

SECTION E FINANCIAL STATEMENTS

Senior drivers
attending a Staying
Safe workshop



Responsibility for MY safety rests with ME
in spite of the actions of others
and conditions affecting ME.

HIGHLIGHTS FROM OUR FINANCIAL STATEMENTS

**\$2.3
BILLION**

TOTAL INCOME

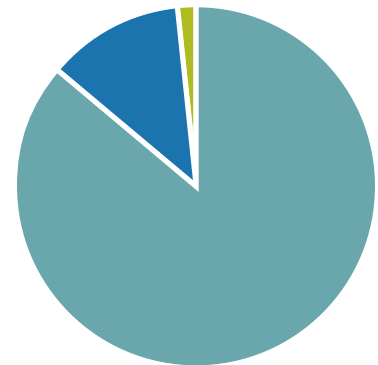
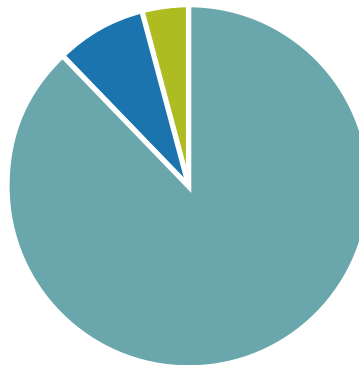
The largest contribution to our income is from the National Land Transport Fund. We also receive revenue from the Crown to support our objectives and for specific projects. Other revenue comes mostly from our licensing and regulatory activities.

EXPENSE BY TYPE

2013/14

2014/15

- NATIONAL LAND TRANSPORT FUND
2013/14 **88.0%** 2014/15 **88.1%**
- OTHER REVENUE
2013/14 **8.1%** 2014/15 **10.2%**
- CROWN
2013/14 **3.9%** 2014/15 **1.7%**



**\$2.2
BILLION**

TOTAL EXPENDITURE

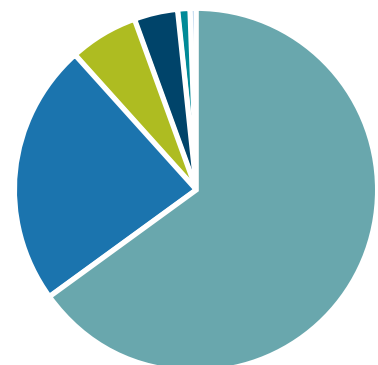
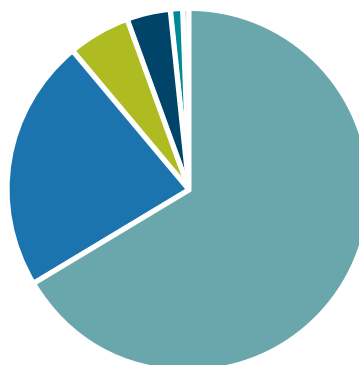
Our expenditure is guided by the Government Policy Statement on Land Transport Funding (GPS) and the priorities identified in our Statement of intent. The majority of our expenditure was directly related to land transport funding the Transport Agency provides to approved organisations for the delivery of services, associated activities funded from the Crown, and the Transport Agency's maintenance and operation of the state highway network (65%). Depreciation and amortisation, reflecting the cost of asset ownership, contributed 24% of our annual expenditure.

EXPENSE BY TYPE

2013/14

2014/15

- LAND TRANSPORT FUNDING
2013/14 **66.5%** 2014/15 **65.0%**
- DEPRECIATION AND AMORTISATION EXPENSE
2013/14 **22.6%** 2014/15 **23.4%**
- OPERATING EXPENSES
2013/14 **5.4%** 2014/15 **6.1%**
- PERSONNEL COSTS
2013/14 **4.1%** 2014/15 **4.0%**
- TRANSPORT AGENCY MANAGED ACTIVITIES
2013/14 **1.1%** 2014/15 **1.1%**
- OTHER
2013/14 **0.3%** 2014/15 **0.3%**



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

\$59.7
MILLION

NET SURPLUS

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

OPERATIONS		LAND TRANSPORT FUNDING		SPECIFIC PROJECTS FUNDED BY THE CROWN		TOTAL
Income \$258.7m	+	Income \$2,009.5m	+	Income \$30.3m	=	Total income \$2,298.5m
-		-		-		-
Expenditure \$263.2m	+	Expenditure \$1,947.5m	+	Expenditure \$28.1m	=	Total expenditure \$2,238.8m
=		=		=		=
Net deficit \$(4.5)m	+	Net surplus \$62.0m	+	Net surplus \$2.2m	=	Total net surplus \$59.7m

OPERATIONS

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

This deficit predominately relates to the impairment loss resulting from the revaluation of the central system for integrated ticketing. This is offset by higher than expected volumes for driver testing and applications.

LAND TRANSPORT FUNDING

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

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

SPECIFIC PROJECTS FUNDED BY THE CROWN

This includes the SuperGold card public transport concessions and the urban cycleways.

Supplementary information for each of these segments is provided on pages 187 to 191.



\$30.3
BILLION

NET ASSETS/EQUITY

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

	ACTUAL 2014/15 \$000	BUDGET 2014/15 \$000	ACTUAL 2013/14 \$000
Total assets	31,041,453	30,199,343	29,241,724
Less total liabilities	785,887	909,070	514,603
NET ASSETS/EQUITY AT END OF YEAR	30,255,566	29,290,272	28,727,121

We continue to maintain a strong balance sheet, with \$31 billion of assets and very low levels of liabilities.

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

HOW WE HAVE INVESTED IN OUR ASSETS

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

	ACTUAL 2014/15 \$000	BUDGET 2014/15 \$000	ACTUAL 2013/14 \$000
Investment in state highways	1,648,277	1,597,353	1,424,065
Investment in information technology	11,537	12,900	8,013
Investment in offices and equipment	514	2,200	1,878
Total	1,660,328	1,612,453	1,433,956

Investment in state highways is ahead of budget due to the acceleration of capital projects in the state highway programme.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE FOR THE YEAR ENDED 30 JUNE 2015

	NOTE	ACTUAL 2014/15 \$000	BUDGET 2014/15 \$000	ACTUAL 2013/14 \$000
REVENUE				
Funding from the Crown	2	40,065	30,980	84,202
Funding from the National Land Transport Fund	2	2,024,761	2,075,034	1,915,502
Revenue from other activities	3	233,686	153,912	177,209
Total revenue		2,298,512	2,259,926	2,176,913
EXPENSE				
Personnel costs	4	90,553	90,369	85,455
Operating expenses	5	161,885	144,488	137,314
Land transport funding ^a		1,453,187	1,543,642	1,391,234
Interest on borrowing		3,036	7,171	3,335
Depreciation and amortisation expense	6	523,083	460,746	474,073
State highway asset write-off		7,030	10,000	6,759
Total expenses		2,238,774	2,256,416	2,098,170
SURPLUS/(DEFICIT)		59,738	3,510	78,743
OTHER COMPREHENSIVE REVENUE AND EXPENSE				
Gain/(loss) state highway network revaluations		573,040	560,000	1,560,595
Total other comprehensive revenue and expense		573,040	560,000	1,560,595
TOTAL COMPREHENSIVE REVENUE AND EXPENSE		632,778	563,510	1,639,338

Budget figures have been adjusted to correspond with current year's presentation of personnel costs, operating expenses and land transport funding in the statement of comprehensive revenue and expense.

