011/12 $000
CURRENT PORTION		
Accrued salaries and wages	3,141	3,129
Annual leave	8,010	7,950
Sick leave	424	479
Long service leave	359	451
Total current portion	11,934	12,009
NON-CURRENT PORTION		
Retirement and long service leave	4,653	4,698
Total non-current portion	4,653	4,698
TOTAL EMPLOYEE ENTITLEMENTS	**16,587**	**16,707**

The actuarial valuation as at 30 June 2013 was conducted inhouse rather than by external consultants, as in the past, using prescribed Treasury guidance.

The sick, long service and retirement leave valuations involves making projections of each employee over their future service. The employee leaving probability have been determined with reference to updated public service leaving statistics. Additional economic assumptions were taken from Treasury guidance.

Sensitivity analysis has been performed to assess the financial impact of the changes in the assumptions to the retirement and long service leave liabilities. Using 2% salary increase factor, with all other factors held constant, the carrying amount of the expected liability would be $258,000 lower. Using 4% salary increase factor, the expected liability would be $93,000 higher.

Using 50% of the assumed resignation rate, with all other factors held constant, the amount of expected liability would be $443,000 higher. If the resignation rate is at 150% of the assumed rate, then the expected liability would be $345,000 lower.

19 BORROWING

The Estimates of Appropriations includes a borrowing facility for short-term advances to the Transport Agency from the Crown, to manage variations between cash outlays from and flows of hypothecated revenue into the National Land Transport Fund. The maximum amount of such advances at any one time shall not exceed $250 million.

The Transport Agency has received $100 million as at 30 June 2013 (2012: $130 million).

The fair value of the borrowing is $100.139 million (2012: $130.116 million), based on cash flows discounted using Treasury determined coupon rate of 3.25% (2012: 3.25%).

20 RETAINED FUNDS

	Note	Actual 2012/13 $000	Actual 2011/12 $000
RETAINED FUNDS – NZ TRANSPORT AGENCY OPERATIONS			
Balance at 1 July		21,018	24,469
Surplus/(deficit) from operations		2,278	(3,451)
Tolling balance from memorandum account		27	0
Balance at 30 June		23,323	21,018
RETAINED FUNDS – NATIONAL LAND TRANSPORT PROGRAMME			
Balance at 1 July		0	0
Capital contribution from the National Land Transport Fund		605,073	573,356
Surplus/(deficit) from operations		0	1,072
Surplus/(deficit) from Investment in land transport		55,286	35,597
Transfer to state highway investment	a	(657,778)	(634,093)
NLTP funds provided for public transport automated fare collection system		(2,582)	24,068
Balance at 30 June		0	0
RETAINED FUNDS – SPECIFIC PROJECTS FUNDED BY THE CROWN			
Balance at 1 July		9,422	784
Capital contribution from the Crown		15,000	0
Surplus/(deficit)		(8,427)	8,638
Transfer to state highway investment	a	(15,000)	0
Balance at 30 June		995	9,422
NLTP FUNDS PROVIDED FOR PUBLIC TRANSPORT AUTOMATED FARE COLLECTION SYSTEM			
Balance at 1 July		17,418	41,486
Funds from the National Land Transport Programme		2,582	(24,068)
Balance at 30 June		20,000	17,418
TOTAL RETAINED FUNDS		**44,318**	**47,858**

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

	Actual 2012/13 $000	Actual 2011/12 $000
Capitalised expenditure	1,167,555	1,087,026
State highway depreciation and asset write-off	(449,006)	(432,530)
State highway disposals to the National Land Transport Programme	(60,771)	(20,403)
Retained funds – National Land Transport Programme	657,778	634,093
Capitalised expenditure	15,000	0
Retained funds – specific projects funded by the Crown	15,000	0
TRANSFER TO STATE HIGHWAY INVESTMENT	672,778	634,093

21 MEMORANDUM ACCOUNT – OTHER FEES AND CHARGES

	Actual 2012/13 $000	Actual 2011/12 $000
Balance at 1 July	(6,568)	(6,088)
Surplus/(deficit) from operations	7,613	(480)
Tolling balance to retained funds – NZ Transport Agency operations	(27)	0
TOTAL MEMORANDUM ACCOUNT – OTHER FEES AND CHARGES	1,018	(6,568)

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

	Actual 2012/13 $000	Actual 2011/12 $000
Customer licensing activities	(3,389)	(6,654)
Vehicle standards compliance activities	4,407	59
Tolling	0	27
TOTAL MEMORANDUM ACCOUNT – OTHER FEES AND CHARGES	1,018	(6,568)

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

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

22 STATE HIGHWAY NETWORK

	Note	Actual 2012/13 $000	Actual 2011/12 $000
STATE HIGHWAY INVESTMENT			
Balance at 1 July		17,768,174	17,134,081
Transfer from the National Land Transport Programme	20	672,778	634,093
Balance at 30 June		18,440,952	17,768,174
STATE HIGHWAY REVALUATION RESERVE			
Balance at 1 July		8,206,482	8,065,562
Revaluation gains/(losses) – state highway network		(411,848)	140,671
Revaluation gains/(losses) – Bailey bridging		28	249
Balance at 30 June		7,794,662	8,206,482
TOTAL STATE HIGHWAY NETWORK		**26,235,614**	**25,974,656**

23 CAPITAL CONTRIBUTION – NATIONAL LAND TRANSPORT PROGRAMME

	Actual 2012/13 $000	Actual 2011/12 $000
New and improved infrastructure for state highways	430,064	373,625
Renewal of state highways	175,009	199,731
TOTAL CAPITAL CONTRIBUTION – NATIONAL LAND TRANSPORT PROGRAMME	**605,073**	**573,356**

24 RECONCILIATION OF NET SURPLUS/(DEFICIT) TO NET CASH FROM OPERATING ACTIVITIES

	Actual 2012/13 $000	Actual 2011/12 $000
NET SURPLUS/(DEFICIT)	56,751	41,376
ADD/(LESS) NON-CASH ITEMS:		
Depreciation and amortisation expense	449,346	432,134
State highway asset write-off	7,480	8,870
Increase/(decrease) in employee entitlements	(45)	745
Total non-cash items	456,781	441,749
ADD/(LESS) ITEMS CLASSIFIED AS INVESTING OR FINANCIAL ACTIVITIES:		
Payments to suppliers	100,692	88,357
Borrowing	160,000	170,000
Repayment of borrowing	(190,000)	(150,000)
Interest on borrowing	4,098	5,326
Total items classified as investing or financing activities	74,790	113,683
ADD/(LESS) MOVEMENTS IN STATEMENT OF FINANCIAL POSITION ITEMS:		
(Increase)/decrease in debtor National Land Transport Fund and Crown	(68,189)	(23,411)
(Increase)/decrease in debtors and other receivables	(3,487)	(26,796)
(Increase)/decrease in prepayments and inventories	(4,808)	(1,786)
Increase/(decrease) in creditors and other payables	65,521	11,205
Increase/(decrease) in tolling funds held in trust for Ministry of Transport	(1,008)	248
Increase/(decrease) in employee entitlements	(75)	368
Net movements in working capital items	(12,046)	(40,172)
NET CASH FROM OPERATING ACTIVITIES	**576,276**	**556,636**

25 CAPITAL COMMITMENTS AND OPERATING LEASES

National Land Transport Programme funding commitments

The future aggregate funding commitments for the National Land Transport Programme are as follows:

	Actual 2012/13 $000	Actual 2011/12 $000
Not later than one year	2,780,993	1,175,795
Later than one year and not later than five years	3,076,390	1,683,963
Later than five years	248,761	132,171
TOTAL FUNDING COMMITMENTS	**6,106,144**	**2,991,929**

Capital commitments

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

	Actual 2012/13 $000	Actual 2011/12 $000
Not later than one year	1,009,489	745,587
Later than one year and not later than five years	1,311,920	1,703,923
Later than five years	5,872	150,244
TOTAL CAPITAL COMMITMENTS	**2,327,281**	**2,599,754**

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

Operating leases as lessee

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

	Actual 2012/13 $000	Actual 2011/12 $000
Not later than one year	18,554	19,818
Later than one year and not later than five years	50,749	60,099
Later than five years	30,187	37,798
TOTAL NON-CANCELLABLE OPERATING LEASES	**99,490**	**117,715**

26 CONTINGENCIES

Contingent liabilities

Contract and land settlements

There are claims of $4.5 million (2012: $10.9 million) relating to a range of roading and other contract disputes.

Contingent assets

The Transport Agency has contingent assets of $0.581 million (2012: $0.581 million) relating to claims for legal costs.

27 RELATED PARTY TRANSACTIONS

All related party transactions have been entered into on an arms-length basis.

The Transport Agency is a wholly owned entity of the Crown.

Significant transactions with government-related entities

The Transport Agency has been provided with funding from the Crown and National Land Transport Fund of $1.925 billion (2012: $1.912 billion) for specific purposes as set out in its founding legislation and the scope of the relevant government appropriations. The Crown has also made available to the Transport Agency, a borrowing facility of $250 million for short-term advances.

Collectively, but not individually, significant, transactions with government-related entities

In conducting its activities, the Transport Agency is required to pay various taxes and levies (such as GST, FBT, PAYE, and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The Transport Agency is exempt from paying income tax.

The Transport Agency also purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2013 totalled $57.275 million (2012: $51.478 million). These government-related entities include New Zealand Post Ltd of $24.223 million, KiwiRail Holdings Ltd of $9.058 million, and Ministry of Education of $7.303 million. These purchases also include the purchase of electricity from Genesis Energy and Meridian Energy, and air travel from Air New Zealand.

The Chief Executive and his nominee were representatives on the Road Safety Trust as trustees. The Transport Agency received funding from the Road Safety Trust for providing administrative support. The Road Safety Trust has been wound up as at 31 May 2013, and its remaining reserves are being managed by the Transport Agency.

During the 2012/13 financial year Board members and staff of the Transport Agency were involved in minor transactions with the motor vehicle registry and driver licensing systems when re-registering their vehicle or driver licences.