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

Explanations of major variances against budget are provided in note 30.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2015

	NOTE	ACTUAL 2014/15 \$000	BUDGET 2014/15 \$000	ACTUAL 2013/14 \$000
ASSETS				
Current assets				
Cash and cash equivalents		43,281	50,050	23,922
Debtor National Land Transport Fund		397,280	652,263	468,365
Debtor Crown		53,464	79,500	49,222
Receivables	7	91,478	70,241	38,105
Property assets held for sale	8	56,150	80,000	58,825
Prepayments		1,074	7,000	4,787
Inventories		155	200	87
Total current assets		642,882	939,254	643,313
Non-current assets				
Property, plant and equipment		16,304	15,821	17,662
State highway network	9	30,179,446	29,192,860	28,537,672
Service concession asset (Transmission Gully)	10	161,899	0	0
Intangible assets	11	39,742	50,552	42,221
Loans and advances	12	1,180	855	855
Total non-current assets		30,398,571	29,260,089	28,598,410
TOTAL ASSETS		31,041,453	30,199,343	29,241,724
LIABILITIES				
Current liabilities				
Payables	13	484,014	504,669	394,775
Tolling funds held in trust		2,525	2,000	2,573
Employee entitlements	14	12,870	11,513	12,895
Borrowing	15	0	100,000	100,000
Total current liabilities		499,409	618,182	510,243
Non-current liabilities				
Payables	13	84	200	131
Service concession liability (Transmission Gully)	10	161,899	0	0
Employee entitlements	14	4,979	4,500	4,229
Borrowing	15	119,516	286,188	0
Total non-current liabilities		286,478	290,888	4,360
TOTAL LIABILITIES		785,887	909,070	514,603
NET ASSETS		30,255,566	29,290,272	28,727,121

The accompanying notes form part of these financial statements.

	NOTE	ACTUAL 2014/15 \$000	BUDGET 2014/15 \$000	ACTUAL 2013/14 \$000
EQUITY				
General funds		5,606	5,606	5,606
Retained funds	16	36,563	41,973	46,278
Memorandum account - other fees and charges	17	11,480	3,747	6,254
Equity derived from the state highway network ^a	18	30,201,917	29,238,946	28,668,982
TOTAL EQUITY		30,255,566	29,290,272	28,727,121

a. The state highway network includes the state highway investment and revaluation reserves. Explanations of major variances against budget are provided in note 30.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2015

	NOTE	ACTUAL 2014/15 \$000	BUDGET 2014/15 \$000	ACTUAL 2013/14 \$000
EQUITY - OPENING BALANCES				
General funds		5,606	5,606	5,606
Retained funds		46,278	45,479	44,318
Memorandum account - other fees and charges		6,254	3,981	1,018
Equity derived from the state highway network		28,668,982	27,696,193	26,235,614
Total equity - Opening balance		28,727,121	27,751,259	26,286,556
CHANGES IN EQUITY				
Equity movements				
Retained funds		(961,394)	(972,753)	(872,773)
Memorandum account - other fees and charges	17	1,500	0	0
Equity derived from the state highway network	16a	959,894	972,753	872,773
		0	0	0
Total comprehensive revenue and expense for the year				
Retained funds		56,012	3,744	73,506
Memorandum account - other fees and charges		3,726	(234)	5,236
Surplus/(deficit)		59,738	3,510	78,743
State highway network revaluations		573,040	560,000	1,560,595
		632,778	563,510	1,639,338
Capital funding (to retained funds)				
General		0	100	0
Crown		23,346	10,000	25,000
National Land Transport Programme	19	872,321	965,403	776,227
		895,667	975,503	801,227
Total changes in equity		1,528,445	1,539,013	2,440,565
EQUITY - CLOSING BALANCES				
General funds		5,606	5,606	5,606
Retained funds		36,563	41,973	46,278
Memorandum account - other fees and charges		11,480	3,747	6,254
Equity derived from the state highway network		30,201,917	29,238,946	28,668,982
TOTAL EQUITY - CLOSING BALANCES		30,255,566	29,290,272	28,727,121

Explanations of major variances against budget are provided in note 30.

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2015

	NOTE	ACTUAL 2014/15 \$000	BUDGET 2014/15 \$000	ACTUAL 2013/14 \$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from the Crown		35,824	34,569	115,763
Receipts from the National Land Transport Fund		2,095,845	2,014,703	1,890,561
Receipts from other revenue		180,077	153,321	211,613
Interest received		236	350	289
Payments to suppliers		(1,584,984)	(1,586,184)	(1,636,301)
Payments to employees		(89,828)	(116,439)	(84,918)
Goods & services tax (net) ^a		63,302	600	65,944
Net cash from operating activities	20	700,472	500,920	562,950
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts from sale of property, plant and equipment		286	0	3,068
Receipts from sale of state highway held properties		61,323	57,600	79,693
Purchase of property, plant and equipment		(514)	(3,600)	(6,149)
Purchase of intangible assets		(11,537)	(11,400)	(6,047)
Investment in the state highway network		(1,642,493)	(1,714,353)	(1,424,065)
Loans and advances		(325)	0	0
Net cash from investing activities		(1,593,260)	(1,671,753)	(1,353,500)
CASH FLOWS FROM FINANCING ACTIVITIES				
Capital contribution from the Crown		23,346	10,000	25,000
Capital contribution from the National Land Transport Fund		872,321	965,404	776,227
Receipts from borrowing		119,516	292,000	60,000
Repayment of borrowing		(100,000)	(90,000)	(60,000)
Interest paid on borrowing		(3,036)	(6,521)	(3,335)
Net cash from financing activities		912,147	1,170,883	797,892
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		19,359	50	7,342
Cash and cash equivalents at the beginning of the year		23,922	50,000	16,580
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		43,281	50,050	23,922

a. There was a classification error in the prior year between Payments to suppliers and net GST and those lines have been re-stated by \$46.333 million. Explanations of major variances against budget are provided in note 30.

NOTES TO THE FINANCIAL STATEMENTS

1 STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

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

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

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

The financial statements for the Transport Agency are for the year ended 30 June 2015, and were approved by the Board on 19 October 2015.

CONSOLIDATION OF SUBSIDIARY

The consolidated financial statements include the parent NZ Transport Agency and its wholly owned subsidiary NZ Transport Ticketing Limited, which is a Crown entity company. NZ Transport Ticketing Limited was established to execute the operational plan for supporting a national integrated transport ticketing system to improve the effectiveness of public transport and achieve long term value for money outcomes from the public transport system in New Zealand.

The subsidiary is accounted for using the purchase method, which involves adding together corresponding assets, liabilities, revenues and expenses on a line-by-line basis. All inter-company transactions are eliminated on consolidation.

Consistent accounting policies are applied to the subsidiary's financial statements and are prepared for the same reporting period as the parent entity.

BASIS OF PREPARATION

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

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).

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

These financial statements comply with PBE accounting standards.

These financial statements are the first financial statements presented in accordance with the new PBE accounting standards.

Presentation currency and rounding

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

Standards issued

In May 2013, the External Reporting Board issued a new suite of PBE accounting standards for application by public sector entities for reporting periods beginning on or after 1 July 2014. The Transport Agency has applied these standards in preparing the 30 June 2015 financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue

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

Funding from the Crown and the National Land Transport Fund

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

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

Interest

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

Rental revenue

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

Borrowing costs

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, other short-term highly liquid investments with original maturities of three months or less.

Debtors and receivables

Short-term debtors and receivables are recognised initially at fair value, less any provision for impairment.

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

Property assets held for sale

Property assets held for sale 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 while they are classified as held for sale.

Property, plant and equipment

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

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

Additions

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.

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 equity.

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 the state highway network

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.

A cyclical basis is now being 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 other comprehensive revenue and expense. Each year the depreciation, based on the revalued carrying amount of the asset, is recognised in the surplus or deficit.

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 revenue and expense 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 surplus or deficit. When revalued assets are sold, the amounts included in the asset revaluation reserve in respect of those assets are transferred to equity.

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

Other components of brownfield cost result from the increased constraints or requirements imposed when constructing in an already developed location.

Examples include increased traffic management and security, limitations on available contractor areas for storage, parking, buildings and general operations, noise and dust limitations, restricted hours of work etc.

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 & subways	50 – 75	1.3 – 2.0
State highways – other structures	100	1.0
Bailey bridging	69 – 103	0.97 – 1.4
Motor vehicles	4	25.0
Computer equipment	3	33.3
Plant	5 – 10	10.0 – 20.0
Equipment	5 – 8	12.5 – 20.0
Furniture & fittings	5 – 10	10.0 – 20.0
Office equipment	4 – 5	20.0 – 25.0
Leasehold improvements	Life of Lease	7.7 – 33.0

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

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

Intangible assets

Software acquisition and development

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

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

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

Amortisation

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

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

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

Impairment of property, plant and equipment and intangible assets

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

Non-cash generating assets

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

Property, plant and equipment and intangible assets held at cost that have a finite useful life, are reviewed for impairment whenever events or changes in circumstances indicate that 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 service amount. The recoverable service amount is the higher of an asset's fair value less costs to sell and value in use.