Key management personnel – Director transactions

The following material transactions were entered into during the year with entities the Directors have a relationship with. All transactions were at arm's length and under normal commercial terms:

Board member/entity	Relationship	Transaction [a]	Transaction value		Balance outstanding	
			2012/13 $000	2011/12 $000	2012/13 $000	2011/12 $000
CHRIS MOLLER						
Meridian Energy Ltd	Chair	Energy costs	380	377	0	38
Westpac NZ Ltd	Director	Income from interest received	2,614	2,190	0	0
Westpac NZ Ltd	Director	Fees for banking services	2,559	3,117	114	100
GILL COX						
Mainpower NZ Ltd	Chair	Highway maintenance services	50	74	4	6
TONY LANIGAN						
Watercare Services Ltd	Director	Income for share of relocation costs	2,186	55	12	54

a. Transactions are expenditure items unless stated as income.

There are no close family members of key management personnel employed by the Transport Agency.

Key management personnel compensation

	Actual 2012/13 $000	Actual 2011/12 $000
Salaries and other short-term employee benefits	4,205	4,127
Termination benefits	33	57
TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION	**4,238**	**4,184**

Key management personnel include all Board members, the Chief Executive, and the 10 (2012: 10) members of the Senior Leadership Team.

Funds held in trust

The following funds are held in trust while awaiting roading work to be completed. When the requirements of the agreement with the depositor are met, the funds are paid over to the Transport Agency.

	Actual 2012/13 $000	Actual 2011/12 $000
Chapman Tripp	5,271	5,670
Public Trust	758	805
TOTAL FUNDS HELD IN TRUST	**6,029**	**6,475**

28 BOARD MEMBER REMUNERATION

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

	Actual 2012/13 $000	Actual 2011/12 $000
Chris Moller (Chair)	68	68
Patsy Reddy	42	42
Gill Cox	34	34
Tony Lanigan	34	34
Jerry Rickman	34	34
Alick Shaw	34	34
Adrienne Young-Cooper	34	31
Bryan Jackson (Retired in October 2012)	12	28
TOTAL BOARD MEMBER REMUNERATION	**292**	**305**

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

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

No Board members received compensation or other benefits in relation to cessation (2012: nil).

Subsequent to the year end, Nick Rogers was appointed to the Board on 5 September 2013.

29 EMPLOYEE REMUNERATION

Total remuneration paid or payable	No. of staff 2012/13	No. of staff 2011/12
100,000–109,999	84	69
110,000–119,999	53	55
120,000–129,999	57	40
130,000–139,999	32	33
140,000–149,999	18	21
150,000–159,999	15	15
160,000–169,999	16	14
170,000–179,999	12	8
180,000–189,999	9	6
190,000–199,999	4	6
200,000–209,999	7	7
210,000–219,999	3	3
220,000–229,999	0	1
230,000–239,999	2	2
240,000–249,999	0	1
250,000–259,999	6	1
260,000–269,999	1	3
270,000–279,999	1	0
300,000–309,999	0	1
310,000–319,999	1	1
320,000–329,999	1	1
330,000–339,999	3	1
340,000–349,999	1	1
360,000–369,999	0	1
380,000–389,999	0	1
390,000–399,999	1	1
400,000–409,999	1	0
600,000–609,999	0	*1
610,000–619,999	*1	0
TOTAL EMPLOYEES	**329**	**294**

* Chief Executive

During the year ended 30 June 2013, 6 (2012: 15) employees received compensation and other benefits in relation to cessation totalling $0.332 million (2012: $0.787 million).

30 EVENTS AFTER THE BALANCE DATE

There were no significant events after the balance date.

31 FINANCIAL INSTRUMENT CATEGORIES

The carrying amounts of financial assets and liabilities in each of the NZ IAS 39 categories are as follows:

	Actual 2012/13 $000	Actual 2011/12 $000
LOANS AND RECEIVABLES		
Cash and cash equivalents	16,580	58,265
Debtors National Land Transport Fund and Crown	524,207	456,018
Debtors and other receivables	72,798	69,311
Loans and advances	855	855
TOTAL LOANS AND RECEIVABLES	**614,440**	**584,449**
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		
Creditors and other payables (current and non-current)	439,503	373,982
Borrowing	100,000	130,000
TOTAL FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	**539,503**	**503,982**

32 FINANCIAL INSTRUMENT RISKS

The Transport Agency's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. The Transport Agency has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

Market risk

Fair value interest rate risk

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The Transport Agency's exposure to fair value interest rate risk is limited to its bank deposits which are held at fixed rates of interest. The Transport Agency does not actively manage its exposure to fair value interest rate risk.

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Investments and borrowing issued at variable interest rates expose the Transport Agency to cash flow interest rate risk.

The Transport Agency's investment policy requires a spread of investment maturity dates to limit exposure to short-term interest rate movements. The Transport Agency currently has no variable interest rate investments.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Transport Agency purchases goods and services overseas which require it to enter into transactions denominated in foreign currencies.

Credit risk

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

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

The Transport Agency has processes in place to review the credit quality of customers prior to the granting of credit.

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

The Transport Agency limits the amount of credit exposure to any one financial institution for term deposits to no more than $40 million. The Transport Agency invests funds only with registered banks that have a Standard and Poor's credit rating of at least A-1 for short-term and for long-term investments. The Transport Agency has experienced no defaults of interest or principal payments for term deposits.