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

If an asset's carrying amount exceeds its recoverable service amount, the asset is regarded as impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit.

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.

Service Concession Arrangements

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

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

On completion the asset and liability will be re-measured to fair value.

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

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

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

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

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

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

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

Payables

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

Borrowing

Borrowing is initially recognised at 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.

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.

Jointly controlled operations

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

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

Equity

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

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

State highway revaluation reserve

This reserve relates to the revaluation of the state highway network.

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 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 Transport Agency *Statement of performance expectations* 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.

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

The Employee Entitlements note 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.

Critical judgements relate to:

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

The brownfield construction costs referred to on page 172 represent a significant proportion of the capitalised cost of the state highway. Brownfield costs are not recorded in the state highway asset management system, but are accounted for generically with the value derived from costs in the financial records.

2 FUNDING FROM THE CROWN AND NATIONAL LAND TRANSPORT FUND

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

3 REVENUE FROM OTHER ACTIVITIES

	NOTE	ACTUAL 2014/15 \$000	ACTUAL 2013/14 \$000
Border inspection fees		865	947
Certification review fees		9,646	8,061
Driver licensing fees		34,110	31,567
Driver testing fees		22,737	19,781
Motor vehicle licensing fees		57,824	54,073
Over dimension and overweight permits		821	608
Rail licensing fees		1,130	1,066
Road user charges collections		7,646	0
Standards development fee and certification levies		4,708	5,642
Transport licensing fees		7,598	8,545
Total fees and charges		147,085	130,290
Administration fee from Accident Compensation Corporation		932	904
Business units	a	1,507	1,570
Crash analysis system support		36	38
Levy on personalised plates for community road safety initiatives		1,205	996
Tolling fees and contributions		6,332	6,056
Interest income		236	289
Net gain/(loss) on disposal of assets		29	(39)
Recoveries from NLTP activities	b	73,409	36,627
Miscellaneous revenue		2,915	478
TOTAL REVENUE FROM OTHER ACTIVITIES		233,686	177,209

All revenue from other activities, with one exception, has been classified and treated as exchange revenue and accounted for in accordance with PBE IPSAS 9. The nature of these revenue streams is that approximate equivalent value is given in exchange. The exception is the grant received for CAPTIF.

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

	BAILEY BRIDGING \$000	CAPTIF \$000	TRAINING & EDUCATION \$000	TOTAL \$000
Revenue earned in 2014/15	60	729	718	1,507
Revenue earned in 2013/14	432	404	734	1,570

CAPTIF - Canterbury Accelerated Pavement Testing Indoor Facility

b. Contributions for 2014/15 of \$48.975 million (2014: \$21.614 million) for projects in Wellington and the Tauranga Eastern Link have resulted in a higher recovery from NLTP activities.

4 PERSONNEL COSTS

	NOTE	ACTUAL 2014/15 \$000	ACTUAL 2013/14 \$000
Salaries and wages	a	85,895	81,242
Defined contribution plan employer contributions		2,646	2,466
Other personnel costs		2,012	1,747
TOTAL PERSONNEL COSTS		90,553	85,455

a. An additional \$40.355 million (2014: \$41.276 million) was incurred for staff who are employed to manage our state highway network (including capital projects).

5 SIGNIFICANT OPERATING EXPENSES

	NOTE	ACTUAL 2014/15 \$000	ACTUAL 2013/14 \$000
Fees to principal auditors:			
- for audit of financial statements		387	315
- for other services	a	103	7
Operating lease expense		18,292	18,116
Impairment of receivables		289	571
Commissions and transaction costs		71,846	67,483
Professional services		25,647	11,501
Road user safety advertising		16,505	15,320
Information technology		8,441	10,684
Meetings and conferences		736	656
Staff travel		4,406	3,588
Office and building management		3,621	3,952
Impairment of asset	b	6,003	0

a. Other services to KPMG this year is primarily for a review of Transmission Gully lessons learnt and a Total Assurance project for Risk and Assurance.

b. An independent valuation was obtained of the assets making up the Integrated Ticketing System software (the Central System), leading to a write down in the carrying amount to \$14 million. The Transport Agency has provided funding, through the NLTP, to develop the Central System in association with Auckland Transport. The Central System is reported within intangible assets.

6 DEPRECIATION AND AMORTISATION EXPENSE

	ACTUAL 2014/15 \$000	ACTUAL 2013/14 \$000
Depreciation on property, plant and equipment	3,977	3,795
Depreciation on state highway network	513,030	464,840
Amortisation of intangible assets	6,076	5,437
TOTAL DEPRECIATION AND AMORTISATION EXPENSE	523,083	474,073

7 RECEIVABLES

	ACTUAL 2014/15 \$000	ACTUAL 2013/14 \$000
Receivables (gross)	94,594	40,364
Less : Provision for impairment	3,116	2,259
TOTAL RECEIVABLES	91,478	38,105

All receivables relate to exchange revenue.

FAIR VALUE

The carrying value of receivables approximates their fair value.

IMPAIRMENT

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

	2014/15			2013/14		
	GROSS \$000	IMPAIRMENT \$000	NET \$000	GROSS \$000	IMPAIRMENT \$000	NET \$000
Not past due date	80,207	0	80,207	25,499	0	25,499
Past due 1-30 days	11,108	0	11,108	10,865	0	10,865
Past due 31-60 days	435	(272)	163	269	0	269
Past due 61-90 days	154	(154)	0	390	0	390
Past due over 90 days	2,690	(2,690)	0	3,341	(2,259)	1,082
TOTAL	94,594	(3,116)	91,478	40,364	(2,259)	38,105

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

	ACTUAL 2014/15 \$000	ACTUAL 2013/14 \$000
Balance at 1 July	2,259	3,339
Operating provisions made during the year	289	571
Additional provisions made during the year	1,936	(1,044)
Receivables written-off during the year	(1,368)	(607)
BALANCE AT 30 JUNE	3,116	2,259

8 PROPERTY ASSETS HELD FOR SALE

The Transport Agency owns 109 properties valued at \$56.150 million (2014: 112 properties valued at \$58.825 million) which have been classified as held for sale. It is expected that these properties will be sold by 30 June 2016.

9 STATE HIGHWAY NETWORK

Movements for the state highway network are as follows:

	ACTUAL 2014/15 \$000	ACTUAL 2013/14 \$000
COST OR VALUATION		
Balance at 1 July	28,537,672	26,078,990
Additions - Capital expenditure	1,648,277	1,424,065
Revaluation gains/(losses)	573,040	1,560,595
Depreciation expense	(513,230)	(464,840)
Disposals	(61,323)	(79,693)
Asset write off	(7,030)	(6,433)
Change in assets held for sale	2,675	24,988
Tolling system assets	(635)	0
BALANCE AT 30 JUNE	30,179,446	28,537,672

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 \$30.179 billion (2014: \$28.538 billion) and this valuation is effective as at 30 June 2015.

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

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

	REPLACEMENT COST \$000	ACCUM DEPRECIATION \$000	VALUATION 2014/15 \$000	REPLACEMENT COST \$000	ACCUM DEPRECIATION \$000	VALUATION 2013/14 \$000
State highway corridor land	7,606,238	0	7,606,238	7,487,292	0	7,487,292
Held properties	1,701,638	0	1,701,638	1,301,100	0	1,301,100
Formation	7,995,460	0	7,995,460	7,785,120	0	7,785,120
Pavement (other)	4,599,660	991,540	3,608,120	4,357,070	976,310	3,380,760
Pavement (surface)	1,361,840	675,280	686,560	1,302,690	640,900	661,790
Drainage	1,358,240	569,010	789,230	1,317,560	570,900	746,660
Traffic facilities	2,016,900	820,010	1,196,890	1,918,570	791,190	1,127,380
Bridges	7,262,060	2,507,620	4,754,440	6,945,290	2,638,640	4,306,650
Culverts & subways	630,060	231,770	398,290	544,140	203,120	341,020
Other structures ^a	1,860,020	417,440	1,442,580	1,777,640	377,740	1,399,900
TOTAL	36,392,116	6,212,670	30,179,446	34,736,472	6,198,800	28,537,672

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

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

The Transport Agency has identified a few instances where some of the quantities have not been captured in the underlying databases.