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

Maximum exposure to credit risk

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

	Actual 2012/13 $000	Actual 2011/12 $000
Cash and cash equivalents	16,580	58,265
Debtors National Land Transport Fund and Crown	524,207	456,018
Debtors and other receivables	72,798	69,311
Loans and advances	855	855
TOTAL CREDIT RISK	**614,440**	**584,449**

Credit quality of financial assets

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

	Actual 2012/13 $000	Actual 2011/12 $000
CASH AND CASH EQUIVALENTS		
AA	16,580	58,265
TOTAL CASH AND CASH EQUIVALENTS	**16,580**	**58,265**

Liquidity risk

Management of liquidity risk

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

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

Contractual maturity analysis of financial liabilities

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date.

	2012/13			2011/12		
	Less than 6 months $000	6-12 months $000	Later than 1 year $000	Less than 6 months $000	6-12 months $000	Later than 1 year $000
Creditors and other payables	439,188	108	207	373,637	118	227
Borrowings	0	100,000	0	0	130,000	0

Contractual maturity analysis of financial assets

The table below analyses financial assets into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date.

	2012/13		2011/12	
	Less than 6 months $000	Later than 1 year $000	Less than 6 months $000	Later than 1 year $000
Cash and cash equivalents	16,580	0	58,265	0
Debtors National Land Transport Fund and Crown	524,207	0	456,018	0
Debtors and other receivables	72,798	0	69,311	0
Loans and advances	0	855	0	855

Borrowing

The Transport Agency's borrowing facility from the Crown is the result of the acceleration of our investment in state highways, which is to cover seasonal variations in cash flows where state highway works progress ahead of funding available from the National Land Transport Fund. The Transport Agency is addressing this risk through prudent management of expenditure on state highways and cash flows from the National Land Transport Fund.

Sensitivity analysis

Interest rate risk

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

	2012/13 Effect on surplus or deficit		2011/12 Effect on surplus or deficit	
	+1% $000	-1% $000	+1% $000	-1% $000
Cash and cash equivalents	89	(89)	534	(534)

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

	2012/13 Effect on surplus or deficit		2011/12 Effect on surplus or deficit	
	+0.5% $000	-0.5% $000	+0.5% $000	-0.5% $000
Borrowing	1,024	(1,024)	1,331	(1,331)

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

33 CAPITAL MANAGEMENT

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

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

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

34 EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

Explanations for major variances from the Transport Agency's budgeted figures in the *Statement of intent* are as follows:

Statement of comprehensive income

INCOME

Revenue from the Crown was $65 million lower than budgeted. Funding for the reinstatement of local roads in Canterbury was not fully utilised this year as the funds were not required.

EXPENDITURE

Investment in land transport was $133 million lower than budgeted. A delay in the approval of the 2012–15 NLTP meant approved organisations initiated their projects later than planned, and the final 2012–15 NLTP had a lower funding level for 2012/13 than originally budgeted.

Depreciation and amortisation expense was $28 million higher than budget. This predominately relates to the state highway depreciation budget being established before the revaluation at the end of last year.

State highway asset write-off was $10 million lower than budget. Write-offs relate to maintenance and renewals projects, which ended up being lower than estimated.

Statement of financial position

CURRENT ASSETS

Debtor National Land Transport Fund was $94 million higher than budgeted. This level of debtor arises in the short term to cover the gap between NLTF revenue and expenditure remaining.

Debtor Crown was $36 million higher than budgeted, which is linked to the carry forward of Crown revenue largely for the reinstatement of local roads in Canterbury.

Debtors and other receivables were $58 million higher than an under-estimated budgeted.

Property assets held for sale are the result of properties that are identified as surplus to road building requirements as a result of more detailed planning. This is an exercise that we now budget for.

NON-CURRENT ASSETS

State highway network was $2.4 billion lower than budgeted. The 2012/13 budget was set prior to the finalisation of the 2011/12 state highway valuation and was estimated with an annual increase consistent with previous years' valuation increases.

CURRENT LIABILITIES

Creditors and other payables were $148 million higher than budgeted due to a higher level of activity at the end of the year than anticipated.

SUPPLEMENTARY INFORMATION

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

In this section you will find the following:

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

This information is consistent with and should be read in conjunction with, the financial highlights on pages 111 to 113 and the audited financial statements on pages 114 to 117.

DETAILED PERFORMANCE BY SEGMENT OF THE BUSINESS

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

OPERATIONS	Actual 2012/13 $000	Budget 2012/13 $000	Actual 2011/12 $000
INCOME			
REVENUE FROM THE CROWN			
Management of the funding allocation system	775	775	0
Licensing and regulatory compliance	4,367	4,913	3,871
Motor vehicle registry	0	0	47,966
Road user charges collection, investigation and enforcement	17,002	18,514	16,485
Refund of fuel excise duty	429	429	441
Administration of the SuperGold cardholders scheme	95	95	46
	22,668	24,726	68,810
REVENUE FROM THE NATIONAL LAND TRANSPORT FUND			
Management of the funding allocation system	28,838	29,000	29,371
Transport planning	7,055	7,000	7,668
Sector research	3,194	4,000	5,000
Public transport	2,607	3,268	2,551
Road safety	16,093	17,900	20,389
Maintenance and operation of state highways	9,069	8,735	10,728
	66,856	69,903	75,707
REVENUE FROM OTHER ACTIVITIES			
Licensing and regulatory compliance	71,326	68,654	71,373
Road tolling	5,843	6,000	5,544
Motor vehicle registry	54,295	52,773	5,650
Sector research	0	0	2
New infrastructure for and renewal of state highways	0	0	450
Maintenance and operation of state highways	2,837	964	1,166
	134,302	128,392	84,185
TOTAL INCOME	223,826	223,021	228,702

	Actual 2012/13 $000	Budget 2012/13 $000	Actual 2011/12 $000
EXPENDITURE			
OPERATING ACTIVITIES			
Management of the funding allocation system	731	775	0
Licensing and regulatory compliance	70,612	70,729	74,043
Road tolling	5,272	5,971	5,388
Motor vehicle registry	51,795	53,309	56,926
Road user charges collection, investigation and enforcement	16,016	18,773	16,897
Refund of fuel excise duty	461	429	501
Administration of the SuperGold cardholders scheme	95	95	46
	144,982	150,081	153,802
OPERATING ACTIVITIES (NATIONAL LAND TRANSPORT PROGRAMME)			
Management of the funding allocation system	28,838	29,000	29,891
Transport planning	7,055	7,000	7,668
Sector research	3,194	4,000	3,858
Public transport	2,607	3,268	2,551
Road safety	16,093	17,900	20,390
New and improved infrastructure for state highways	32,525	31,165	29,770
Renewal of state highways	9,815	8,735	10,728
Maintenance and operation of state highways	9,069	8,735	10,728
	109,196	109,803	115,583
OPERATING ACTIVITIES (BUSINESS UNITS)			
Maintenance and operation of state highways	1,173	865	1,202
Expenses relating to the delivery of outputs	255,351	260,749	270,587
Expenses relating to the merger	924	1,077	1,471
Total expenditure	256,274	261,826	272,058
STATE HIGHWAY NETWORK			
Less capitalised expenditure	(42,340)	(39,900)	(40,497)
Total expenditure	213,934	221,926	231,561
NET SURPLUS/(DEFICIT)	**9,892**	**1,095**	**(2,859)**

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

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

Movement of operations net surplus/(deficit) to equity	**Actual 2012/13 $000**	**Budget 2012/13 $000**	**Actual 2011/12 $000**
INCOME			
Retained funds – NZ Transport Agency operations	30,863	30,903	76,213
Retained funds – National Land Transport Programme	66,856	69,903	76,157
Memorandum account – other fees and charges	126,107	122,215	76,332
	223,826	223,021	228,702
EXPENDITURE			
Retained funds – NZ Transport Agency operations	28,585	31,764	79,664
Retained funds – National Land Transport Programme	66,856	69,903	75,085
Memorandum account – other fees and charges	118,494	120,258	76,812
	213,934	221,926	231,561
NET SURPLUS/(DEFICIT)			
Retained funds – NZ Transport Agency operations	2,278	(861)	(3,451)
Retained funds – National Land Transport Programme	0	0	1,072
Memorandum account – other fees and charges	7,613	1,956	(480)
NET SURPLUS/(DEFICIT)	**9,892**	**1,095**	**(2,859)**

INVESTMENT IN LAND TRANSPORT	Actual 2012/13 $000	Budget 2012/13 $000	Actual 2011/12 $000
INCOME			
REVENUE FROM THE NATIONAL LAND TRANSPORT FUND			
Transport planning	6,383	13,000	17,420
Public transport	284,925	306,732	265,468
Road safety	11,499	14,100	20,451
New and improved infrastructure for local roads	152,562	165,000	137,000
Renewal of local roads	204,410	228,000	185,000
Maintenance and operation of local roads	279,379	298,000	275,000
Walking and cycling	8,449	13,000	7,000
New infrastructure for and renewal of state highways	505,821	433,227	432,875
Maintenance and operation of state highways	333,141	316,265	353,431
Total income	1,786,569	1,787,324	1,693,645
EXPENDITURE			
INVESTMENT IN LAND TRANSPORT			
Transport planning	6,383	13,000	14,946
Public transport	282,343	306,732	246,847
Road safety	11,499	14,100	20,708
New and improved infrastructure for local roads	152,562	165,000	110,132
Renewal of local roads	204,410	228,000	188,227
Maintenance and operation of local roads	279,379	298,000	292,639
Walking and cycling	8,449	13,000	11,708
Rail and coastal freight	0	0	72
New and improved infrastructure for state highways	960,034	961,051	858,526
Renewal of state highways	165,194	186,265	189,003
Maintenance and operation of state highways	333,141	316,265	333,914
Interest on borrowings	4,098	3,575	5,326
	2,407,492	2,504,988	2,272,047
STATE HIGHWAY NETWORK			
State highway depreciation	441,526	412,180	423,660
State highway asset write-off	7,480	17,500	8,870
Less capitalised expenditure	(1,125,215)	(1,147,316)	(1,046,529)
	(676,209)	(717,636)	(613,999)
Total expenditure	1,731,283	1,787,352	1,658,048
NET SURPLUS/(DEFICIT)	**55,286**	**(28)**	**35,597**