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

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

WORK IN PROGRESS (INCLUDED IN THE ASSETS COMPONENTS AND BALANCE)

The total amount of the state highway network in the course of construction is \$1.397 billion (2014: \$2.886 billion).

10 SERVICE CONCESSION ASSET AND LIABILITY (TRANSMISSION GULLY)

The Transport Agency has entered into a Public Private Partnership agreement with the Wellington Gateway Partnership for the delivery of a stretch of state highway through Transmission Gully. The Wellington Gateway Partnership will design, build, finance, operate and maintain the section of state highway. Under the agreement, the Transport Agency has provided land it owns to the contractor on which to build the state highway.

The construction phase for Transmission Gully is expected to be completed by April 2020. The operational agreement runs for a period of 25 years from the service completion date, after which the responsibility for on-going operation and maintenance of the road will revert to the Transport Agency. Under the operating agreement the Transport Agency pays a unitary charge to the contractor from the time the section of state highway becomes operational. The unitary charge includes:

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

Finance and service costs are recognised as an expense in the period incurred.

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

As the state highway is currently under construction, no depreciation on the asset has been incurred to date.

11 INTANGIBLE ASSETS

Movements for intangible assets are as follows:

	ACTUAL 2014/15 \$000	ACTUAL 2013/14 \$000
COST		
Balance at 1 July	74,426	68,379
Additions	4,099	5,806
Work in progress movements	5,329	241
Balance at 30 June	83,854	74,426
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES		
Balance at 1 July	32,205	26,767
Amortisation expense	6,075	5,437
Impairment of the Central System (Integrated Ticketing)	6,003	0
Reclassification	(171)	1
Balance at 30 June	44,112	32,205
CARRYING AMOUNTS		
At 30 June 2014	42,221	41,611
At 30 June 2015	39,742	42,221

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

WORK IN PROGRESS (INCLUDING IN THE COST AND CARRYING AMOUNTS)

The total value of intangible assets in the course of development is \$7.632 million (2014: \$22.306 million).

Included in intangible assets is the value of the National Integrated Ticketing System (\$14 million), which is held in trust for the Transport Agency by Auckland Transport under the terms of a Memorandum of Understanding.

12 LOANS AND ADVANCES

STATUTORY ADVANCES

Under the Public Works Act, the Transport Agency has provided statutory advances of \$1.180 million (2014: \$0.855 million).

13 PAYABLES

	ACTUAL 2014/15 \$000	ACTUAL 2013/14 \$000
CURRENT PORTION		
Creditors	474,555	389,134
Income in advance	9,411	5,593
Onerous contracts	48	48
Total current portion	484,014	394,775
NON-CURRENT PORTION		
Onerous contracts	84	131
Total non-current portion	84	131
TOTAL PAYABLES	484,098	394,906

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.

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.

14 EMPLOYEE ENTITLEMENTS

	ACTUAL 2014/15 \$000	ACTUAL 2013/14 \$000
CURRENT PORTION		
Accrued salaries and wages	4,400	3,858
Annual leave	7,494	8,082
Sick leave	467	509
Retirement and long service leave	509	446
Total current portion	12,870	12,895
NON-CURRENT PORTION		
Retirement and long service leave	4,979	4,229
Total non-current portion	4,979	4,229
TOTAL EMPLOYEE ENTITLEMENTS	17,849	17,124

The actuarial valuation as at 30 June 2015 was conducted in-house using prescribed Treasury guidance.

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

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

Using 50% of the assumed resignation rate, with all other factors held constant, the amount of expected liability would be \$529,000 higher (2014: \$420,000). If the resignation rate is at 150% of the assumed rate, then the expected liability would be \$400,000 lower (2014: \$328,000).

15 BORROWING

The Transport Agency has a borrowing facility for short term advances from the Crown to cover seasonal variations in cash flows. The maximum amount of such advances at any one time shall not exceed \$250 million.

Under this short term facility, the Transport Agency has no current borrowings as at 30 June 2015 (2014: \$100 million). The fair value of the 2014 \$100 million was \$100.338 million based on a 4% coupon rate.

The Transport Agency has a borrowing facility of up to \$183.4 million to assist in the Christchurch earthquake recovery, with \$12 million borrowing drawn down in August 2014. The \$12 million loan has incurred interest of \$0.515 million to date which has been capitalised against the loan balance.

The Transport Agency also has a loan facility of \$107 million as a contribution towards the Tauranga Eastern Link toll road. This loan was fully drawn down on the 30 June 2015.

The final loan facility currently available to the Transport Agency is a \$375 million facility for the Auckland Accelerated Programme. At 30 June 2015 there had been no draw-downs against this facility.

16 RETAINED FUNDS

NOTE	ACTUAL 2014/15 \$000	ACTUAL 2013/14 \$000
RETAINED FUNDS - NZ TRANSPORT AGENCY OPERATIONS		
Balance at 1 July	25,039	23,323
Surplus/(deficit) from Operations	(1,264)	1,716
RUC retained funds to memorandum account	(1,500)	0
Balance at 30 June	22,275	25,039
RETAINED FUNDS - NATIONAL LAND TRANSPORT PROGRAMME		
Balance at 1 July	0	0
Capital contribution from the National Land Transport Fund	872,321	776,227
Deficit from Operations	(6,921)	(142)
Surplus from Land transport funding	62,008	71,687
Transfer to state highway investment	a (936,548)	(847,773)
Funds provided for public transport automated fare collection system	6,003	0
Balance at 30 June	(3,137)	0
RETAINED FUNDS - SPECIFIC PROJECTS FUNDED BY THE CROWN		
Balance at 1 July	1,239	995
Capital contribution from the Crown	23,346	25,000
Surplus/(deficit)	2,190	244
Transfer to state highway investment	(23,346)	(25,000)
Balance at 30 June	3,429	1,239
FUNDS PROVIDED FOR PUBLIC TRANSPORT AUTOMATED FARE COLLECTION SYSTEM		
Balance at 1 July	20,000	20,000
Funds from the National Land Transport Programme	(6,003)	0
Balance at 30 June	13,997	20,000
TOTAL RETAINED FUNDS	36,563	46,278

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

	NOTE	ACTUAL 2014/15 \$000	ACTUAL 2013/14 \$000
Capitalised expenditure - National Land Transport Programme		1,624,931	1,399,065
Tauranga Eastern Link expenditure funded by loan		(107,000)	0
State highway depreciation and asset write-off		(520,060)	(471,599)
State highway disposals to the National Land Transport Programme		(61,323)	(79,693)
Retained funds - National Land Transport Programme		936,548	847,773
Capitalised expenditure - Crown		23,346	25,000
Retained funds - Specific projects funded by the Crown		23,346	25,000
TRANSFER TO STATE HIGHWAY INVESTMENT	18	959,894	872,773

17 MEMORANDUM ACCOUNT - OTHER FEES AND CHARGES

	ACTUAL 2014/15 \$000	ACTUAL 2013/14 \$000
Balance at 1 July	6,254	1,018
Surplus from operations	3,726	5,236
RUC retained funds to memorandum account	1,500	0
TOTAL MEMORANDUM ACCOUNT - OTHER FEES AND CHARGES	11,480	6,254

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

	ACTUAL 2014/15 \$000	ACTUAL 2013/14 \$000
Customer licensing activities	7,257	3,188
Road user charges collections	1,894	0
Vehicle standards compliance activities	2,329	3,067
TOTAL MEMORANDUM ACCOUNT - OTHER FEES AND CHARGES	11,480	6,254

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.