SPECIFIC PROJECTS FUNDED BY THE CROWN	Actual 2012/13 $000	Budget 2012/13 $000	Actual 2011/12 $000
INCOME			
REVENUE FROM THE CROWN			
Reinstatement of local roads in Canterbury	26,200	91,000	45,000
Canterbury transport project	0	0	5,000
Regional development transport funding	0	0	2,000
Enhanced public transport concessions for SuperGold cardholders	22,755	21,305	21,339
Passing opportunities on SH2 between Napier and Gisborne	150	0	0
Total income	49,105	112,305	73,339
EXPENDITURE			
Reinstatement of local roads in Canterbury	35,019	91,000	36,106
Canterbury transport project	0	0	5,000
Regional development transport funding	0	0	2,256
Enhanced public transport concessions for SuperGold cardholders	22,363	21,305	21,339
Passing opportunities on SH2 between Napier and Gisborne	150	0	0
National War Memorial Park	15,000	0	0
	72,532	112,305	64,701
STATE HIGHWAY NETWORK			
Less capitalised expenditure	(15,000)	0	0
Total expenditure	57,532	112,305	64,701
NET SURPLUS/(DEFICIT)	**(8,427)**	**0**	**8,638**

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

NATIONAL LAND TRANSPORT PROGRAMME

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

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

NATIONAL LAND TRANSPORT PROGRAMME	Actual 2012/13 $000	Budget 2012/13 $000	Actual 2011/12 $000
INCOME			
Capital contribution from National Land Transport Fund	605,073	707,564	573,356
Revenue from the National Land Transport Fund	1,818,900	1,836,000	1,744,477
Revenue from the NLTF (rental and interest income)	34,525	21,227	24,875
Revenue from state highway disposals	60,771	50,000	20,403
Revenue from other activities	0	0	450
Total income for the National Land Transport Programme	2,519,270	2,614,791	2,363,561
EXPENDITURE			
Transport planning	13,438	16,000	22,614
Road safety	27,592	32,000	41,097
Walking and cycling	8,449	13,000	11,708
Public transport	284,950	300,000	249,398
Maintenance and operation of local roads	279,379	285,000	292,639
Maintenance and operation of state highways	342,210	329,000	344,642
Renewal of local roads	204,410	234,000	188,227
Renewal of state highways	175,009	210,000	199,731
New and improved infrastructure for local roads	152,562	160,000	110,132
New and improved infrastructure for state highways	992,559	1,010,000	888,295
Sector research	3,194	5,000	3,858
Management of the funding allocation system	28,838	29,000	29,891
Rail and sea freight	0	0	72
Interest on borrowing	4,098	0	5,326
Total expenditure	2,516,687	2,623,000	2,387,629
CARRY OVER INTO NEXT YEAR	**2,582**	**(8,209)**	**(24,068)**
Loan to local authority	0	0	28,340
Public transport infrastructure – automated fare collection system	(2,582)	0	(4,272)
Opening balance	0	0	0
CLOSING BALANCE AT THE END OF THE YEAR	**0**	**(8,209)**	**0**

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

LAND TRANSPORT MANAGEMENT (ROAD TOLLING SCHEME)

This supplementary information has been provided to fulfil section 17 of the Land Transport Management (Road Tolling Scheme for ALPURT B2) Order 2005.

The Northern Gateway Toll Road was officially opened on 24 January 2009, bringing about a safer and more reliable journey between Auckland and Northland. In the year to 30 June 2013, 5.4 million trips were made on the toll road. In addition to this, another 2.1 million trips have been made via the now less congested alternate free route, State Highway 17.

Toll tariffs

The toll tariffs are now set at $2.20 for light vehicles (3.5 tonnes and under) and motorcycles, and $4.40 for heavy vehicles (over 3.5 tonnes). There is no cost for towing a trailer or caravan.

Toll revenue

The toll tariff consists of three parts: revenue, transaction charge and GST. Toll revenue is the portion of the tariff used to repay the debt, while the transaction charge element provides funding towards the operation costs (of running tolling). For a $2.20 toll this is $1.21 and $0.70 respectively. The remaining $0.29 is GST. Over $7.1 million of toll revenue has been paid to the Ministry of Transport for the period ending 30 June 2013, for debt repayment.

TRAFFIC VOLUMES FOR THE YEAR ENDED 30 JUNE 2013

Class of motor vehicle	Actual 2012/13 000	Budget 2012/13 000	Actual 2011/12 000
Light vehicle	4,958	4,847	4,773
Heavy vehicle	392	392	381
Exempt	19	21	19
Unidentifiable	12	12	11
Technical loss	31	12	14
TOTAL	**5,412**	**5,284**	**5,198**

TOLL REVENUE (PORTION DESIGNATED FOR REPAYMENT OF DEBT) FOR THE YEAR ENDED 30 JUNE 2013

	Actual 2012/13 $000	Budget 2012/13 $000	Actual 2011/12 $000
PAID TOLL			
Light vehicle	5,856	5,634	5,266
Heavy vehicle	1,212	1,223	1,105
Interest	47	41	43
TOTAL FUNDS AVAILABLE	**7,115**	**6,898**	**6,414**
OUTSTANDING DEBTOR BALANCE AS AT 30 JUNE			
Unpaid toll revenue to be collected for the Ministry of Transport	148		142
Unpaid operating charge to be collected	82		79
Unpaid administration charges to be collected	317		329
GST to be collected	82		82
TOTAL OUTSTANDING DEBTOR BALANCE AS AT 30 JUNE	**629**		**632**

USE OF TOLL ROAD AND ALTERNATIVE ROUTE(S) FOR THE YEAR ENDED 30 JUNE 2013

	Actual 2012/13 %		Actual 2011/12 %
Northern Gateway Toll Road (SH 1)	79.0%		71.4%
Free alternative route(s) (SH 16 or 17)	21.0%		28.6%
TOTAL	**100.0%**		**100.0%**

COMPLIANCE WITH TOLLING FOR THE YEAR ENDED 30 JUNE 2013	Volumes Actual 2012/13 000	Revenue Actual 2012/13 $000	Volumes Actual 2011/12 000	Revenue Actual 2011/12 $000
Total chargeable toll trips	5,350	12,631	5,154	11,423
Total administration charges	n/a	2,212	n/a	2,243
TOTAL TOLL REVENUE	5,350	14,843	5,154	13,666
Paid toll trips	5,190	12,267	4,981	11,051
Paid administration charges	n/a	1,730	n/a	1,681
PAID TOLL REVENUE	5,190	13,997	4,981	12,732
Unpaid toll trips	160	364	173	372
Unpaid administration charges	n/a	482	n/a	562
UNPAID TOLL REVENUE	160	846	173	934
Administration charge payment compliance	n/a	78.2%	n/a	74.9%
Toll payment compliance	97.0%	97.1%	96.6%	96.7%

Financial statements for tolling

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2013	Actual 2012/13 $000	Budget 2012/13 $000	Actual 2011/12 $000
INCOME			
Toll fees	5,839	6,032	5,540
Total income	5,839	6,032	5,540
Expenditure	5,268	5,971	5,383
NET SURPLUS/(DEFICIT)	**571**	**61**	**157**

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013	Actual 2012/13 $000	Budget 2012/13 $000	Actual 2011/12 $000
ASSETS			
Current assets	8,399	9,039	5,951
Non-current assets	2,677	2,678	3,298
TOTAL ASSETS	11,076	11,717	9,249
Liabilities	4,922	6,074	5,236
NET ASSETS/EQUITY	**6,154**	**5,643**	**4,013**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2013	Actual 2012/13 $000	Budget 2012/13 $000	Actual 2011/12 $000
Net cash from operating activities	7,237	7,689	7,123
Net cash from investing activities	0	0	0
Net cash from financing activities	(7,063)	(6,801)	(6,237)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	174	888	886
Cash and cash equivalents at the beginning of the year	4,784	4,784	3,898
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**4,958**	**5,672**	**4,784**

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

INDEPENDENT AUDITOR'S REPORT

Audit New Zealand
Mana Arotake Aotearoa

TO THE READERS OF NEW ZEALAND TRANSPORT AGENCY'S FINANCIAL STATEMENTS AND NON FINANCIAL PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2013

The Auditor General is the auditor of New Zealand Transport Agency (the Transport Agency). The Auditor General has appointed me, Kelly Rushton, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and non financial performance information of the Transport Agency on her behalf.

We have audited:

- the financial statements of the Transport Agency on pages 114 to 142, that comprise the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and
- the non financial performance information of the Transport Agency that comprises the statement of service performance on pages 70 to 109 and the report about impacts on pages 36 to 38.

OPINION

In our opinion:

- the financial statements of the Transport Agency on pages 114 to 142:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect the Transport Agency's:
    - financial position as at 30 June 2013; and
    - financial performance and cash flows for the year ended on that date.
- the non financial performance information of the Transport Agency on pages 70 to 109 and 36 to 38:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects the Transport Agency's service performance and impacts for the year ended 30 June 2013, including for each class of outputs:
    - its service performance compared with forecasts in the statement of forecast service performance at the start of the financial year; and
    - its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 25 September 2013. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities, and we explain our independence.

BASIS OF OPINION

We carried out our audit in accordance with the Auditor General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and non financial performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and non financial performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and non financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and non financial performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Transport Agency's financial statements and non financial performance information that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Transport Agency's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the appropriateness of the reported non financial performance information within the Transport Agency's framework for reporting performance;
- the adequacy of all disclosures in the financial statements and non financial performance information; and
- the overall presentation of the financial statements and non financial performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and non financial performance information. Also we did not evaluate the security and controls over the electronic publication of the financial statements and non financial performance information.

We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE BOARD

The Board is responsible for preparing financial statements and non financial performance information that:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect the Transport Agency's financial position, financial performance and cash flows; and
- fairly reflect its service performance and impacts.

The Board is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and non financial performance information that are free from material misstatement, whether due to fraud or error. The Board is also responsible for the publication of the financial statements and non financial performance information, whether in printed or electronic form.

The Board's responsibilities arise from the Crown Entities Act 2004 and the Land Transport Management Act 2003.