18 EQUITY DERIVED FROM THE STATE HIGHWAY NETWORK

	NOTE	ACTUAL 2014/15 \$000	ACTUAL 2013/14 \$000
STATE HIGHWAY INVESTMENT			
Balance at 1 July		19,313,725	18,440,952
Transfer from the National Land Transport Programme	16a	959,894	872,773
Balance at 30 June		20,273,619	19,313,725
STATE HIGHWAY REVALUATION RESERVE			
Balance at 1 July		9,355,257	7,794,662
Revaluations - State highway network		573,040	1,560,595
Balance at 30 June		9,928,297	9,355,257
TOTAL EQUITY DERIVED FROM THE STATE HIGHWAY NETWORK		30,201,917	28,668,982

19 CAPITAL FUNDING - NATIONAL LAND TRANSPORT PROGRAMME

	ACTUAL 2014/15 \$000	ACTUAL 2013/14 \$000
New and improved infrastructure for state highways	696,878	614,975
Renewal of state highways	175,443	161,252
TOTAL CAPITAL CONTRIBUTION - NATIONAL LAND TRANSPORT PROGRAMME	872,321	776,227

20 RECONCILIATION OF NET SURPLUS TO NET CASH FROM OPERATING ACTIVITIES

	ACTUAL 2014/15 \$000	ACTUAL 2013/14 \$000
NET SURPLUS	59,738	78,743
Add non-cash items:		
Depreciation and amortisation expense	523,083	474,073
State highway asset write-off	7,030	6,759
Total non-cash items	530,113	480,832
Add/(less) items classified as investing or financial activities:		
Interest on borrowing	3,036	3,335
Impairment of asset	6,003	0
Total items classified as investing or financing activities	9,039	3,335
Add/(less) movements in statement of financial position items:		
(Increase)/decrease in debtor National Land Transport Fund and Crown	66,844	6,620
(Increase)/decrease in other receivables	(53,373)	34,693
(Increase)/decrease in prepayments and inventories	3,645	2,398
(Increase) decrease in property, plant and equipment work in progress	(77)	0
(Increase) decrease in intangible asset work in progress	(5,326)	0
Increase/(decrease) in creditors and other payables	89,192	(44,597)
Increase/(decrease) in tolling funds held in trust for Ministry of Transport	(48)	390
Increase/(decrease) in employee entitlements	725	537
Net movements in working capital items	101,582	40
NET CASH FROM OPERATING ACTIVITIES	700,472	562,950

21 CAPITAL COMMITMENTS AND OPERATING LEASES

CAPITAL COMMITMENTS

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

	ACTUAL 2014/15 \$000	ACTUAL 2013/14 \$000
No later than one year	1,488,516	1,233,118
Later than one year and not later than five years	2,524,291	1,190,798
Later than five years	47,602	15,762
TOTAL CAPITAL COMMITMENTS	4,060,409	2,439,678

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 2014/15 \$000	ACTUAL 2013/14 \$000
Not later than one year	9,832	17,770
Later than one year and not later than five years	40,964	36,084
Later than five years	18,833	17,747
TOTAL NON-CANCELLABLE OPERATING LEASES	69,629	71,601

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

22 CONTINGENCIES

CONTINGENT LIABILITIES

Contract and land settlements

There are claims of \$15.9 million (2014: \$32.8 million) relating to a range of roading and other contract disputes.

CONTINGENT ASSETS

The Transport Agency has contingent assets of \$0.581 million (2014: \$0.581 million) relating to claims for legal costs.

The Transport Agency is party to a number of pieces of litigation in which, if the Transport Agency is successful, modest costs orders could be awarded in its favour. Because costs are always at the discretion of the Court, and even if awarded may be impossible to recover, it is not possible reliably to estimate legal costs orders as contingent assets.

23 RELATED PARTY TRANSACTIONS

THE TRANSPORT AGENCY IS A WHOLLY OWNED ENTITY OF THE CROWN

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

KEY MANAGEMENT PERSONNEL COMPENSATION

	ACTUAL 2014/15 \$000	ACTUAL 2013/14 \$000
BOARD MEMBERS		
Remuneration	290	287
Full-time equivalent members	8	9
LEADERSHIP TEAM		
Remuneration	4,001	4,230
Full-time equivalent members	12	11
TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION	4,291	4,517
TOTAL FULL TIME EQUIVALENT PERSONNEL	20	20

24 BOARD MEMBER REMUNERATION

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

	ACTUAL 2014/15 \$000	ACTUAL 2013/14 \$000
Chris Moller (Chair)	62	63
Dame Patsy Reddy	39	39
Gill Cox	31	32
Tony Lanigan	31	32
Mark Oldfield	Appointed July 2014	31
Jerry Rickman		31
Nick Rogers	Appointed September 2013	31
Alick Shaw	Stepped down in May 2014	0
Adrienne Young-Cooper		34
TOTAL BOARD MEMBER REMUNERATION	290	287

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 (2014: nil).

25 EMPLOYEE REMUNERATION

TOTAL REMUNERATION PAID OR PAYABLE	NO. OF STAFF 2014/15	NO. OF STAFF 2013/14
100,000 - 109,999	115	96
110,000 - 119,999	81	71
120,000 - 129,999	55	57
130,000 - 139,999	38	45
140,000 - 149,999	32	31
150,000 - 159,999	19	13
160,000 - 169,999	17	17
170,000 - 179,999	11	11
180,000 - 189,999	13	11
190,000 - 199,999	9	7
200,000 - 209,999	4	3
210,000 - 219,999	5	7
220,000 - 229,999	2	3
230,000 - 239,999	1	0
240,000 - 249,999	2	1
250,000 - 259,999	0	1
260,000 - 269,999	3	4
270,000 - 279,999	1	1
280,000 - 289,999	0	2
300,000 - 309,999	0	1
310,000 - 319,999	2	0
320,000 - 329,999	1	0
330,000 - 339,999	1	1
340,000 - 349,999	0	1
350,000 - 359,999	1	3
360,000 - 369,999	2	1
370,000 - 379,999	1	0
380,000 - 389,999	0	1
390,000 - 399,999	1	0
620,000 - 629,999	0	*1
660,000 - 669,999	*1	0
TOTAL EMPLOYEES	418	390

* Chief Executive Officer.

During the year ended 30 June 2015, 23 (2014: 20) employees received compensation and other benefits in relation to cessation totalling \$1.376 million (2014: \$0.786 million).

26 EVENTS AFTER THE BALANCE DATE

There were no significant events after the balance date.

27 FINANCIAL INSTRUMENT CATEGORIES

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

	ACTUAL 2014/15 \$000	ACTUAL 2013/14 \$000
LOANS AND RECEIVABLES		
Cash and cash equivalents	43,281	23,922
Debtors National Land Transport Fund and Crown	450,744	517,587
Receivables	91,478	38,105
Loans and advances	1,180	855
TOTAL LOANS AND RECEIVABLES	586,683	580,469
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		
Payables (current and non-current)	484,098	394,906
Borrowing	119,516	100,000
TOTAL FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	603,614	494,906

28 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. The Transport Agency does not actively manage its exposure to currency risk.

CREDIT RISK

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

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

In the normal course of business, the Transport Agency is exposed to credit risk from cash and term deposits with banks, debtors and other receivables, 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 2014/15 \$000	ACTUAL 2013/14 \$000
Cash and cash equivalents	43,281	23,922
Debtors National Land Transport Fund and Crown	450,744	517,587
Receivables	91,478	38,105
Loans and advances	1,180	855
TOTAL CREDIT RISK	586,683	580,469

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 2014/15 \$000	ACTUAL 2013/14 \$000
Cash and cash equivalents		
AA-	43,281	23,922
TOTAL CASH AND CASH EQUIVALENTS	43,281	23,922

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.

	2014/15			2013/14		
	LESS THAN 6 MONTHS	6-12 MONTHS	LATER THAN 1 YEAR	LESS THAN 6 MONTHS	6-12 MONTHS	LATER THAN 1 YEAR
Payables	483,966	48	84	394,727	48	131
Borrowing	0	0	119,516	0	100,000	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.

	2014/15		2013/14	
	LESS THAN 6 MONTHS	LATER THAN 1 YEAR	LESS THAN 6 MONTHS	LATER THAN 1 YEAR
Cash and cash equivalents	43,281	0	23,922	0
Debtors National Land Transport Fund and Crown	450,744	0	517,587	0
Receivables	91,478	0	38,105	0
Loans and advances	0	1,180	0	855

BORROWING

The Transport Agency's borrowing facility from the Crown is the result of the acceleration of the 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.

	2014/15 EFFECT ON SURPLUS OR DEFICIT		2013/14 EFFECT ON SURPLUS OR DEFICIT	
	+1% \$000	-1% \$000	+1% \$000	-1% \$000
Cash and cash equivalents	285	(285)	144	(144)

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.

	2014/15 EFFECT ON SURPLUS OR DEFICIT		2013/14 EFFECT ON SURPLUS OR DEFICIT	
	+0.5% \$000	-0.5% \$000	+0.5% \$000	-0.5% \$000
Borrowing	395	(395)	542	(542)

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.

29 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.

30 EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

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

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

Revenue

Funding from the Crown was \$9 million (29%) higher than budgeted. The Transport Agency received \$4.7 million from the Crown until RUC collections funding changed to third party revenue, and the Transport Agency is now receiving funding for urban cycleways.

Funding from the National Land Transport Fund was \$50 million (2%) lower than budgeted. Funding reflects the delivery of the National Land Transport Programme in the current year.

Revenue from other activities was \$80 million (52%) higher than budgeted. This was due to:

- › contributions to state highway project income that was previously categorised as either National Land Transport Fund revenue or cost recoveries, now being categorised as other revenue (contributions)
- › volume-driven licensing and testing revenue being ahead of budget due to higher numbers of new drivers and higher volume of driver tests
- › higher than forecast volumes for motor vehicle registrations and their accompanying revenue from plates.

Expenditure

Operating expenses was \$17 million (12%) higher than budget. This predominately relates to the impairment loss resulting from the revaluation of the public transport automated fare collection system, (\$6 million), higher commissions and transactions costs due to higher volumes of driver testing and vehicle licensing than budgeted (\$4.7 million), and work undertaken on behalf of and funded by Department of Internal Affairs and Police (\$3.7 million).

Land transport funding was \$90 million (6%) lower than budgeted which mainly came from the net impact of these activities:

- › Transport planning was under budget by \$8 million as the anticipated 'ramp-up' to prepare for the 2015-18 NLTP, including activity management planning and programme business case development, did not occur as expected.
- › Public transport was under budget by \$14 million due to slower than planned delivery of infrastructure projects in Auckland, efficiencies in the services programme, and the impact of lower fuel costs on service delivery.
- › New and improved infrastructure for local roads was over budget by \$20 million. The Tauranga Route K settlement occurred in June, which, along with Christchurch's inner city improvements was the key driver for the variance against budget.
- › Maintenance, operation and renewal of local roads were \$100 million under budget, mainly due to Christchurch only claiming \$3 million of the budgeted \$100 million for earthquake related emergency expenditure.
- › Walking and cycling was \$13 million over budget. This performance demonstrates the local authority response to the impetus provided by the Urban Cycleways Programme.

Depreciation and amortisation expense was \$62 million (14%) higher than budget. This predominately relates to the state highway depreciation budget being established before the revaluation at the end of last year.

STATEMENT OF FINANCIAL POSITION

Current assets

Debtor National Land Transport Fund was \$255 million (39%) lower than budgeted. When the budget was developed, the debtor amount was aligned to the increase in funding from the National Land Transport Fund.

Debtor Crown was \$26 million (33%) lower than budgeted, which arises in the short term to cover the gap between revenue and expenditure remaining and is lower than budgeted.

Receivables were \$21 million (30%) higher due to a GST receivable planned for receipt in June, received in the first week of July.

Non-current assets

State highway network was \$987 million (3%) higher than budgeted. A higher than budgeted revaluation in 2013/14 meant the opening value of the state highway network was higher than what was budgeted.

Current liabilities

Payables were \$21 million (4%) lower than budgeted due to a lower level of activity at the end of the year than anticipated.

Borrowing was lower than budgeted as a better than forecast cash position meant the Transport Agency did not need to draw down on the \$100 million borrowing facility.

Non-current liabilities

Borrowing was \$167 million (58%) below budget as the funding for Auckland transport initiatives and Christchurch earthquake funding was not called upon.

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)
- › NZ Transport Ticketing Ltd.

This information is consistent with and should be read in conjunction with, the financial highlights on pages 154 to 156 and the audited financial statements on pages 157 to 186.

DETAILED PERFORMANCE BY SEGMENT OF THE BUSINESS

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

OPERATIONS

	ACTUAL 2014/15 \$000	BUDGET 2014/15 \$000	ACTUAL 2013/14 \$000
REVENUE			
Revenue from the Crown			
Management of the funding allocation system	775	775	771
Licensing and regulatory compliance	4,205	4,205	4,917
Road user charges collection, investigation and enforcement	4,720	0	19,935
Refund of fuel excise duty	0	0	429
Administration of the SuperGold cardholders' scheme	95	95	95
	9,795	5,075	26,147
Revenue from the National Land Transport Fund			
Management of the funding allocation system	30,714	30,000	29,573
Transport planning	4,673	4,200	4,291
Sector research	5,001	6,100	4,197
Public transport	4,080	3,093	573
Road safety promotion	19,927	19,100	18,995
Maintenance and operation of local roads	32	0	0
Road user charges collection, investigation and enforcement	4,229	4,434	0
Refund of fuel excise duty	475	399	0
Maintenance and operation of state highways	17,087	15,054	11,764
	86,218	82,380	69,393

OPERATIONS (CONTINUED)

	ACTUAL 2014/15 \$000	BUDGET 2014/15 \$000	ACTUAL 2013/14 \$000
REVENUE FROM OTHER ACTIVITIES			
Road safety promotion	1,205	1,460	1,018
Licensing and regulatory compliance	83,009	74,527	77,837
Road tolling	6,332	6,694	6,056
Motor vehicle registry	59,524	54,871	56,779
Road user charges collection, investigation and enforcement	7,648	11,539	0
Refund of fuel excise duty	89	0	0
New and improved infrastructure for state highways	3,409	0	0
Maintenance and operation of state highways	1,507	2,321	1,570
	162,723	151,412	143,260
Total revenue	258,736	238,867	238,800
EXPENDITURE			
Operating activities			
Management of the funding allocation system	469	775	1,021
Road safety promotion	46	3,047	634
Licensing and regulatory compliance	84,194	78,638	79,694
Road tolling	5,541	6,123	5,481
Motor vehicle registry	58,611	56,152	54,033
Road user charges collection, investigation and enforcement	15,737	15,459	17,051
Refund of fuel excise duty	553	399	505
Administration of the SuperGold cardholders scheme	95	95	95
	165,246	160,688	158,513
Operating activities (National Land Transport Programme)			
Management of the funding allocation system	31,292	30,000	29,715
Transport planning	4,673	4,200	4,291
Sector research	5,001	6,100	4,197
Public transport	10,084	3,093	573
Road safety promotion	19,927	19,100	18,995
Maintenance and operation of local roads	32	0	0
New and improved infrastructure for state highways	36,302	31,760	31,299
Renewal of state highways	8,118	8,000	10,710
Maintenance and operation of state highways	17,427	15,054	11,764
	132,856	117,307	111,543

OPERATIONS (CONTINUED)

	ACTUAL 2014/15 \$000	BUDGET 2014/15 \$000	ACTUAL 2013/14 \$000
Operating activities (business units)			
Maintenance and operation of state highways	2,014	988	1,186
Expenses relating to the delivery of outputs	300,116	278,983	271,242
Other expenses	4,091	2,447	2,755
Total expenditure	304,207	281,430	273,997
State highway network			
Less capitalised expenditure	(41,011)	(39,760)	(42,009)
Total expenditure	263,196	241,670	231,989
NET SURPLUS/(DEFICIT)	(4,460)	(2,803)	6,811

Movement of operations net surplus 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.
- › Retained funds - National Land Transport Programme refers to activities that are funded from the National Land Transport Fund.
- › Memorandum account - Other fees and charges refers to activities funded from fees and charges.

Movement of operations net surplus to equity

	ACTUAL 2014/15 \$000	BUDGET 2014/15 \$000	ACTUAL 2013/14 \$000
REVENUE			
Retained funds - NZ Transport Agency Operations	18,256	19,312	34,274
Retained funds - National Land Transport Programme	84,923	77,547	69,393
Memorandum account - Other fees and charges	155,557	142,008	135,133
	258,736	238,867	238,800
EXPENDITURE			
Retained funds - NZ Transport Agency Operations	19,520	21,881	32,557
Retained funds - National Land Transport Programme	91,845	77,547	69,535
Memorandum account - Other fees and charges	151,831	142,242	129,897
	263,196	241,670	231,989
NET SURPLUS			
Retained funds - NZ Transport Agency Operations	(1,264)	(2,569)	1,716
Retained funds - National Land Transport Programme	(6,922)	0	(142)
Memorandum account - Other fees and charges	3,726	(234)	5,236
NET SURPLUS/(DEFICIT)	(4,460)	(2,803)	6,811

LAND TRANSPORT FUNDING

	ACTUAL 2014/15 \$000	BUDGET 2014/15 \$000	ACTUAL 2013/14 \$000
INFLOWS			
Transport planning	10,553	19,156	10,636
Public transport	294,854	316,298	271,693
Road safety promotion	13,000	14,250	12,816
New and improved infrastructure for local roads	187,509	167,000	125,043
Renewal of local roads	247,539	251,000	232,761
Maintenance and operation of local roads	291,129	385,000	302,618
Walking and cycling	31,141	18,000	18,197
New and improved infrastructure for state highways	572,665	474,521	538,974
Renewal of state highways	16,338	0	7,341
Maintenance and operation of state highways	344,497	347,429	359,836
Management of the funding allocation system	272	0	142
Total inflows	2,009,497	1,992,654	1,880,057
OUTFLOWS			
Transport planning	10,554	19,156	10,636
Public transport	294,854	316,298	271,693
Road safety promotion	13,000	14,250	12,816
New and improved infrastructure for local roads	187,509	167,000	125,043
Renewal of local roads	247,539	251,000	232,761
Maintenance and operation of local roads	294,266	385,000	302,618
Walking and cycling	31,141	18,000	18,197
New and improved infrastructure for state highways	1,401,936	1,351,740	1,199,010
Renewal of state highways	183,331	205,853	157,883
Maintenance and operation of state highways	344,183	347,429	359,836
Interest on borrowings	3,036	7,171	3,335
	3,011,349	3,082,897	2,693,827
State highway network			
State highway depreciation	513,030	450,000	464,840
State highway asset write-off	7,030	10,000	6,759
Less capitalised expenditure	(1,583,920)	(1,557,593)	(1,357,057)
	(1,063,860)	(1,097,593)	(885,458)
Total outflows	1,947,489	1,985,304	1,808,370
NET SURPLUS/(DEFICIT)	62,008	7,350	71,687

Future National Land Transport Programme funding commitments

	ACTUAL 2014/15 \$000	ACTUAL 2013/14 \$000
Not later than one year	3,385,945	2,940,126
Later than one year and not later than five years	5,893,242	1,247,206
Later than five years	3,791,760	695,654
TOTAL FUNDING COMMITMENTS	13,070,947	4,882,986

SPECIFIC PROJECTS FUNDED BY THE CROWN

	ACTUAL 2014/15 \$000	BUDGET 2014/15 \$000	ACTUAL 2013/14 \$000
REVENUE			
Revenue from the Crown			
Enhanced public transport concessions for SuperGold cardholders	26,116	25,905	23,905
Passing opportunities on SH2 between Napier and Gisborne	500	0	3,350
Reinstatement of local roads in Canterbury	0	0	30,800
Urban cycleways	3,654	0	0
Total revenue	30,270	25,905	58,055
EXPENDITURE			
Enhanced public transport concessions for SuperGold cardholders	26,329	25,905	24,110
Passing opportunities on SH2 between Napier and Gisborne	500	0	3,350
Reinstatement of local roads in Canterbury	0	0	30,351
National war memorial park	10,000	10,000	25,000
Regional state highways	12,000	0	0
Urban cycleways	2,597	0	0
	51,426	35,905	82,811
State highway network			
Less capitalised expenditure	(23,346)	(10,000)	(25,000)
Total expenditure	28,080	25,905	57,811
NET SURPLUS/(DEFICIT)	2,190	0	244

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 third year of the programme.

NATIONAL LAND TRANSPORT PROGRAMME

	ACTUAL 2014/15 \$000	BUDGET 2014/15 \$000	ACTUAL 2013/14 \$000
INFLOWS			
Capital contribution from National Land Transport Fund	872,321	965,403	776,227
Revenue from the National Land Transport Fund	2,002,333	2,052,851	1,896,358
Revenue from the NLTF (rental and interest income)	17,723	17,350	19,144
Revenue from state highway disposals	61,323	57,600	79,693
Revenue from other activities	74,363	0	33,949
Total inflows for the National Land Transport Fund	3,028,063	3,093,204	2,805,370
Borrowing (for Toll roads)	107,000	107,000	0
Total inflows for the National Land Transport Programme	3,135,063	3,200,204	2,805,370
OUTFLOWS			
Transport planning	15,226	17,000	14,927
Road safety promotion	32,926	33,000	31,811
Walking and cycling	31,141	20,000	18,197
Public transport	304,937	330,000	272,266
Maintenance and operation of local roads	291,161	299,000	290,445
Maintenance & operation of local roads (Christchurch earthquake fund)	3,137	0	12,173
Maintenance and operation of state highways	361,610	335,000	371,600
Renewal of local roads	247,539	253,000	232,761
Renewal of state highways	191,449	215,000	168,593
New and improved infrastructure for local roads	187,509	185,000	125,043
New and improved infrastructure for state highways	1,438,239	1,230,000	1,230,309
Sector research	5,001	5,000	4,197
Management of the funding allocation system	31,292	30,000	29,715
Interest on borrowing	3,036	0	3,335
Total outflows	3,144,203	2,952,000	2,805,370
CARRY OVER INTO NEXT YEAR	(9,140)	248,204	0
Public transport infrastructure - automated fare collection system	6,003	0	0
Opening balance	0	0	0
CLOSING BALANCE AT THE END OF THE YEAR	(3,137)	248,204	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 2015, 6.1 million trips were made on the toll road. Based on volumes recorded at a point just north of the toll road, traffic volumes were 7.5 million, indicating that 1.4 million used the 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 \$8.0 million of toll revenue has been paid to the Ministry of Transport for the period ending 30 June 2015, for debt repayment.

TRAFFIC VOLUMES FOR THE YEAR ENDED 30 JUNE 2015

CLASS OF MOTOR VEHICLE	ACTUAL 2014/15 000	BUDGET 2014/15 000	ACTUAL 2013/14 000
Light vehicle	5,585	5,484	5,288
Heavy vehicle	439	467	422
Exempt	22	21	20
Unidentifiable	9	12	11
Technical loss	20	27	20
TOTAL	6,075	6,011	5,761

TOLL REVENUE (PORTION DESIGNATED FOR REPAYMENT OF DEBT) FOR THE YEAR ENDED 30 JUNE 2015

	ACTUAL 2014/15 \$000	BUDGET 2014/15 \$000	ACTUAL 2013/14 \$000
PAID TOLL			
Light vehicle	6,626	6,543	6,285
Heavy vehicle	1,359	1,337	1,309
Interest	71	48	54
TOTAL FUNDS AVAILABLE	8,056	7,928	7,648
Outstanding debtor balance as at 30 June			
Unpaid toll revenue to be collected for the Ministry of Transport	177		159
Unpaid operating charge to be collected	99		89
Unpaid administration charges to be collected	385		325
GST to be collected	99		86
TOTAL OUTSTANDING DEBTOR BALANCE AS AT 30 JUNE	760		659

USE OF TOLL ROAD AND ALTERNATIVE ROUTE(S) FOR THE YEAR ENDED 30 JUNE 2015

	ACTUAL 2014/15	ACTUAL 2013/14
Northern Gateway Toll Road (SH 1)	80.9%	80.2%
Free alternative routes (SH 16 and 17)	19.1%	19.8%
TOTAL	100.0%	100.0%

COMPLIANCE WITH TOLLING FOR THE YEAR ENDED 30 JUNE 2015

	VOLUMES ACTUAL 2014/15 000	REVENUE ACTUAL 2014/15 \$000	VOLUMES ACTUAL 2013/14 000	REVENUE ACTUAL 2013/14 \$000
Total chargeable toll trips	6,024	14,219	5,710	13,491
Total administration charges	n/a	2,276	n/a	2,196
TOTAL TOLL REVENUE	6,024	16,495	5,710	15,687
Paid toll trips	5,836	13,781	5,538	13,093
Paid administration charges	n/a	1,643	n/a	1,644
PAID TOLL REVENUE	5,836	15,424	5,538	14,737
Unpaid toll trips	188	438	172	398
Unpaid administration charges	n/a	633	n/a	552
UNPAID TOLL REVENUE	188	1,071	172	950
Administration charge payment compliance	n/a	72.2%	n/a	74.9%
Toll payment compliance	96.9%	96.9%	97.0%	97.0%

FINANCIAL STATEMENTS FOR TOLLING

Statement of comprehensive revenue and expense for the year ended 30 June 2015

	ACTUAL 2014/15 \$000	BUDGET 2014/15 \$000	ACTUAL 2013/14 \$000
REVENUE			
Toll fees	6,332	6,694	6,056
Total revenue	6,332	6,694	6,056
Expenditure	5,541	6,123	5,481
NET SURPLUS/(DEFICIT)	791	571	575

Statement of financial position for the year ended 30 June 2015

	ACTUAL 2014/15 \$000	BUDGET 2014/15 \$000	ACTUAL 2013/14 \$000
ASSETS			
Current assets	12,526	11,090	10,730
Non-current assets	1,465	1,735	2,074
Total assets	13,991	12,825	12,804
Liabilities	6,452	5,526	6,075
NET ASSETS/EQUITY	7,539	7,299	6,729

Statement of cash flows for the year ended 30 June 2015

	ACTUAL 2014/15 \$000	BUDGET 2014/15 \$000	ACTUAL 2013/14 \$000
Net cash from operating activities	8,417	8,226	8,087
Net cash from financing activities	(7,955)	(7,968)	(7,458)
Net (decrease)/increase in cash and cash equivalents	462	258	629
Cash and cash equivalents at the beginning of the year	5,587	5,587	4,958
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6,049	5,845	5,587

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

NZ TRANSPORT TICKETING LTD

NZ Transport Ticketing Limited 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, to improve the effectiveness of public transport, achieve long-term value for money outcomes, and manage information services generated from such a system.

Through NZ Transport Ticketing Ltd, an infrastructure will be developed to support:

- › the transport ticketing central system processing capability for all customers and related service delivery agreements, including national settlement services
- › information management support services, including the information registrar function and security management for the public transport system in New Zealand detailed performance by segment of the business
- › other system services, including gateways and interfaces as required.

This table sets out the key financial information of NZ Transport Ticketing Ltd:

NZ TRANSPORT TICKETING LTD

	ACTUAL 2014/15 \$000	BUDGET 2014/15 \$000	ACTUAL 2013/14 \$000
COMPREHENSIVE REVENUE AND EXPENSE			
Funding from the Transport Agency	1,045	396	0
Revenue from other activities	10	2,500	0
Total expenditure	1,055	3,933	0
SURPLUS/(DEFICIT)	0	(1,037)	0
FINANCIAL POSITION			
Assets			
Cash and cash equivalents	815	50	0
Receivables	206	241	0
Property, plant and equipment	0	1,600	0
Intangible assets	0	17,400	0
	1,021	19,291	0
Liabilities			
Payables	997	215	0
Employee entitlements	24	13	0
	1,021	228	0
Equity			
Contributed capital	0	20,100	0
Accumulated surplus/(deficit)	0	(1,037)	0
NET ASSETS/EQUITY	0	19,063	0

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

INDEPENDENT AUDITOR'S REPORT



To the readers of the NZ Transport Agency and group's financial statements and performance information for the year ended 30 June 2015

The Auditor-General is the auditor of NZ Transport Agency (the "Transport Agency") and group, comprising the Transport Agency and its subsidiary. The Auditor-General has appointed me, Brent Manning, using the staff and resources of KPMG, to carry out the audit of the financial statements and the performance information, including the performance information for appropriation, of the group consisting of the Transport Agency and its subsidiary (collectively referred to as the "Group"), on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Group on pages 157 to 186, that comprise the statement of financial position as at 30 June 2015, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Group on pages 48 to 75 and 99 to 135.

In our opinion:

- the financial statements of the Group:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2015; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity International Public Sector Accounting Standards.
- the performance information:
 - presents fairly, in all material respects, the Group's performance for the year ended 30 June 2015 including:
 - for each class of reportable outputs:
 - its standards of performance achieved as compared with forecasts included in the statement of performance expectations for the financial year;
 - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year;
 - what has been achieved with the appropriation; and
 - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure.
 - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 19 October 2015. 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 the 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 the 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 the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements and performance information 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 Group'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 performance information within the Transport Agency's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and the performance information; and
- the overall presentation of the financial statements and the 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;
- present fairly the Group's financial position, financial performance and cash flows; and
- present fairly the Group's performance.

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

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

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

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 a public private partnership procurement review and provided advice in respect of the Transport Agency's Total Assurance Approach. These assignments are compatible with those independence requirements.

Other than the audit and these assignments, we have no relationship with or interests in the Transport Agency.



BRENT MANNING

KPMG

ON BEHALF OF THE AUDITOR-GENERAL

WELLINGTON, NEW ZEALAND

PUTTING THE SCRUTINY PRINCIPLE INTO PRACTICE

Report on the implementation of systems and procedures to give effect to the scrutiny principle for the period 1 July 2014 to 30 June 2015.

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 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 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 Transport Agency to know when and how to comply with the principle in relation to individual decisions, including:

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

Implementation

The Transport Agency has published its approach to giving effect to the scrutiny principle on its website page titled 'How decisions are made' <http://www.nzta.govt.nz/planning-and-investment/our-investments/investment-decisions/how-decisions-are-made/>.

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 2015 indicates the page is accessed on average 11 times a month (2014: 17).

A further link on this page links to a webpage that lists all the funding decisions the Transport Agency has made since August 2008 (prescribed date in the legislation is 1 October 2008) <http://www.nzta.govt.nz/planning-and-investment/our-investments/investment-decisions/board-decisions/>. The page is updated monthly once the previous month's decisions have been confirmed. Monitoring of the webpage during 2015 indicates the page is accessed on average 133 times a month (2014: 151).

The key system used by the Transport Agency is the web-based Transport Investment Online (TIO) system and it is used to manage the National Land Transport Programme. It contains all the activities proposed for funding and sets out for all applicants, both approved organisations and the Transport Agency for its own activities, the information required for the assessment and evaluation of the activities for funding. The system also records the decisions made by the Transport Agency including any conditions applied to the funding. The system is transparent. Every approved organisation can see the details of their proposals, the Transport Agency's recommendations and decisions and those of any other approved organisation and the 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 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 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 Transport Agency's Audit, Risk and Assurance committee. The Secretary for Transport is an advisor to this committee and attends the meetings
- external audit review as required to verify this report.

INDEPENDENT LIMITED ASSURANCE REPORT



Independent Limited Assurance Report to the Readers of the NZ Transport Agency's Report on Putting the Scrutiny Principle into Practice for the year ended 30 June 2015

We have carried out work to provide limited assurance on whether any matter has come to our attention that would lead us to believe that the report prepared by the New Zealand Transport Agency (the "Transport Agency") on Putting the Scrutiny Principle into Practice (the "Report") on pages 199 and 200 of the annual report does not fairly reflect the implementation of systems and procedures that are required to give the same level of scrutiny to its own proposed activities and combinations of activities, when making decisions in respect of land transport planning and funding under subpart 1 of Part 2 of the Land Transport Management Act 2003 (the Act), as it would give to those proposed by approved organisations.

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

Responsibilities of the Directors

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

Responsibility of the Auditor

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

We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements (New Zealand) 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* ((ISAE (NZ) 3000 (Revised)) in order to state whether anything has come to our attention that would indicate that the systems and procedures, as described in the Report, have not, in all material respects, been consistently applied in order to give effect to the "scrutiny principle" for the year ended 30 June 2015.

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

Inherent limitations

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

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

Independence

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

Conclusion

Based on our limited assurance engagement, which is not a reasonable assurance engagement or an audit, we have not become aware of any material matter that would lead us to believe that the Report prepared by the Transport Agency on the implementation of systems and procedures to give effect to the "scrutiny principle", on pages 199 and 200, for the year ended 30 June 2015 is not fairly stated.

**BRENT MANNING**

KPMG

ON BEHALF OF THE AUDITOR-GENERAL

WELLINGTON, NEW ZEALAND