RESPONSIBILITIES OF THE AUDITOR

We are responsible for expressing an independent opinion on the financial statements and non financial performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001, the Crown Entities Act 2004 and section 11(3) of the Land Transport Management Act 2003.

INDEPENDENCE

When carrying out the audit, we followed the independence requirements of the Auditor General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit we have carried out probity assurance assignments. Other than the audit and these assignments, we have no relationship with or interests in the Transport Agency.

K M Rushton
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

PUTTING THE SCRUTINY PRINCIPLE INTO PRACTICE

Report on the implementation of systems and procedures to give effect to the scrutiny principle for the period 1 July 2012 to 30 June 2013.

BACKGROUND

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

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

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

SYSTEMS AND PROCEDURES

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

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

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

IMPLEMENTATION

The NZ Transport Agency has published its approach to giving effect to the scrutiny principle on its website page titled 'The scrutiny principle' (http://www.nzta.govt.nz/planning/what-funding/scrutiny-principle.html).

This page also lists the systems and procedures it has in place to apply the scrutiny principle and provides links to documentation – the procurement manuals and the Planning and Investment Knowledge Base where the systems and procedures are set out in detail. Monitoring of the webpage during 2013 indicates the page is accessed on average 15 times a month (2012: 15).

A further link on this page links to a webpage that lists all the funding decisions the NZ Transport Agency has made since August 2008 (prescribed date in the legislation is 1 October 2008) http://www.nzta.govt.nz/planning/what-funding/board-decisions/index.html). The page is updated monthly once the previous month's decisions have been confirmed. Monitoring of the webpage during 2013 indicates the page is accessed on average 136 times a month (2012: 352).

The key system used by the NZ Transport Agency was the web-based Transport Investment Online (TIO) system and is used to manage the National Land Transport Programme. It contains all the activities proposed for funding and sets out for all applicants, both approved organisations and the NZ Transport Agency for its own activities, the information required for the assessment and evaluation of the activities for funding. The system also records the decisions made by the NZ Transport Agency including any conditions applied to the funding. The system is transparent. Every approved organisation can see the details of their proposals, the NZ Transport Agency's recommendations and decisions and those of any other approved organisation and the NZ Transport Agency. This effectively provides assurance that the requirements placed on any one approved organisation can be compared against others.

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

- management reviews and checking of assessments/decisions
- audits conducted on both NZ Transport Agency and approved organisation projects by the investment monitoring team
- periodic, risk based review of the performance of procedures by the internal audit team. Results from this work are reported to the NZ Transport Agency's Audit, Risk and Assurance Committee. The Secretary for Transport is an advisor to this committee and attends the meetings
- Audit New Zealand review as required to verify this report.

INDEPENDENT REVIEW REPORT OF THE AUDITOR-GENERAL

Audit New Zealand
Mana Arotake Aotearoa

TO THE READERS OF THE NEW ZEALAND TRANSPORT AGENCY'S REPORT ON THE IMPLEMENTATION OF SYSTEMS AND PROCEDURES TO GIVE EFFECT TO THE "SCRUTINY" PRINCIPLE

We have completed a review of the report by the New Zealand Transport Agency on the implementation of systems and procedures to give effect to the "scrutiny" principle, for the period 1 July 2012 to 30 June 2013.

The Auditor General is the auditor of the New Zealand Transport Agency. The Auditor General has appointed me, Kelly Rushton, using the staff and resources of Audit New Zealand, to carry out the review on her behalf.

CONCLUSION

- Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the report by the New Zealand Transport Agency on the implementation of systems and procedures to give effect to the "scrutiny" principle, on page 153, for the period 1 July 2012 to 30 June 2013 is not fairly stated.
- Our review was completed on 25 September 2013, and is the date at which our conclusion is expressed.
- The basis of our review conclusion is explained below. In addition, we outline the responsibilities of the Board of the New Zealand Transport Agency and the Auditor, and explain our independence.

BASIS OF CONCLUSION

We carried out our review in accordance with International Standard on Assurance Engagements (New Zealand) 3000: Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

Our review involved obtaining sufficient and appropriate evidence and explanations from the New Zealand Transport Agency personnel to be able to conclude whether any matters have come to our attention to indicate that the information presented in the report has not been fairly stated.

Our review was limited primarily to enquiries of the New Zealand Transport Agency personnel, and reading the report to assess whether the information therein was consistent with our understanding of the New Zealand Transport Agency's systems and procedures, as obtained during our annual audit of the New Zealand Transport Agency.

RESPONSIBILITIES OF THE BOARD OF THE NEW ZEALAND TRANSPORT AGENCY AND THE AUDITOR

The Board is responsible for preparing a report on the implementation of systems and procedures to give effect to the "scrutiny" principle, pursuant to section 96(2)(b) of the Land Transport Management Act 2003. The New Zealand Transport Agency's report is required to be included in its annual report.

Section 96(3) of the Land Transport Management Act 2003 requires the Auditor General to report on the New Zealand Transport Agency's report on the implementation of the systems and procedures to give effect to the "scrutiny" principle.

INDEPENDENCE

When carrying out the review we followed the independence requirements of the Auditor General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

In addition to the audit we have carried out probity assurance assignments. Other than the audit and these assignments, we have no relationship with or interests in the Transport Agency.

K M Rushton
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand