

SECTION D

FINANCIAL  
STATEMENTS  
AND AUDIT  
REPORTS

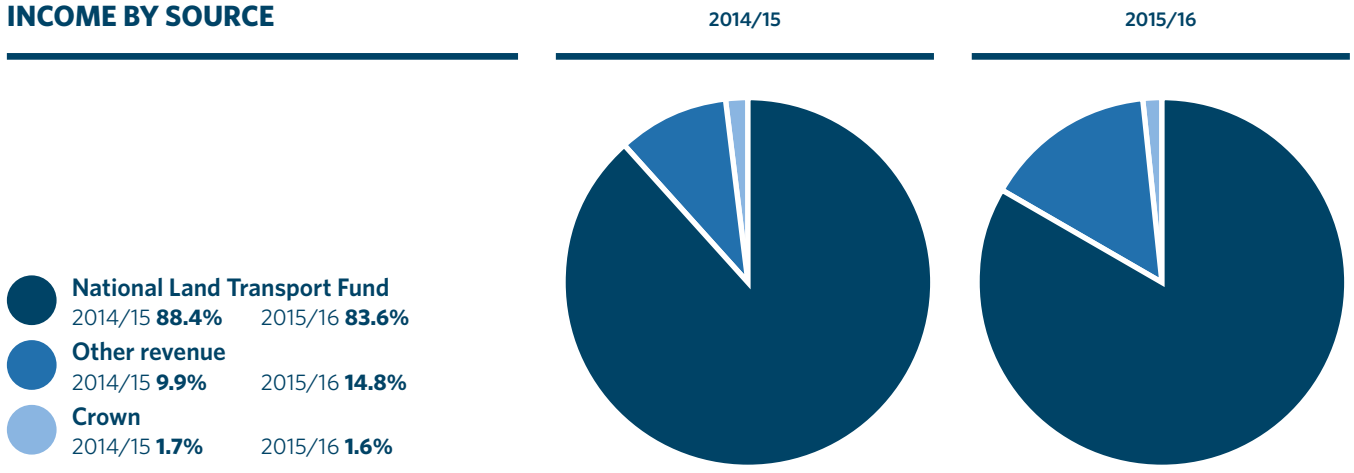


# HIGHLIGHTS FROM OUR FINANCIAL STATEMENTS

**\$2.46 BILLION**  
TOTAL REVENUE

The largest contribution to our revenue 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 as well as some developers' contributions received. During the year, assets with fair value of \$99.4 million were received from local authorities, which are included under other revenue.

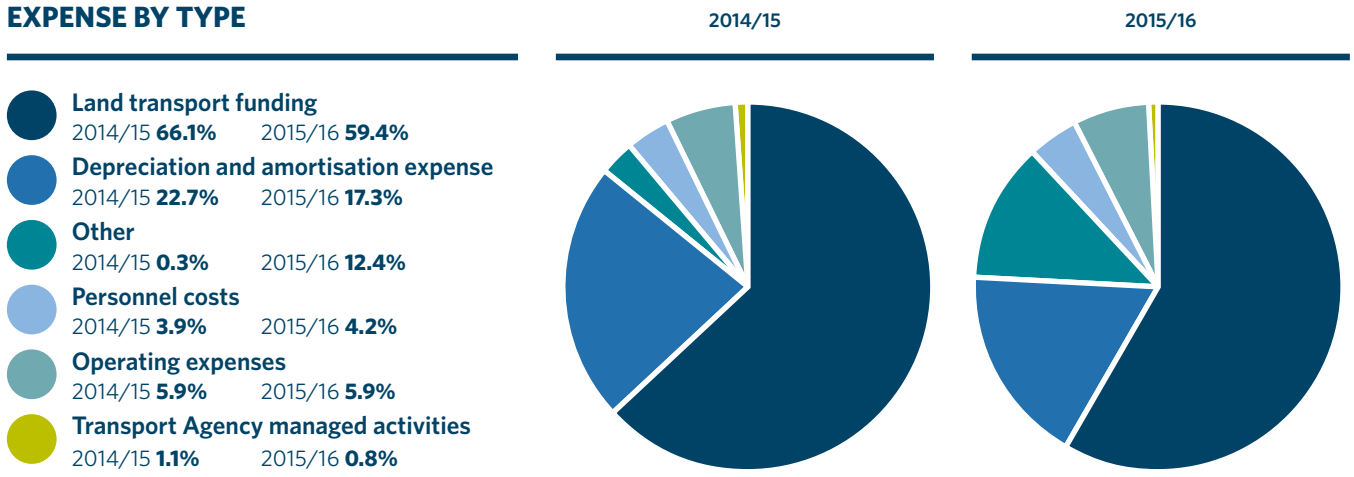
## INCOME BY SOURCE



**\$2.42 BILLION**  
TOTAL EXPENSE

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 (59%). Depreciation and amortisation, reflecting the cost of asset ownership, contributed 17% of our annual expenditure while other expenses amounted to 12% of the total expenses mainly due to assets of \$286.5 million vested to local authorities during the year.

## EXPENSE BY TYPE



**\$39.5 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 BY THE CROWN		TOTAL
Income \$279.9m	+	Income \$2,141.0m	+	Income \$34.7m	=	Total income \$2,455.6m
-		-		-		-
Expenditure \$275.4m	+	Expenditure \$2,103.6m	+	Expenditure \$37.1m	=	Total expenditure \$2,416.1m
=		=		=		=
Net surplus \$4.5m	+	Net surplus \$37.4m	+	Net surplus \$(2.4)m	=	Total net surplus \$39.5m

**OPERATIONS**

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

This surplus predominantly relates to the 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 offset by write-off of the National Integrated Ticketing system.

**SPECIFIC PROJECTS FUNDED BY THE CROWN**

**This includes the SuperGold card public transport concessions and the Urban Cycleways.**

The deficit is primarily due to Urban Cycleways' surplus last year utilised this year.

Supplementary information for each of these segments is provided on pages 127 to 131.

**\$32.3 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 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL 2014/15 \$000
Total assets	33,395,187	33,075,627	31,392,305
Less total liabilities	1,090,030	1,235,986	852,703
<b>NET ASSETS/EQUITY AT END OF YEAR</b>	<b>32,305,157</b>	<b>31,839,641</b>	<b>30,539,602</b>

We continue to maintain a strong balance sheet, with \$33.4 billion of assets and very low levels of liabilities.

The state highway network accounts for 95% 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 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL 2014/15 \$000
Investment in state highways	1,686,371	1,548,040	1,648,277
Investment in information technology	13,633	13,166	11,537
Investment in offices and equipment	14,932	2,000	514
<b>TOTAL</b>	<b>1,714,936</b>	<b>1,563,206</b>	<b>1,660,328</b>

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 2016

	NOTE	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL (RESTATED) 2014/15 \$000
<b>REVENUE</b>				
Funding from the Crown	2	39,757	60,996	40,065
Funding from the National Land Transport Fund	2	2,052,798	2,025,574	2,094,714
Revenue from other activities	3	263,682	170,255	233,686
Assets vested from local authorities	9	99,399	0	0
<b>Total revenue</b>		<b>2,455,636</b>	<b>2,256,825</b>	<b>2,368,465</b>
<b>EXPENSE</b>				
Personnel costs	4	102,632	98,072	90,553
Operating expenses	5	162,099	162,104	161,885
Land transport funding <sup>a</sup>		1,408,784	1,568,985	1,453,187
Interest and finance costs	6a	24,973	7,941	69,852
Depreciation and amortisation expense	6b	418,363	484,485	523,083
State highway asset write-off		12,760	10,000	7,030
Assets vested to local authorities	9	286,533	0	0
<b>Total expense</b>		<b>2,416,144</b>	<b>2,331,587</b>	<b>2,305,590</b>
<b>SURPLUS/(DEFICIT)</b>		<b>39,492</b>	<b>(74,762)</b>	<b>62,875</b>
<b>OTHER COMPREHENSIVE REVENUE AND EXPENSE</b>				
Gain/(loss) state highway network revaluations	9	640,549	560,000	573,040
Net movement in cash flow hedges	27	(131,863)	0	0
<b>Total other comprehensive revenue and expense</b>		<b>508,686</b>	<b>560,000</b>	<b>573,040</b>
<b>TOTAL COMPREHENSIVE REVENUE AND EXPENSE</b>		<b>548,178</b>	<b>485,238</b>	<b>635,915</b>

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.

The accompanying notes form part of these financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

	NOTE	ACTUAL 2015/16 \$'000	BUDGET 2015/16 \$'000	ACTUAL (RESTATED) 2014/15 \$'000
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		77,051	50,023	43,281
Debtor National Land Transport Fund		299,302	496,307	397,280
Debtor Crown		13,167	35,656	53,464
Receivables	7	83,796	36,223	91,478
Property assets held for sale	8	42,160	58,500	56,150
Prepayments		1,764	4,700	1,074
Inventories		81	200	155
Total current assets		517,321	681,609	642,882
<b>Non-current assets</b>				
Debtor National Land Transport Fund		708,143	0	350,852
Property, plant and equipment		25,966	17,249	16,304
State highway network	9	31,865,926	31,870,168	30,179,446
Service concession asset (Transmission Gully)	10	244,969	465,221	161,899
Intangible assets	11	31,404	40,525	39,742
Loans and advances	12	1,458	855	1,180
Total non-current assets		32,877,866	32,394,018	30,749,423
<b>TOTAL ASSETS</b>		<b>33,395,187</b>	<b>33,075,627</b>	<b>31,392,305</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Payables	13	377,611	483,095	484,014
Tolling funds held in trust		3,484	2,000	2,525
Employee entitlements	14	9,712	12,538	12,870
Total current liabilities		390,807	497,633	499,409
<b>Non-current liabilities</b>				
Payables	13	11	200	84
Service concession liability (Transmission Gully)	10	244,969	465,221	161,899
Employee entitlements	14	4,555	4,000	4,979
Borrowing	15	244,156	268,932	119,516
Derivative financial liability	27	205,532	0	66,816
Total non-current liabilities		699,223	738,353	353,294
<b>TOTAL LIABILITIES</b>		<b>1,090,030</b>	<b>1,235,986</b>	<b>852,703</b>
<b>NET ASSETS</b>		<b>32,305,157</b>	<b>31,839,641</b>	<b>30,539,602</b>

	NOTE	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL (RESTATED) 2014/15 \$000
<b>EQUITY</b>				
General funds		5,606	5,606	5,606
Retained funds	16	22,865	(17,817)	39,700
Memorandum account - other fees and charges	17	18,952	10,870	11,480
Equity derived from the state highway network <sup>a</sup>	18	32,389,597	31,840,982	30,482,816
Cash flow hedge reserve	27	(131,863)	0	0
<b>TOTAL EQUITY</b>		<b>32,305,157</b>	<b>31,839,641</b>	<b>30,539,602</b>

a. The state highway network includes the state highway investment and revaluation reserve.  
 Explanations of major variances against budget are provided in note 30.  
 The accompanying notes form part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2016

	NOTE	ACTUAL 2015/16 \$'000	BUDGET 2015/16 \$'000	ACTUAL (RESTATED) 2014/15 \$'000
<b>EQUITY - OPENING BALANCES</b>				
General funds		5,606	5,606	5,606
Retained funds		39,700	3,215	46,278
Memorandum account - other fees and charges		11,480	10,785	6,254
Equity derived from the state highway network		30,482,816	30,213,492	28,680,983
<b>Total equity - opening balance</b>		<b>30,539,602</b>	<b>30,233,098</b>	<b>28,739,121</b>
<b>CHANGES IN EQUITY</b>				
<b>Equity movements</b>				
Retained funds		(1,267,332)	(1,018,890)	(1,230,293)
Memorandum account - other fees and charges	17	1,100	1,400	1,500
Equity derived from the state highway network	16 <sup>a</sup>	1,266,232	1,067,490	1,228,793
		0	50,000	0
<b>Total comprehensive revenue and expense for the year</b>				
Retained funds		33,120	(73,447)	59,149
Memorandum account - other fees and charges		6,372	(1,315)	3,726
Surplus/(deficit)		39,492	(74,762)	62,875
State highway network revaluations		640,549	560,000	573,040
Movement in cash flow hedges		(131,863)	0	0
Other comprehensive revenue and expense		508,686	560,000	573,040
		548,178	485,238	635,915
<b>Capital funding (to retained funds)</b>				
Crown		33,310	48,000	23,346
National Land Transport Programme	19	1,184,267	1,023,305	1,141,220
		1,217,577	1,071,305	1,164,566
Repayment of capital		(200)	0	0
<b>Total changes in equity</b>		<b>1,765,555</b>	<b>1,606,543</b>	<b>1,800,481</b>
<b>EQUITY - CLOSING BALANCES</b>				
General funds		5,606	5,606	5,606
Retained funds		22,865	(17,817)	39,700
Memorandum account - other fees and charges		18,952	10,870	11,480
Equity derived from the state highway network	18	32,389,597	31,840,982	30,482,816
Cash flow hedge reserve		(131,863)	0	0
<b>TOTAL EQUITY - CLOSING BALANCES</b>		<b>32,305,157</b>	<b>31,839,641</b>	<b>30,539,602</b>

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 2016

	NOTE	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL (RESTATED) 2014/15 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from the Crown		42,262	48,898	35,824
Receipts from the National Land Transport Fund		1,914,544	2,071,616	2,095,845
Receipts from other revenue		250,404	168,111	180,077
Interest received		1,083	350	236
Payments to suppliers		(1,580,948)	(1,779,003)	(1,584,984)
Payments to employees		(102,708)	(98,040)	(89,828)
Goods & services tax (net)		21,607	19,000	63,302
Net cash from operating activities	20	546,244	430,932	700,472
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Receipts from sale of property, plant and equipment		0	0	286
Receipts from sale of state highway held properties		46,775	50,550	61,323
Purchase of property, plant and equipment		(15,138)	(5,467)	(514)
Purchase of intangible assets		(11,585)	(9,698)	(11,537)
Investment in the state highway network		(1,770,048)	(1,696,040)	(1,642,493)
Loans and advances		(278)	0	(325)
Net cash from investing activities		(1,750,274)	(1,660,655)	(1,593,260)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Capital contribution from the Crown		43,000	48,000	23,346
Capital contribution from the National Land Transport Fund		1,063,541	1,019,101	872,321
Receipts from borrowing		261,999	238,000	119,516
Repayment of borrowing		(125,000)	(70,000)	(100,000)
Interest paid on borrowing		(5,540)	(5,355)	(3,036)
Repayment of capital		(200)	0	0
Net cash from financing activities		1,237,800	1,229,746	912,147
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>				
Cash and cash equivalents at the beginning of the year		43,281	50,000	23,922
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>				
		<b>77,051</b>	<b>50,023</b>	<b>43,281</b>

Explanations of major variances against budget are provided in note 30.  
The accompanying notes form part of these financial statements.

# 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 as a public benefit entity (PBE) for financial reporting purposes.

The financial statements for the Transport Agency are for the year ended 30 June 2016, and were approved by the Board on 26 September 2016.

### CONSOLIDATION OF CONTROLLED ENTITY

The consolidated financial statements include the controlling entity the Transport Agency and its controlled entity NZ Transport Ticketing Limited, which is a Crown entity. The purpose of NZ Transport Ticketing Limited is to assist and advise the National Ticketing Programme.

In preparing the consolidated financial statements, the Transport Agency's financial statements are combined with NZ Transport Ticketing Limited line by line, by adding together like items of assets, liabilities, equity, revenues and expenses. All inter-entity transactions are eliminated on consolidation.

Consistent accounting policies are applied to the controlled entity's financial statements and are prepared for the same reporting period as the controlling 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 and the Financial Reporting Act 2013. They 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.

### Presentation currency and rounding

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

### Standards issued and not yet effective

The Transport Agency has adopted all standards, amendments and interpretations to existing standards that have been published and are mandatory for its accounting periods beginning on 1 July 2015. The Transport Agency did not early adopt standards which were not yet effective as at 1 July 2015.

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## 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 in the surplus or deficit 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 date 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.

### 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 include (a) debtors and other receivables, and (b) cash and cash equivalents in the Statement of financial position.

### 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**

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 and subsequent costs*

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.

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.

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

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

*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.

## State highway network

### *Valuation*

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 three and a half 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.

A revaluation surplus arising on revaluation of State highway is recorded in other comprehensive revenue and expense and credited to the revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same class of asset previously recognised in surplus or deficit, the increase is recognised in surplus or deficit. A revaluation deficit is recognised in the surplus or deficit, except to the extent that it offsets an existing surplus on the same asset class recognised in the revaluation reserve.

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.

### *Additions and subsequent costs*

The cost of constructing the State highway network is recognised as an asset. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future 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 surplus or deficit during the financial period in which they are incurred.

### *Disposals*

Gains and losses on disposals are determined being the difference between the net proceeds and 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.

## Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment and State highway network assets 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 State highway network assets are depreciated based on revalued carrying amount of the asset.

Depreciation expense is recognised in the surplus or deficit.

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)	9-14	7.1-11.1
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	3-4	25-33.3
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 state highway network assets, 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.

State highway network assets, property, plant and equipment and intangible assets that have a finite useful life, are reviewed for impairment whenever events or changes in circumstances indicate that there may be a reduction in the future service potential that can be expected to be derived from the asset. 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 service amount. An impairment loss is recognised in the surplus or deficit, except to the extent that it offsets an existing surplus on the same asset class recognised in the asset revaluation reserve.

### 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.

### **Derivative financial instruments and hedging**

The Transport Agency uses derivative financial instruments, mainly interest rate swaps, to mitigate risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date of which a derivative contract is entered into and are subsequently re-measured to fair value at balance date.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Derivative assets and liabilities are classified as non-current when the remaining maturity is more than 12 months or current when the remaining maturity is less than 12 months.

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

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

The hedge relationship is designated as a cash flow hedge and the Transport Agency formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they have been highly effective throughout the financial reporting periods for which they were designated.

### **Employee entitlements**

#### *Short-term employee entitlements*

Employee benefits that are due to be settled within 12 months after balance date 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 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 schemes 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
- equity derived from the state highway network
- cash flow hedge reserve

### 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 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, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

### Income tax

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

### Budget figures

The budget figures are derived from the *Statement of 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 materially 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:

#### *State highway network useful lives and residual value*

At each balance date, the useful lives and residual values of the state highway network assets 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.

### Critical judgements in applying accounting policies

Management has exercised the following critical judgements in applying accounting policies for the state highway network assets.

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 brownfield construction costs 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.

### PRIOR YEAR RESTATEMENT

We have restated some areas of the financial statements retrospectively. The restatement related to the following:

- The Transport Agency had a receivable from the National Land Transport Fund in relation to various borrowings undertaken by the Transport Agency to finance the National Land Transport Programme. This receivable has been recognised at 30 June 2015.
- The interest rate swaps contract which was entered into in the 2014/15 financial year was recognised as at 30 June 2015.

### Statement of Comprehensive Revenue and Expense 2014/15

	AFTER RESTATEMENT \$000	BEFORE RESTATEMENT \$000	INCREASE / (DECREASE) IN SURPLUS OR DEFICIT \$000
<b>SURPLUS OR DEFICIT</b>			
Revenue - funding from the National Land Transport Fund	2,094,714	2,024,761	69,953
Expense - interest and finance cost	(69,852)	(3,036)	(66,816)
<b>NET IMPACT ON SURPLUS/DEFICIT</b>	<b>2,024,862</b>	<b>2,021,725</b>	<b>3,137</b>

The restatement above related to the expenditure incurred on the reinstatement of earthquake damaged roads in Christchurch and the fair value of interest rate swaps for the 2014/15 financial year. The restatement has impacted the disclosure on the Detailed Performance by Segment of the Business under Land Transport Funding, the National Land Transport Programme disclosure and the Output Class Income and Expenditure report for local road maintenance.

**Statement of Financial Position 2014/15**

	AFTER RESTATEMENT \$000	BEFORE RESTATEMENT \$000	INCREASE / (DECREASE) IN NET ASSETS \$000
<b>NET ASSETS</b>			
Debtor National Land Transport Fund (non-current)	350,852	0	350,852
Derivative financial liability	(66,816)	0	(66,816)
<b>NET INCREASE IN NET ASSETS</b>	<b>284,036</b>	<b>0</b>	<b>284,036</b>

**Statement of Changes in Equity 2014/15**

	AFTER RESTATEMENT \$000	BEFORE RESTATEMENT \$000	INCREASE / (DECREASE) IN EQUITY \$000
<b>EQUITY</b>			
Equity, opening balance	28,739,121	28,727,121	12,000
Changes in equity			
Surplus/(deficit)	62,875	59,739	3,136
Other comprehensive revenue and expense	573,040	573,040	0
Capital funding	1,164,566	895,666	268,900
Total changes in equity	1,800,481	1,528,445	272,036
<b>EQUITY CLOSING BALANCE</b>	<b>30,539,602</b>	<b>30,255,566</b>	<b>284,036</b>

The restatement on the Statement of financial position and the Statement of changes in equity related to the expenditure incurred on the reinstatement of earthquake damaged roads in Christchurch, Tauranga Eastern Link and Transmission Gully. It also included the liability arising from changes in the fair value of the interest rate swaps contract. The restatements have impacted the disclosure on the Detailed Performance by Segment of the Business under Land Transport Funding, the National Land Transport Programme disclosure and the Output Class Income and Expenditure report for local road maintenance and state highway improvements.

**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 (NLTF) for the specific purposes 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.

During the year, the total funding received from the Crown was \$39.757 million (2015: \$40.065 million) while funding received from NLTF was \$2.053 billion (2015: \$2.095 billion).

**3 / REVENUE FROM OTHER ACTIVITIES**

	NOTE	ACTUAL 2015/16 \$000	ACTUAL 2014/15 \$000
Border inspection fees		885	865
Certification review fees		11,645	9,646
Driver licensing fees		35,101	34,110
Driver testing fees		24,370	22,737
Motor vehicle licensing fees		58,340	57,824
Over dimension and overweight permits		1,007	821
Rail licensing fees		1,212	1,130
Road user charges collections		11,816	7,646
Standards development fee and certification levies		6,899	4,708
Transport licensing fees		10,593	7,598
<b>Total fees and charges</b>		<b>161,868</b>	<b>147,085</b>
Administration fee from Accident Compensation Corporation		864	932
Business units	a	1,292	1,507
Crash analysis system support		0	36
Levy on personalised plates for community road safety initiatives		1,456	1,205
Tolling fees and contributions		11,769	6,332
Interest income		1,083	236
Fair value gain on borrowings		13,061	0
Net gain/(loss) on disposal of assets		28	29
Recoveries from NLTP activities	b	60,862	73,409
Miscellaneous revenue		11,399	2,915
<b>TOTAL REVENUE FROM OTHER ACTIVITIES</b>		<b>263,682</b>	<b>233,686</b>

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 2015/16	426	0	866	1,292
Revenue earned in 2014/15	60	729	718	1,507

CAPTIF - Canterbury Accelerated Pavement Testing Indoor Facility

b. Contributions for 2015/16 of \$54.142 million for projects in Wellington, Auckland and Marlborough represented recoveries from NLTP activities (2015: \$48.975 million for projects in Wellington and the Tauranga Eastern Link).

#### 4 / PERSONNEL COSTS

	NOTE	ACTUAL 2015/16 \$000	ACTUAL 2014/15 \$000
Salaries and wages		96,862	85,895
Defined contribution plan employer contributions		3,018	2,646
Other personnel costs		2,752	2,012
<b>TOTAL PERSONNEL COSTS</b>	<b>a</b>	<b>102,632</b>	<b>90,553</b>

a. An additional \$35.138 million (2015: \$40.355 million) was incurred for staff who are employed to manage our state highway network (including capital projects).

#### 5 / SIGNIFICANT OPERATING EXPENSES

		ACTUAL 2015/16 \$000	ACTUAL 2014/15 \$000
Fees to principal auditors:			
- for audit of financial statements		491	387
- for other services	a	115	103
Operating lease expense		19,895	18,292
Impairment of receivables		1,073	289
Commissions and transaction costs		73,688	71,846
Professional services		22,601	25,647
Road user safety advertising		13,387	16,505
Information technology		11,869	8,441
Meetings and conferences		878	736
Staff travel		4,922	4,406
Office and building management		4,246	3,621
Impairment of asset		330	6,003

a. Other services paid to KPMG this year was for Driver Licensing Process, Transport Service Delivery Site Audit Support and Risk Workshop Facilitation.

#### 6 / OTHER NON-OPERATING EXPENSES

##### a. Interest and finance costs

		ACTUAL 2015/16 \$000	ACTUAL (RESTATED) 2014/15 \$000
Interest on borrowings		6,243	3,036
Fair value loss on receivables		11,877	0
Changes in fair value of derivative financial liability charged to surplus or deficit		6,853	66,816
<b>TOTAL INTEREST AND FINANCE COSTS</b>		<b>24,973</b>	<b>69,852</b>

**b. Depreciation and amortisation expense**

	ACTUAL 2015/16 \$000	ACTUAL 2014/15 \$000
Depreciation on property, plant and equipment	4,957	3,977
Depreciation on state highway network	407,483	513,030
Amortisation of intangible assets	5,923	6,076
<b>TOTAL DEPRECIATION AND AMORTISATION EXPENSE</b>	<b>418,363</b>	<b>523,083</b>

**7 / RECEIVABLES**

	ACTUAL 2015/16 \$000	ACTUAL 2014/15 \$000
Receivables (gross)	86,937	94,594
Less : Provision for impairment	3,141	3,116
<b>TOTAL RECEIVABLES</b>	<b>83,796</b>	<b>91,478</b>

**Fair value**

The carrying value of receivables approximates their fair value.

**Impairment**

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

	2015/16			2014/15		
	GROSS \$000	IMPAIRMENT \$000	NET \$000	GROSS \$000	IMPAIRMENT \$000	NET \$000
Not past due date	81,829	0	81,829	80,207	0	80,207
Past due 1-30 days	287	0	287	11,108	0	11,108
Past due 31-60 days	846	(250)	596	435	(272)	163
Past due 61-90 days	852	(616)	236	154	(154)	0
Past due over 90 days	3,123	(2,275)	848	2,690	(2,690)	0
<b>TOTAL</b>	<b>86,937</b>	<b>(3,141)</b>	<b>83,796</b>	<b>94,594</b>	<b>(3,116)</b>	<b>91,478</b>

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

	ACTUAL 2015/16 \$000	ACTUAL 2014/15 \$000
Balance at 1 July	3,116	2,259
Operating provisions made during the year	1,073	289
Additional provisions made/(reversed) during the year	(626)	1,936
Receivables written-off during the year	(422)	(1,368)
<b>BALANCE AT 30 JUNE</b>	<b>3,141</b>	<b>3,116</b>

## 8 / PROPERTY ASSETS HELD FOR SALE

The Transport Agency owns 125 properties valued at \$42.160 million (2015: 109 properties valued at \$56.150 million) which have been classified as held for sale. It is expected that these properties will be sold by 30 June 2017.

## 9 / STATE HIGHWAY NETWORK

Movements for the state highway network are as follows:

	NOTE	ACTUAL 2015/16 \$000	ACTUAL 2014/15 \$000
<b>COST OR VALUATION</b>			
Balance at 1 July		30,179,446	28,537,672
Additions – capital expenditure		1,686,371	1,648,277
Assets vested from local authorities	a	99,399	0
Revaluation gains/(losses)		640,549	573,040
Depreciation expense		(407,483)	(513,230)
Assets vested to local authorities	a	(286,533)	0
Disposals		(46,775)	(61,323)
Asset write off		(12,760)	(7,030)
Change in assets held for sale		13,990	2,675
Tolling system assets		(278)	(635)
<b>BALANCE AT 30 JUNE</b>		<b>31,865,926</b>	<b>30,179,446</b>

- a. The Transport Agency has vested assets to and from local authorities. During the year, the carrying value of assets vested to local authorities was \$286.533 million and assets with fair value of \$99.399 million have been received and recognised in the financial statements.

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 \$31.866 billion (2015: \$30.179 billion) and this valuation is effective as at 30 June 2016.

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.



NOTE	2015/16			2014/15		
	REPLACEMENT COST \$000	ACCUMULATED DEPRECIATION \$000	VALUATION \$000	REPLACEMENT COST \$000	ACCUMULATED DEPRECIATION \$000	VALUATION \$000
State highway corridor land	8,758,203	0	8,758,203	8,236,238	0	8,236,238
Held properties	957,107	0	957,107	1,071,638	0	1,071,638
Formation	8,308,253	0	8,308,253	7,995,460	0	7,995,460
Pavement (other)	4,950,678	1,025,156	3,925,522	4,599,660	991,540	3,608,120
Pavement (surface)	1,368,514	638,093	730,421	1,361,840	675,280	686,560
Drainage	1,440,225	582,508	857,717	1,358,240	569,010	789,230
Traffic facilities	2,093,973	811,631	1,282,342	2,016,900	820,010	1,196,890
Bridges	7,662,452	2,574,295	5,088,157	7,262,060	2,507,620	4,754,440
Culverts & subways	671,827	236,209	435,618	630,060	231,770	398,290
Other structures	a 2,017,221	494,635	1,522,586	1,860,020	417,440	1,442,580
<b>TOTAL</b>	<b>38,228,453</b>	<b>6,362,527</b>	<b>31,865,926</b>	<b>36,392,116</b>	<b>6,212,670</b>	<b>30,179,446</b>

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.

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 the previous two financial years. However, historical brownfield costs cannot be reliably measured and are currently excluded from the valuation.

The Transport Agency is continuously improving the accuracy of the asset databases and identify 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 \$3.715 billion (2015: \$3.220 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 ongoing 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 total estimated capital and operating expenditure to be paid throughout the 25 year period is \$2.7 billion.

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 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:

	NOTE	ACTUAL 2015/16 \$000	ACTUAL 2014/15 \$000
<b>COST</b>			
Balance at 1 July		83,854	74,426
Additions		14,936	4,099
Work in progress movements		(1,303)	5,329
Intangible asset written off while in progress		(2,048)	0
Disposals		(2,836)	0
Balance at 30 June		92,603	83,854
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES</b>			
Balance at 1 July		44,112	32,205
Amortisation expense		5,923	6,075
Write-off of the National Integrated Ticketing System	a	14,000	6,003
Reclassification		0	(171)
Disposals		(2,836)	0
Balance at 30 June		61,199	44,112
<b>CARRYING AMOUNTS</b>			
At 30 June		31,404	39,742

a. An intangible asset for the National Integrated Ticketing system with a carrying value of \$14 million has been written off during the year.

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 (included in the cost and carrying amounts)

The total value of intangible assets in the course of development is \$4.281 million (2015: \$7.632 million).

A total amount of \$2.048 million relating to Crash Analysis System has been written off while in progress.

## 12 / LOANS AND ADVANCES

### Statutory advances

Under the Public Works Act, the Transport Agency has provided statutory advances of \$1.458 million (2015: \$1.180 million).

## 13 / PAYABLES

	ACTUAL 2015/16 \$000	ACTUAL 2014/15 \$000
<b>CURRENT PORTION</b>		
Creditors	364,120	474,555
Income in advance	13,491	9,411
Onerous contracts	a 0	48
Total current portion	377,611	484,014
<b>NON-CURRENT PORTION</b>		
Onerous contracts	a 11	84
Total non-current portion	11	84
<b>TOTAL PAYABLES</b>	<b>377,622</b>	<b>484,098</b>

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.

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

## 14 / EMPLOYEE ENTITLEMENTS

	ACTUAL 2015/16 \$000	ACTUAL 2014/15 \$000
<b>CURRENT PORTION</b>		
Accrued salaries and wages	502	4,400
Annual leave	8,292	7,494
Sick leave	433	467
Retirement and long service leave	485	509
Total current portion	9,712	12,870
<b>NON-CURRENT PORTION</b>		
Retirement and long service leave	4,555	4,979
Total non-current portion	4,555	4,979
<b>TOTAL EMPLOYEE ENTITLEMENTS</b>	<b>14,267</b>	<b>17,849</b>

The actuarial valuation as at 30 June 2016 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 \$620,000 higher (2015: \$529,000). If the resignation rate is at 150% of the assumed rate, then the expected liability would be \$461,000 lower (2015: \$400,000).

## 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 borrowing as at 30 June 2016 (2015: nil).

The Transport Agency has a borrowing facility of up to \$183.420 million to assist in the Christchurch earthquake recovery. \$27 million has been drawn down as at 30 June 2016 (2015: \$12 million). The borrowing has incurred interest of \$1.218 million to date (2015: \$0.515 million), which has been capitalised against the borrowing balance.

The Transport Agency also has a borrowing facility of \$107 million as a contribution towards the Tauranga Eastern Link toll road, which was fully drawn down as at 30 June 2015. During the year, the borrowing has incurred interest of \$5.125 million (2015: \$2.521 million).

The final borrowing facility currently available to the Transport Agency is a \$375 million facility for the Auckland accelerated package of which \$122 million has been drawn down as at 30 June 2016. The amount is a series of interest-free loans with terms ranging between four to six years. As at 30 June 2016, the borrowing's carrying amount is \$108.939 million which was discounted using government bond yields of 2.14% to 2.24%. This gave rise to a fair value gain of \$13.061 million.

**16 / RETAINED FUNDS**

	NOTE	ACTUAL 2015/16 \$000	ACTUAL (RESTATED) 2014/15 \$000
<b>RETAINED FUNDS - NZ TRANSPORT AGENCY OPERATIONS</b>			
Balance at 1 July		22,275	25,039
Surplus/(deficit) from operations		(1,837)	(1,264)
RUC retained funds to memorandum account		(1,100)	(1,500)
Balance at 30 June		19,338	22,275
<b>RETAINED FUNDS - NATIONAL LAND TRANSPORT PROGRAMME</b>			
Balance at 1 July		0	0
Capital contribution from the National Land Transport Fund		1,184,267	1,141,220
Deficit from operations		0	(6,922)
Surplus/(deficit) from Land transport funding		37,361	65,145
Transfer to state highway investment	a	(1,233,383)	(1,205,447)
Funds provided for public transport automated fare collection system		13,996	6,004
Balance at 30 June		2,241	0
<b>RETAINED FUNDS - SPECIFIC PROJECTS FUNDED BY THE CROWN</b>			
Balance at 1 July		3,429	1,239
Capital contribution from the Crown		33,310	23,346
Surplus/(deficit)		(2,404)	2,190
Transfer to state highway investment	a	(32,849)	(23,346)
Repayment of capital for SuperGold card administration		(200)	0
Balance at 30 June		1,286	3,429
<b>FUNDS PROVIDED FOR PUBLIC TRANSPORT AUTOMATED FARE COLLECTION SYSTEM</b>			
Balance at 1 July		13,996	20,000
Funds from the National Land Transport Programme		(13,996)	(6,004)
Balance at 30 June		0	13,996
<b>TOTAL RETAINED FUNDS</b>		<b>22,865</b>	<b>39,700</b>

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

	ACTUAL 2015/16 \$000	ACTUAL 2014/15 \$000
Capitalised expenditure - National Land Transport Programme	1,672,602	1,624,931
Non-operating expenditure (public private partnership)	214,933	161,899
State highway depreciation and asset write-off	(420,243)	(520,060)
State highway disposals to the National Land Transport Programme	(46,775)	(61,323)
Net impact of assets vested (to)/from local authorities	(187,134)	0
Retained funds - National Land Transport Programme	1,233,383	1,205,447
Capitalised expenditure - Crown	32,849	23,346
<b>TRANSFER TO STATE HIGHWAY INVESTMENT</b>	<b>1,266,232</b>	<b>1,228,793</b>

## 17 / MEMORANDUM ACCOUNT - OTHER FEES AND CHARGES

	ACTUAL 2015/16 \$000	ACTUAL 2014/15 \$000
Balance at 1 July	11,480	6,254
Surplus from operations	6,372	3,726
RUC retained funds to memorandum account	1,100	1,500
<b>TOTAL MEMORANDUM ACCOUNT - OTHER FEES AND CHARGES</b>	<b>18,952</b>	<b>11,480</b>

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

	NOTE	ACTUAL 2015/16 \$000	ACTUAL 2014/15 \$000
Customer licensing activities	a	8,934	7,257
Road user charges collections		3,025	1,894
Vehicle standards compliance activities	b	6,993	2,329
<b>TOTAL MEMORANDUM ACCOUNT - OTHER FEES AND CHARGES</b>		<b>18,952</b>	<b>11,480</b>

- a. Customer licensing activities include driver licensing and testing, and rail and transport operator licensing.
- b. Vehicle standards compliance activities include border inspections, certification reviews, motor vehicle licensing, over-dimension permits, and standards development and certification.

**18 / EQUITY DERIVED FROM THE STATE HIGHWAY NETWORK**

	ACTUAL 2015/16 \$000	ACTUAL (RESTATED) 2014/15 \$000
<b>STATE HIGHWAY INVESTMENT</b>		
Balance at 1 July	20,554,518	19,325,725
Transfer from the National Land Transport Programme	1,266,232	1,228,793
Balance at 30 June	21,820,750	20,554,518
<b>STATE HIGHWAY REVALUATION RESERVE</b>		
Balance at 1 July	9,928,298	9,355,258
Revaluation - State highway network	640,549	573,040
Balance at 30 June	10,568,847	9,928,298
<b>TOTAL EQUITY DERIVED FROM THE STATE HIGHWAY NETWORK</b>	<b>32,389,597</b>	<b>30,482,816</b>

**19 / CAPITAL FUNDING - NATIONAL LAND TRANSPORT PROGRAMME**

	ACTUAL 2015/16 \$000	ACTUAL (RESTATED) 2014/15 \$000
State highway improvements	806,531	803,878
State highway renewals	122,243	175,443
Walking and cycling	18,761	0
Regional improvements	13,121	0
Investment management (transport planning)	7,826	0
Road safety promotion	852	0
Public private partnership	214,933	161,899
<b>TOTAL CAPITAL CONTRIBUTION - NATIONAL LAND TRANSPORT PROGRAMME</b>	<b>1,184,267</b>	<b>1,141,220</b>



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

	ACTUAL 2015/16 \$000	ACTUAL (RESTATED) 2014/15 \$000
<b>SURPLUS/(DEFICIT)</b>	39,492	62,875
<b>ADD/(DEDUCT) NON-CASH/NON-OPERATING ITEMS:</b>		
Depreciation and amortisation expense	418,363	523,083
State highway asset write-off	12,760	7,030
(Gains)/losses on disposal of disposal of property, plant and equipment	188	0
Write off/impairment of intangible asset	14,330	6,003
Net impact of assets vested to/from local authorities	187,134	0
Fair value loss on receivables	11,877	0
Interest on borrowing	6,243	3,036
Fair value gain on borrowings	(13,061)	0
Ineffective portion of cash flow hedge	6,853	0
Changes in fair value of derivative financial liability	0	66,816
Total non-cash/non-operating items	644,687	605,968
<b>ADD/(LESS) MOVEMENTS IN STATEMENT OF FINANCIAL POSITION ITEMS:</b>		
(Increase)/decrease in debtor National Land Transport Fund and Crown	(147,960)	(3,109)
(Increase)/decrease in other receivables	35,784	(53,373)
(Increase)/decrease in prepayments and inventories	(616)	3,645
(Increase)/decrease in property, plant and equipment work in progress	0	(77)
(Increase)/decrease in intangible asset work in progress	0	(5,326)
Increase/(decrease) in creditors and other payables	(22,521)	89,192
Increase/(decrease) in tolling funds held in trust for Ministry of Transport	959	(48)
Increase/(decrease) in employee entitlements	(3,581)	725
Net movements in working capital items	(137,935)	31,629
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>546,244</b>	<b>700,472</b>

## 21 / CAPITAL COMMITMENTS AND OPERATING LEASES

### Capital commitments

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

	ACTUAL 2015/16 \$000	ACTUAL 2014/15 \$000
Not later than one year	1,788,484	1,488,516
Later than one year and not later than five years	2,341,294	2,524,291
Later than five years	1,268,661	47,602
<b>TOTAL CAPITAL COMMITMENTS</b>	<b>5,398,439</b>	<b>4,060,409</b>

Construction of the state highway network is a component of the National Land Transport Programme. These capital commitments are 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 2015/16 \$000	ACTUAL 2014/15 \$000
Not later than one year	19,496	9,832
Later than one year and not later than five years	43,612	40,964
Later than five years	15,688	18,833
<b>TOTAL NON-CANCELLABLE OPERATING LEASES</b>	<b>78,796</b>	<b>69,629</b>

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 \$15.3 million (2015: \$15.9 million) relating to a range of roading and other contract disputes.

### Contingent assets

The Transport Agency does not have material contingent assets as at 30 June 2016 (2015: no material 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 2015/16 \$000	ACTUAL 2014/15 \$000
<b>Board members</b>		
Remuneration	295	290
Full-time equivalent members	8	8
<b>Leadership team</b>		
Remuneration	4,450	4,001
Full-time equivalent members	13	12
<b>TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION</b>	<b>4,745</b>	<b>4,291</b>
<b>TOTAL FULL TIME EQUIVALENT PERSONNEL</b>	<b>21</b>	<b>20</b>

## 24 / BOARD MEMBER REMUNERATION

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

		ACTUAL 2015/16 \$000	ACTUAL 2014/15 \$000
Chris Moller (Chair)		71	62
Fran Wilde	Appointed May 2016	7	0
Gill Cox		36	31
Chris Ellis	Appointed May 2016	6	0
Leo Lonergan	Appointed May 2016	6	0
Mark Oldfield		36	31
Nick Rogers		36	31
Adrienne Young-Cooper		36	34
Dame Patsy Reddy	Stepped down in April 2016	37	39
Tony Lanigan	Stepped down in October 2015	12	31
Jerry Rickman	Stepped down in October 2015	12	31
<b>TOTAL BOARD MEMBER REMUNERATION</b>		<b>295</b>	<b>290</b>

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 (2015: nil).

**25 / EMPLOYEE REMUNERATION**

TOTAL REMUNERATION PAID OR PAYABLE	NO. OF STAFF 2015/16	NO. OF STAFF 2014/15
100,000-109,999	126	115
110,000-119,999	98	81
120,000-129,999	103	55
130,000-139,999	44	38
140,000-149,999	38	32
150,000-159,999	31	19
160,000-169,999	24	17
170,000-179,999	*21	11
180,000-189,999	12	13
190,000-199,999	14	9
200,000-209,999	6	4
210,000-219,999	8	5
220,000-229,999	8	2
230,000-239,999	2	1
240,000-249,999	2	2
250,000-259,999	2	0
260,000-269,999	2	3
270,000-279,999	3	1
280,000-289,999	1	0
310,000-319,999	2	2
320,000-329,999	0	1
330,000-339,999	0	1
340,000-349,999	2	0
350,000-359,999	1	1
360,000-369,999	0	2
370,000-379,999	0	1
380,000-389,999	2	0
390,000-399,999	1	1
430,000-439,999	1	0
660,000-669,999	0	**1
710,000-719,999	**1	0
<b>TOTAL EMPLOYEES</b>	<b>555</b>	<b>418</b>

\* Current Chief Executive

\*\* Former Chief Executive

During the year ended 30 June 2016, 18 (2015: 23) employees received compensation and other benefits in relation to cessation totalling \$1.024 million (2015: \$1.376 million).

## 26 / EVENTS AFTER THE BALANCE DATE

The Transport Agency has entered into Preferred Bidder negotiations with the Northern Express Group for the Pūhoi to Warkworth project. This is the second public private partnership for a state highway project in New Zealand. Pending the successful completion of negotiations, the Transport Agency expects to award the contract for the Pūhoi to Warkworth project by late calendar year 2016.

On 3 July 2016, the Prime Minister announced a new \$1 billion Housing Infrastructure Fund to accelerate housing supply in New Zealand's high growth areas. The Transport Agency is working closely with the relevant government agencies and departments to determine the design of the Housing Infrastructure Fund and how to operationalise it from a transport perspective. It is likely the National Land Transport Fund will be used as an effective mechanism to enable transport-related funds from the Housing Infrastructure Fund to be administered.

There were no other significant events after the balance date.

## 27 / FINANCIAL INSTRUMENTS

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

	ACTUAL 2015/16 \$000	ACTUAL (RESTATED) 2014/15 \$000
<b>LOANS AND RECEIVABLES</b>		
Cash and cash equivalents	77,051	43,281
Debtors National Land Transport Fund and Crown	1,020,612	801,596
Receivables	80,549	91,478
Loans and advances	1,458	1,180
<b>TOTAL LOANS AND RECEIVABLES</b>	<b>1,179,670</b>	<b>937,535</b>
<b>FINANCIAL LIABILITIES MEASURED AT AMORTISED COST</b>		
Payables (current and non-current)	377,622	484,098
Borrowing	244,156	119,516
Service concession liability	244,969	161,899
<b>TOTAL FINANCIAL LIABILITIES MEASURED AT AMORTISED COST</b>	<b>866,747</b>	<b>765,513</b>
<b>FINANCIAL LIABILITY AT FAIR VALUE THROUGH OTHER COMPREHENSIVE REVENUE AND EXPENSE</b>		
Derivative financial liability	205,532	0
<b>FINANCIAL LIABILITY AT FAIR VALUE THROUGH OTHER COMPREHENSIVE REVENUE AND EXPENSE</b>	<b>205,532</b>	<b>0</b>
<b>FINANCIAL LIABILITY AT FAIR VALUE THROUGH SURPLUS OR DEFICIT</b>		
Derivative financial liability	0	66,816
<b>FINANCIAL LIABILITY AT FAIR VALUE THROUGH SURPLUS OR DEFICIT</b>	<b>0</b>	<b>66,816</b>

### Fair value hierarchy

The Transport Agency uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices). Inputs on the valuation were derived from Bloomberg.

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The following provides the fair value measurement hierarchy of the Transport Agency's financial liability measured at fair value:

	ACTUAL 2015/16 \$000	ACTUAL 2014/15 \$000
<b>LEVEL 2</b>		
Derivative financial liability	205,532	66,816

Below shows the movement of cash flow hedge reserve as at 30 June 2016:

	ACTUAL 2015/16 \$000	ACTUAL 2014/15 \$000
Balance as at 1 July	0	0
Movement in fair value of interest rate swaps	(131,863)	0
<b>CASH FLOW HEDGE RESERVE</b>	<b>(131,863)</b>	<b>0</b>

During the year, the total ineffective portion of the cash flow hedge reserve charged to surplus or deficit was \$6.853 million (2015: nil).

The cash flows are expected to eventuate and impact the surplus or deficit from financial year 2021.

## 28 / FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Transport Agency's activities expose it to a variety of 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 these risks. These policies do not allow any transactions that are speculative in nature to be entered into.

### Market risk

#### *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Transport Agency's exposure to the risk of changes in market rates relates primarily to interest rates on the Transport Agency's long-term debt obligations. This is managed by ensuring loans are at fixed interest rates. As at 30 June 2016, approximately 86% of loans are on a fixed interest rate.

The Transport Agency also hedges exposure to highly probable forecast transactions. As discussed in note 10, the Transport Agency has entered into a public private partnership agreement for the construction of Transmission Gully. The arrangement requires that a unitary charge is paid to the contractor from the time the section of state highway becomes operational. The unitary charge includes payment for finance costs in which the operator has provision to re-price during the 25-year period. The Transport Agency has entered into an interest rate swap contract to hedge the re-pricing of interest costs. The total amount of forecast payments exposed to interest rate risk is fully hedged with a fixed interest rate of 5.58%. The total notional amount of the interest rate swaps contract is \$857.789 million.

#### *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's foreign currency denominated transactions are not material therefore the impact of exposure to currency risk is minimal.

### Credit risk

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

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 and debtors and other receivables. For each of these, the maximum credit exposure is best represented by the carrying amount in the Statement of financial position.

The Transport Agency invests funds only with registered banks that have a Standard and Poor's credit rating of at least A-. 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 2015/16 \$000	ACTUAL 2014/15 \$000
Cash and cash equivalents	77,051	43,281
Debtors National Land Transport Fund and Crown	1,020,612	801,596
Receivables	80,549	91,478
Loans and advances	1,458	1,180
<b>TOTAL CREDIT RISK</b>	<b>1,179,670</b>	<b>937,535</b>

*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 2015/16 \$000	ACTUAL 2014/15 \$000
<b>CASH AND CASH EQUIVALENTS</b>		
AA-	77,051	43,281
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>77,051</b>	<b>43,281</b>

**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. The amounts below are contractual cash flows which in some instances will differ from the carrying amounts of the relevant liability in the Statement of financial position.

	2015/16				2014/15			
	0-1 YEAR \$000	1-2 YEARS \$000	2-5 YEARS \$000	OVER 5 YEARS \$000	0-1 YEAR \$000	1-2 YEARS \$000	2-5 YEARS \$000	OVER 5 YEARS \$000
Payables	377,611	11	0	0	484,014	84	0	0
Borrowing	0	21,038	109,167	249,693	5,051	5,051	28,571	213,758
Derivative financial liability	0	0	6,470	286,973	0	0	0	95,395
Service concession liability	0	0	53,288	312,313	0	0	0	258,705

## Sensitivity analyses

### Interest rate risk

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

	2015/16		2014/15	
	EFFECT ON SURPLUS OR DEFICIT		EFFECT ON SURPLUS OR DEFICIT	
	+1% \$000	-1% \$000	+1% \$000	-1% \$000
Cash and cash equivalents	694	(694)	285	(285)

	2015/16		2014/15	
	EFFECT ON OTHER COMPREHENSIVE REVENUE AND EXPENSE		EFFECT ON OTHER COMPREHENSIVE REVENUE AND EXPENSE	
	+1% \$000	-1% \$000	+1% \$000	-1% \$000
Derivative financial liability	(95,463)	111,744	0	0

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.

	2015/16		2014/15	
	EFFECT ON SURPLUS OR DEFICIT		EFFECT ON SURPLUS OR DEFICIT	
	+0.5% \$000	-0.5% \$000	+0.5% \$000	-0.5% \$000
Borrowing	784	(784)	395	(395)

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, revaluation reserve and cash flow hedge reserve. 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 \$21 million (35%) below budget. This is mainly due to lower spending in Urban Cycleways in which the project is expected to accelerate in the next two years.

**Funding from the National Land Transport Fund** was \$27 million (1%) above budget. Actual funding is in line with budget and reflects the delivery of the National Land Transport Programme in the current year.

**Revenue from other activities** was \$93 million (55%) above budget. This was due to:

- contributions to state highway project income which was not factored in the budget
- volume-driven licensing and testing revenue being above budget due to higher numbers of new drivers and higher volume of driver tests
- higher than forecast volumes for motor vehicle registrations due to the shift in licensing patterns as a result of the change in ACC levies at the start of the financial year.

Also, during the year, the Transport Agency has recognised some assets, with fair value of \$99 million, vested from local authorities. This has been recognised as revenue during the year.

##### Expense

**Land transport funding** was \$160 million (10%) below budget which mainly came from the net impact of these activities:

- *Local road improvements* were \$45 million below budget due to approved organisation's competing priorities.
- *Local road maintenance* was \$46 million below budget mainly a result of the slower than expected progress of the repair of earthquake damaged local roads in Christchurch.
- *State highway maintenance* was \$37 million below budget. This is mainly due to: 1) good condition of the road enabling optimisation of some works into later years; 2) lower inflation because of reducing international oil prices; and 3) significantly lower level of emergency works than expected.
- *Walking and Cycling* was \$29 million below budget. This is a combination of 1) expenditure resulted to assets capitalised, and 2) the Urban Cycleways being a new programme of work this year and delivery has been slower than anticipated due to the low spend phase of the development being underestimated.
- *Public transport* was below budget by \$10 million due to delays in infrastructure projects and our expectation that services will be delivered at a lower cost, given the continued reduction in the public transport input cost index. This was offset by the intangible asset written off relating to the National Integrated Ticketing system.

**Interest and finance costs** were \$17 million (214%) above budget. This was mainly due to the discount recognised in non-interest bearing long-term receivable and the ineffective portion of cash flow hedge which were not factored in the budget.

**Depreciation and amortisation expense** was \$66 million (14%) below budget. This predominately relates to the state highway depreciation budget being established before the revaluation at the end of last year.

**Assets vested to local authorities** were \$287 million compared to nil budget. The Transport Agency has vested some assets to local authorities with total carrying amount of \$287 million. This was recognised as an expense in the surplus or deficit.

## STATEMENT OF FINANCIAL POSITION

### Current assets

**Receivables including Debtor National Land Transport Fund and Debtor Crown** were \$172 million (30%) below budget. This is mainly a result of prudently managing the levels of receivable and payable at the end of the year. This has resulted in drawing down more from the NLTF to fund creditors' payments.

### Non-current assets

**Debtor National Land Transport Fund** was \$708 million compared to nil budget. The balance in this account relates to expenditure on the Auckland accelerated package and Tauranga Eastern Link, repair of damaged roads in Christchurch and spending on the Transmission Gully project. A receivable from the National Land Transport Fund was recognised for these National Land Transport Programme activities financed by borrowings.

**Service concession asset (Transmission Gully)** was \$220 million (47%) below budget mainly due to slower phase of project delivery than expected.

### Current liabilities

**Payables** were \$105 million (22%) below budget as a result of managing the payables more prudently therefore paying suppliers on time.

### Non-current liabilities

**Service concession liability (Transmission Gully)** was \$220 million (47%) below budget. Relates to the service concession asset explanation.

**Borrowing** was \$25 million (9%) below budget due mainly to lower spending in the reinstatement of Christchurch earthquake-damaged roads.

**Derivative financial liability** was \$206 million compared to nil budget. This represents the fair value of the interest rate swaps contract as at 30 June 2016.

# 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 84 to 86 and the audited financial statements on pages 87 to 126.

## DETAILED PERFORMANCE BY SEGMENT OF THE BUSINESS

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

### OPERATIONS

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL 2014/15 \$000
<b>REVENUE</b>			
<b>FUNDING FROM THE CROWN</b>			
Licensing and regulatory compliance	3,966	3,997	4,205
Road user charges collection, investigation and enforcement	0	0	4,720
Investment management	775	775	775
SuperGold card administration and public transport concessions	295	95	95
	5,036	4,867	9,795
<b>FUNDING FROM THE NATIONAL LAND TRANSPORT FUND</b>			
Road user charges collection, investigation and enforcement	4,229	4,229	4,229
Refund of fuel excise duty	545	519	475
Investment management	45,255	45,932	40,388
Public transport	3,447	9,000	4,080
Walking and cycling	954	119	0
Road safety promotion	18,597	19,438	19,927
Local road maintenance	137	200	32
State highway maintenance	16,968	19,155	17,087
	90,132	98,592	86,218

**OPERATIONS (CONTINUED)**

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL 2014/15 \$000
<b>REVENUE FROM OTHER ACTIVITIES</b>			
Licensing and regulatory compliance	91,566	85,526	83,009
Road tolling	11,785	10,453	6,332
Motor vehicle registry	59,672	55,679	59,524
Road user charges collection, investigation and enforcement	11,818	10,842	7,648
Refund of fuel excise duty	114	0	89
Road safety promotion	1,456	924	1,205
State highway improvements	0	0	3,409
State highway maintenance	1,293	988	1,507
	177,704	164,412	162,723
Revenue relating to the delivery of outputs	272,872	267,871	258,736
Other revenue	7,102	0	0
<b>Total revenue</b>	<b>279,974</b>	<b>267,871</b>	<b>258,736</b>
<b>EXPENDITURE</b>			
<b>OPERATING ACTIVITIES</b>			
Licensing and regulatory compliance	90,281	88,472	84,194
Road tolling	10,798	10,197	5,541
Motor vehicle registry	58,888	57,684	58,611
Road user charges collection, investigation and enforcement	16,234	15,821	15,737
Refund of fuel excise duty	659	612	553
Investment management	3,356	821	469
SuperGold card administration and public transport concessions	297	95	95
Road safety promotion	891	1,342	46
State highway maintenance	953	988	2,014
	182,357	176,032	167,260
<b>OPERATING ACTIVITIES (NATIONAL LAND TRANSPORT PROGRAMME)</b>			
Investment management	45,255	45,932	40,966
Public transport	3,447	9,000	10,084
Walking and cycling	954	119	0
Road safety promotion	18,597	19,438	19,927
Local road maintenance	137	200	32
State highway improvements	34,436	33,253	36,302
State highway maintenance	24,330	27,117	25,545
	127,156	135,059	132,856
Expenses relating to the delivery of outputs	309,513	311,091	300,116
Other expenses	7,723	1,146	4,091
<b>Total expenditure</b>	<b>317,236</b>	<b>312,237</b>	<b>304,207</b>

**OPERATIONS (CONTINUED)**

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL 2014/15 \$000
<b>STATE HIGHWAY NETWORK</b>			
Less capitalised expenditure	(41,797)	(41,215)	(41,011)
Total expenditure	275,439	271,022	263,196
<b>SURPLUS/(DEFICIT)</b>	<b>4,535</b>	<b>(3,151)</b>	<b>(4,460)</b>

**MOVEMENT OF OPERATIONS NET SURPLUS TO EQUITY**

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

- **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 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL 2014/15 \$000
<b>REVENUE</b>			
Retained funds - NZ Transport Agency Operations	30,114	20,885	18,256
Retained funds - National Land Transport Programme	85,359	93,844	84,923
Memorandum account - Other fees and charges	164,501	153,142	155,557
	279,974	267,871	258,736
<b>EXPENDITURE</b>			
Retained funds - NZ Transport Agency Operations	31,951	22,721	19,520
Retained funds - National Land Transport Programme	85,359	93,844	91,845
Memorandum account - Other fees and charges	158,129	154,457	151,831
	275,439	271,022	263,196
<b>NET SURPLUS</b>			
Retained funds - NZ Transport Agency Operations	(1,837)	(1,836)	(1,264)
Retained funds - National Land Transport Programme	0	0	(6,922)
Memorandum account - Other fees and charges	6,372	(1,315)	3,726
<b>SURPLUS/(DEFICIT)</b>	<b>4,535</b>	<b>(3,151)</b>	<b>(4,460)</b>

## LAND TRANSPORT FUNDING

	ACTUAL 2015/16 \$'000	BUDGET 2015/16 \$'000	ACTUAL (RESTATED) 2014/15 \$'000
<b>INFLOWS</b>			
Investment management	8,425	13,068	10,825
Public transport	303,998	322,000	294,854
Walking and cycling	22,776	30,881	31,141
Road safety promotion	10,700	14,462	13,000
Local road improvements	104,112	148,800	187,509
Local road maintenance	576,534	554,800	541,805
State highway improvements	662,749	486,330	639,481
State highway maintenance	339,157	360,845	360,835
Assets vested from local authorities	99,399	0	0
Fair value gain on borrowings	13,061	0	0
<b>Total inflows</b>	<b>2,140,911</b>	<b>1,931,186</b>	<b>2,079,450</b>
<b>OUTFLOWS</b>			
Investment management	13,669	13,068	10,554
Public transport	317,998	322,000	294,854
Walking and cycling	41,537	30,881	31,141
Road safety promotion	11,553	14,462	13,000
Local road improvements	104,112	148,800	187,509
Local road maintenance	552,366	554,800	538,668
Reinstatement of earthquake damaged roads in Christchurch	23,466	68,000	3,137
Regional improvements	13,121	65,000	0
State highway improvements	1,358,366	1,269,787	1,401,936
Auckland accelerated package	112,039	50,000	0
Tauranga Eastern Link	0	0	107,000
Public private partnership	221,786	0	228,715
State highway maintenance	454,378	532,883	527,514
Interest on borrowings	6,243	7,941	3,036
Fair value loss on receivables	11,877	0	0
	<b>3,242,511</b>	<b>3,077,622</b>	<b>3,347,064</b>
<b>STATE HIGHWAY NETWORK</b>			
State highway depreciation	407,483	470,000	513,030
State highway asset write-off	12,760	10,000	7,030
Assets vested to local authorities	286,533	0	0
Less non-operating expenditure	(1,845,737)	(1,506,825)	(1,852,819)
	<b>(1,138,961)</b>	<b>(1,026,825)</b>	<b>(1,332,759)</b>
<b>Total outflows</b>	<b>2,103,550</b>	<b>2,050,797</b>	<b>2,014,305</b>
<b>SURPLUS/(DEFICIT)</b>	<b>37,361</b>	<b>(119,611)</b>	<b>65,145</b>



**Future National Land Transport Programme funding commitments**

	ACTUAL 2015/16 \$000	ACTUAL 2014/15 \$000
Not later than one year	3,958,349	3,385,945
Later than one year and not later than five years	4,803,278	5,893,242
Later than five years	3,956,139	3,791,760
<b>TOTAL FUNDING COMMITMENTS</b>	<b>12,717,766</b>	<b>13,070,947</b>

**SPECIFIC PROJECTS FUNDED BY THE CROWN**

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL 2014/15 \$000
<b>REVENUE</b>			
<b>Funding from the Crown</b>			
SuperGold card administration and public transport concessions	28,264	28,129	26,116
Urban Cycleways	6,457	28,000	3,654
Construction of passing opportunities on SH2	0	0	500
Total revenue	34,721	56,129	30,270
<b>EXPENDITURE</b>			
SuperGold card administration and public transport concessions	28,264	28,129	26,329
Urban Cycleways	8,860	31,000	2,597
Urban Cycleways capital expenditure	1,538	0	0
Construction of passing opportunities on SH2	0	0	500
National War Memorial Park	0	0	10,000
Regional state highways	31,310	45,000	12,000
	69,972	104,129	51,426
<b>STATE HIGHWAY NETWORK</b>			
Less capitalised expenditure	(32,847)	(45,000)	(23,346)
Total expenditure	37,125	59,129	28,080
<b>SURPLUS/(DEFICIT)</b>	<b>(2,404)</b>	<b>(3,000)</b>	<b>2,190</b>

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 (and regional priorities).

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

### NATIONAL LAND TRANSPORT PROGRAMME

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL (RESTATED) 2014/15 \$000
<b>INFLOWS</b>			
Capital contribution from the National Land Transport Fund	969,334	1,019,101	872,321
Capital contribution from the National Land Transport Fund - Public private partnership	214,933	0	161,899
Capital contribution from the National Land Transport Fund - Tauranga Eastern Link	0	0	107,000
Funding from the National Land Transport Fund	2,024,203	2,008,700	2,072,286
Funding from the National Land Transport Fund (rental and interest income)	23,821	16,330	17,723
Funding from state highway disposals	46,775	50,550	61,323
Funding from other activities	78,845	0	74,363
<b>Total inflows from the National Land Transport Fund</b>	<b>3,357,911</b>	<b>3,094,681</b>	<b>3,366,915</b>
<b>OUTFLOWS</b>			
State highway improvements	1,392,802	1,300,000	1,438,239
Auckland accelerated package	112,039	0	0
Public private partnership	221,786	0	228,715
State highway maintenance	478,708	560,000	553,059
Local road improvements	104,112	149,000	187,509
Local road maintenance	552,502	558,000	538,700
Reinstatement of earthquake damaged roads in Christchurch	23,466	0	3,137
Public transport	321,445	331,000	304,937
Walking and cycling	42,490	35,000	31,141
Regional improvements	13,121	65,000	0
Road safety promotion	30,150	34,000	32,926
Investment management	58,925	58,000	51,519
Interest on borrowing	6,243	7,941	3,036
Fair value loss on receivables	11,877	0	0
<b>Total outflows</b>	<b>3,369,666</b>	<b>3,097,941</b>	<b>3,372,918</b>
<b>CARRY OVER INTO NEXT YEAR</b>	<b>(11,755)</b>	<b>(3,260)</b>	<b>(6,003)</b>
Public transport infrastructure - automated fare collection system	13,996	0	6,003
Opening balance	0	0	0
<b>CLOSING BALANCE AT THE END OF THE YEAR</b>	<b>2,241</b>	<b>(3,260)</b>	<b>0</b>

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

## LAND TRANSPORT MANAGEMENT (ROAD TOLLING SCHEME)

This supplementary information has been provided to fulfil the disclosure requirements for the Northern Gateway, Tauranga Eastern Link, and Takitimu Drive toll roads.

### NORTHERN GATEWAY TOLL ROAD FOR THE YEAR ENDED 30 JUNE 2016

	ACTUAL 2015/16 000	BUDGET 2015/16 000	FORECAST 2016/17 000	ACTUAL 2014/15 000
<b>TRAFFIC VOLUMES</b>				
Light vehicle	6,119	5,816	6,254	5,585
Heavy vehicle	469	478	504	439
Exempt	22	23	24	22
Unidentifiable	19	12	10	9
Technical loss	6	20	4	20
<b>TOTAL</b>	<b>6,635</b>	<b>6,349</b>	<b>6,796</b>	<b>6,075</b>
	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	FORECAST 2016/17 \$000	ACTUAL 2014/15 \$000
<b>TOLL REVENUE (PORTION DESIGNATED FOR REPAYMENT OF DEBT)</b>				
Light vehicle	7,754	6,972	8,070	6,626
Heavy vehicle	1,545	1,486	1,604	1,359
Interest	61	54	54	71
<b>TOTAL</b>	<b>9,360</b>	<b>8,512</b>	<b>9,728</b>	<b>8,056</b>

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

**TAURANGA EASTERN LINK TOLL ROAD FOR THE YEAR ENDED 30 JUNE 2016**

	ACTUAL 2015/16 000	BUDGET 2015/16 000	FORECAST 2016/17 000	ACTUAL 2014/15 000
<b>TRAFFIC VOLUMES</b>				
Light vehicle	2,260	1,625	2,305	0
Heavy vehicle	350	254	351	0
Exempt	10	7	9	0
Unidentifiable	6	5	4	0
Technical loss	12	8	2	0
<b>TOTAL</b>	<b>2,638</b>	<b>1,899</b>	<b>2,671</b>	<b>0</b>
	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	FORECAST 2016/17 \$000	ACTUAL 2014/15 \$000
<b>TOLL REVENUE (PORTION DESIGNATED FOR REPAYMENT OF DEBT)</b>				
Light vehicle	2,309	1,698	2,299	0
Heavy vehicle	1,271	899	1,144	0
Interest	15	30	30	0
Total	3,595	2,627	3,473	0
<b>DEBT AND OTHER FINANCIAL OBLIGATIONS</b>				
Borrowing	107,000	107,000	107,000	107,000
<b>TOTAL</b>	<b>107,000</b>	<b>107,000</b>	<b>107,000</b>	<b>107,000</b>

A feasible, untolled, alternative route remains available to road users on the Te Puke state highway, through Te Puke.

**TAKITIMU DRIVE TOLL ROAD FOR THE YEAR ENDED 30 JUNE 2016**

	ACTUAL 2015/16 000	BUDGET 2015/16 000	FORECAST 2016/17 000	ACTUAL 2014/15 000
<b>TRAFFIC VOLUMES</b>				
Light vehicle	2,040	1,704	2,150	0
Heavy vehicle	452	140	416	0
Exempt	11	7	9	0
Unidentifiable	8	3	4	0
Technical loss	18	6	2	0
<b>TOTAL</b>	<b>2,529</b>	<b>1,860</b>	<b>2,581</b>	<b>0</b>
	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	FORECAST 2016/17 \$000	ACTUAL 2014/15 \$000
<b>TOLL REVENUE (PORTION DESIGNATED FOR REPAYMENT OF DEBT)</b>				
Light vehicle	1,745	1,478	1,885	0
Heavy vehicle	1,563	487	1,357	0
Interest	14	30	30	0
Total	3,322	1,995	3,272	0
<b>TOLL REVENUE INFLOW TO THE NATIONAL LAND TRANSPORT FUND</b>				
Takitumu Drive	3,322	0	3,303	0
<b>TOTAL</b>	<b>3,322</b>	<b>0</b>	<b>3,303</b>	<b>0</b>

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

## FINANCIAL STATEMENTS FOR ROAD TOLLING OPERATIONS

### Statement of comprehensive revenue and expense for the year ended 30 June 2016

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL 2014/15 \$000
<b>REVENUE</b>			
Toll fees	11,785	10,453	6,332
Total revenue	11,785	10,453	6,332
Expenditure	10,798	10,197	5,541
<b>SURPLUS/(DEFICIT)</b>	<b>987</b>	<b>256</b>	<b>791</b>

### Statement of financial position as at 30 June 2016

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL 2014/15 \$000
<b>ASSETS</b>			
Current assets	17,127	15,350	12,526
Non-current assets	18,371	17,975	1,465
Total assets	35,498	33,325	13,991
Liabilities	9,649	9,295	6,452
<b>NET ASSETS/EQUITY</b>	<b>25,849</b>	<b>24,030</b>	<b>7,539</b>

### Statement of cash flows for the year ended 30 June 2016

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL 2014/15 \$000
Net cash from operating activities	18,460	14,238	8,417
Net cash from investing activities	0	0	0
Net cash from financing activities	(16,180)	(12,545)	(7,955)
Net increase/(decrease) in cash and cash equivalents	2,280	1,693	462
Cash and cash equivalents at the beginning of the year	6,049	6,049	5,587
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>8,329</b>	<b>7,742</b>	<b>6,049</b>

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

## NZ TRANSPORT TICKETING LIMITED

The NZ Transport Ticketing Limited has been established as a Crown entity subsidiary, under the governance of the NZ Transport Agency. Its primary purpose is to assist and advise the National Ticketing Programme. Through NZ Transport Ticketing Limited, 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
- other system services, including gateways and interfaces as required.

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

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL 2014/15 \$000
<b>COMPREHENSIVE REVENUE AND EXPENSE</b>			
Funding from the Transport Agency	2,976	4,596	1,045
Revenue from other activities	128	5,843	10
Total expenditure	3,318	12,439	1,055
<b>SURPLUS/(DEFICIT)</b>	<b>(214)</b>	<b>(2,000)</b>	<b>0</b>
<b>FINANCIAL POSITION</b>			
<b>Assets</b>			
Cash and cash equivalents	786	23	815
Receivables	4	870	206
Property, plant and equipment	0	485	0
Intangible assets	0	15,916	0
	790	17,294	1,021
<b>Liabilities</b>			
Payables	944	804	997
Employee entitlements	60	38	24
	1,004	842	1,021
<b>Equity</b>			
Contributed capital	0	18,382	0
Accumulated surplus/(deficit)	(214)	(1,930)	0
<b>NET ASSETS/EQUITY</b>	<b>(214)</b>	<b>16,452</b>	<b>0</b>

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

# OUTPUT CLASS INCOME AND EXPENDITURE

## OUTPUT CLASSES THAT SUPPORT OUR ONE NETWORK GOAL

### INVESTMENT MANAGEMENT

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL 2014/15 \$000
<b>OPERATING REVENUE</b>			
Crown (crash analysis system)	775	775	775
National Land Transport Fund	51,849	59,000	50,916
Other	1,831	0	297
Total operating revenue	54,455	59,775	51,988
<b>OPERATING EXPENSES</b>			
Transport Agency (crash analysis system)	3,356	821	469
Transport Agency operating activities	45,255	45,932	40,965
Funding to approved organisations	4,294	13,068	10,554
Total operating expenses	52,905	59,821	51,988
Surplus/(deficit)	1,550	(46)	0
<b>CAPITAL FUNDING AND CAPITAL EXPENDITURE</b>			
National Land Transport Fund capital contribution	7,826	0	0
Capital investment	(9,376)	0	0
Net capital movement	(1,550)	0	0
<b>TOTAL MOVEMENT</b>	<b>0</b>	<b>(46)</b>	<b>0</b>



## OUTPUT CLASSES THAT SUPPORT OUR SMART CHOICES GOAL

### LICENSING AND REGULATORY COMPLIANCE

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL 2014/15 \$000
<b>OPERATING REVENUE</b>			
Crown (ministerial advice and official correspondence)	548	548	548
Crown (rules development)	899	899	899
Crown (drug and alcohol assessments)	999	1,030	1,238
Crown (driver licensing stop orders)	75	75	75
Crown (driver test subsidy)	1,445	1,445	1,445
Fees and charges	91,566	85,176	82,221
Other	0	350	788
Total operating revenue	95,532	89,523	87,214
<b>OPERATING EXPENSES</b>			
Ministerial advice and official correspondence	962	874	814
Rules development	731	757	702
Drug and alcohol assessments	1,135	1,467	1,273
Fees and charges funded activities	87,453	85,374	81,246
Other (including driver licensing stop orders)	0	0	159
Total operating expenses	90,281	88,472	84,194
<b>SURPLUS</b>	<b>5,251</b>	<b>1,051</b>	<b>3,020</b>

### ROAD TOLLING

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL 2014/15 \$000
<b>OPERATING REVENUE</b>			
Fees and charges	11,785	10,453	6,332
Total operating revenue	11,785	10,453	6,332
<b>OPERATING EXPENSES</b>			
Transport Agency operating activities	10,798	10,197	5,541
Total operating expenses	10,798	10,197	5,541
<b>SURPLUS</b>	<b>987</b>	<b>256</b>	<b>791</b>

**MOTOR VEHICLE REGISTRY**

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL 2014/15 \$000
<b>OPERATING REVENUE</b>			
Fees and charges	59,672	55,679	59,524
Total operating revenue	59,672	55,679	59,524
<b>OPERATING EXPENSES</b>			
Transport Agency operating activities	58,888	57,684	58,611
Total operating expenses	58,888	57,684	58,611
<b>SURPLUS/(DEFICIT)</b>	<b>784</b>	<b>(2,005)</b>	<b>913</b>

**ROAD USER CHARGES COLLECTION, INVESTIGATION AND ENFORCEMENT**

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL 2014/15 \$000
<b>OPERATING REVENUE</b>			
Crown (RUC collection)	0	0	4,720
NLTF/Crown (RUC investigation and enforcement)	3,779	3,779	3,779
NLTF/Crown (RUC refund)	450	450	450
Fees and charges	11,818	10,842	7,648
Total operating revenue	16,047	15,071	16,597
<b>OPERATING EXPENSES</b>			
Transport Agency (RUC investigation and enforcement)	3,763	3,795	2,969
Transport Agency (RUC refund)	683	627	794
Transport Agency (RUC collection)	11,787	11,399	11,974
Total operating expenses	16,233	15,821	15,737
<b>SURPLUS/(DEFICIT)</b>	<b>(186)</b>	<b>(750)</b>	<b>860</b>

**ROAD SAFETY PROMOTION**

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL 2014/15 \$000
<b>OPERATING REVENUE</b>			
National Land Transport Fund	29,199	33,900	32,553
Community road safety programme	1,456	924	1,205
Other	99	0	374
Total operating revenue	30,754	34,824	34,132
<b>OPERATING EXPENSES</b>			
Transport Agency (community road safety programme)	891	1,342	46
Transport Agency (vehicle impoundment)	216	200	185
Transport Agency operating activities	18,381	19,238	19,741
Funding to approved organisations	10,678	14,462	13,000
Total operating expenses	30,166	35,242	32,972
Surplus/(deficit)	588	(418)	1,160
<b>CAPITAL FUNDING AND CAPITAL EXPENDITURE</b>			
National Land Transport Fund capital contribution	852	0	0
Capital investment	(874)	0	0
Net capital movement	(22)	0	0
<b>TOTAL MOVEMENT</b>	<b>566</b>	<b>(418)</b>	<b>1,160</b>

## OUTPUT CLASSES THAT SUPPORT OUR HIGHWAY SOLUTIONS GOAL

### STATE HIGHWAY IMPROVEMENTS

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL (RESTATED) 2014/15 \$000
<b>OPERATING REVENUE</b>			
National Land Transport Fund	611,667	470,000	589,867
National Land Transport Fund (tolling)	6,917	16,330	1,199
Developers contributions	31,159	0	51,823
Assets vested from local authorities	99,399	0	0
Contribution from recoverable projects	13,005	0	0
Fair value gain on borrowings	13,061	0	0
<b>Total operating revenue</b>	<b>775,208</b>	<b>486,330</b>	<b>642,889</b>
<b>OPERATING EXPENSES</b>			
Interest and finance costs	24,271	0	66,816
Depreciation and state highway write offs	420,243	470,000	523,051
Expenditure on recoverable projects	13,003	0	0
Assets vested to local authorities	286,533	0	0
<b>Total operating expenses</b>	<b>744,050</b>	<b>470,000</b>	<b>589,867</b>
<b>Surplus</b>	<b>31,158</b>	<b>16,330</b>	<b>53,022</b>
<b>CAPITAL FUNDING</b>			
Crown capital contribution (National War Memorial Park)	0	0	10,000
Crown capital contribution (regional state highways)	31,310	45,000	12,000
Crown capital contribution (construction of passing opportunities on SH2)	0	0	500
National Land Transport Fund capital contribution	694,491	774,101	696,878
National Land Transport Fund capital contribution (Auckland accelerated package)	112,039	50,000	0
National Land Transport Fund capital contribution (public private partnership)	214,933	0	161,899
National Land Transport Fund capital contribution (Tauranga Eastern Link)	0	0	107,000
National Land Transport Fund capital contribution (state highway disposals)	46,775	50,550	61,323
Depreciation funding utilised for investment in the state highway network	420,243	470,000	523,051
Non-cash expenditure funding for assets vested to/from local authorities	187,134	0	0
<b>Total capital funding</b>	<b>1,706,925</b>	<b>1,389,651</b>	<b>1,572,651</b>

**STATE HIGHWAY IMPROVEMENTS (CONTINUED)**

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL (RESTATED) 2014/15 \$000
<b>CAPITAL EXPENDITURE</b>			
Crown investment (National War Memorial Park)	0	0	10,000
Crown investment (regional state highways)	31,310	45,000	12,000
Crown investment (construction of passing opportunities on SH2)	0	0	500
Transport Agency capitalised expenditure	34,436	33,253	36,302
Auckland accelerated package	112,039	50,000	0
Public private partnership	214,933	0	161,899
Tauranga Eastern Link	0	0	107,000
Transport Agency investment in the state highway network	1,345,365	1,269,787	1,294,936
Total capital expenditure	1,738,083	1,398,040	1,622,637
Net capital movement	(31,158)	(8,389)	(49,986)
<b>TOTAL MOVEMENT</b>	<b>0</b>	<b>7,941</b>	<b>3,036</b>

**STATE HIGHWAY MAINTENANCE**

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL 2014/15 \$000
<b>OPERATING REVENUE</b>			
National Land Transport Fund	322,233	380,000	341,251
National Land Transport Fund (rental and interest income)	16,904	0	16,524
Other (contributions)	18,280	988	21,654
Total operating revenue	357,417	380,988	379,429
<b>OPERATING EXPENSES</b>			
Transport Agency operating activities	17,921	20,143	19,101
Transport Agency investment in the state highway network	325,562	360,845	344,183
Total operating expenses	343,483	380,988	363,284
Surplus/(deficit)	13,934	0	16,145
<b>CAPITAL FUNDING</b>			
National Land Transport Fund capital contribution	122,243	180,000	175,443
Total capital funding	122,243	180,000	175,443
<b>CAPITAL EXPENDITURE</b>			
Transport Agency capitalised expenditure	7,361	7,962	8,450
Transport Agency investment in the state highway network	128,816	172,038	183,331
Total capital expenditure	136,177	180,000	191,781
Net capital movement	(13,934)	0	(16,338)
<b>TOTAL MOVEMENT</b>	<b>0</b>	<b>0</b>	<b>(193)</b>

## OUTPUT CLASSES THAT SUPPORT OUR MAXIMISE RETURNS GOAL

### PUBLIC TRANSPORT

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL 2014/15 \$000
<b>OPERATING REVENUE</b>			
National Land Transport Fund	307,196	331,000	298,382
Other	249	0	552
Total operating revenue	307,445	331,000	298,934
<b>OPERATING EXPENSES</b>			
Transport Agency (NZTTL)	2,967	8,800	1,045
Transport Agency operating activities	480	200	9,038
Funding to approved organisations	317,998	322,000	294,854
Total operating expenses	321,445	331,000	304,937
<b>SURPLUS/(DEFICIT)</b>	<b>(14,000)</b>	<b>0</b>	<b>(6,003)</b>

### SUPERGOLD CARD ADMINISTRATION AND PUBLIC TRANSPORT CONCESSIONS

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL 2014/15 \$000
<b>OPERATING REVENUE</b>			
Crown	28,559	28,224	26,211
Total operating revenue	28,559	28,224	26,211
<b>OPERATING EXPENSES</b>			
Transport Agency operating activities	297	95	95
Funding to approved organisations	28,262	28,129	26,329
Total operating expenses	28,559	28,224	26,424
<b>SURPLUS/(DEFICIT)</b>	<b>0</b>	<b>0</b>	<b>(213)</b>

## WALKING AND CYCLING

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL 2014/15 \$000
<b>OPERATING REVENUE</b>			
Crown (Urban Cycleways)	6,457	28,000	3,654
National Land Transport Fund	21,276	31,000	29,971
Other	2,454	0	1,170
Total operating revenue	30,187	59,000	34,795
<b>OPERATING EXPENSES</b>			
Crown funding to approved organisations (Urban Cycleways)	8,860	28,000	1,250
Transport Agency operating activities	954	119	0
Funding to approved organisations	20,322	30,881	31,142
Total operating expenses	30,136	59,000	32,392
Surplus/(deficit)	51	0	2,403
<b>CAPITAL FUNDING</b>			
Crown capital contribution (Urban Cycleways)	2,000	3,000	1,346
National Land Transport Fund capital contribution	18,761	0	0
Total capital funding	20,761	3,000	1,346
<b>CAPITAL EXPENDITURE</b>			
Crown investment in the state highway network (Urban Cycleways)	1,538	3,000	1,346
Capital investment in walking and cycling	21,215	0	0
Total capital expenditure	22,753	3,000	1,346
Net capital movement	(1,992)	0	0
<b>TOTAL MOVEMENT</b>	<b>(1,941)</b>	<b>0</b>	<b>2,403</b>

## LOCAL ROAD IMPROVEMENTS

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL 2014/15 \$000
<b>OPERATING REVENUE</b>			
National Land Transport Fund	104,112	148,800	187,509
Total operating revenue	104,112	148,800	187,509
<b>OPERATING EXPENSES</b>			
Funding to approved organisations	104,112	148,800	187,509
Total operating expenses	104,112	148,800	187,509
<b>SURPLUS</b>	<b>0</b>	<b>0</b>	<b>0</b>

## LOCAL ROAD MAINTENANCE

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL (RESTATED) 2014/15 \$000
<b>OPERATING REVENUE</b>			
National Land Transport Fund	553,204	555,000	538,700
National Land Transport Fund (reinstatement of roads in Christchurch)	23,466	0	3,137
Total operating revenue	576,670	555,000	541,837
<b>OPERATING EXPENSES</b>			
National Land Transport Programme (reinstatement of roads in Christchurch)	23,466	68,000	3,137
Transport Agency operating activities	137	200	32
Funding to approved organisations	552,365	554,800	538,668
Interest on borrowing	702	0	0
Total operating expenses	576,670	623,000	541,837
<b>SURPLUS/(DEFICIT)</b>	<b>0</b>	<b>(68,000)</b>	<b>0</b>

## REGIONAL IMPROVEMENTS

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL 2014/15 \$000
<b>CAPITAL FUNDING</b>			
National Land Transport Fund capital contribution	13,121	65,000	0
Total capital funding	13,121	65,000	0
<b>CAPITAL EXPENDITURE</b>			
Transport Agency investment in the state highway network	13,121	65,000	0
Total capital expenditure	13,121	65,000	0
<b>NET CAPITAL MOVEMENT</b>	<b>0</b>	<b>0</b>	<b>0</b>

## REFUND OF FUEL EXCISE DUTY

	ACTUAL 2015/16 \$000	BUDGET 2015/16 \$000	ACTUAL 2014/15 \$000
<b>OPERATING REVENUE</b>			
National Land Transport Fund	545	519	475
Other	114	0	89
Total operating revenue	659	519	564
<b>OPERATING EXPENSES</b>			
Transport Agency operating activities	659	612	553
Total operating expenses	659	612	553
<b>SURPLUS/(DEFICIT)</b>	<b>0</b>	<b>(93)</b>	<b>11</b>



# INDEPENDENT AUDITOR'S REPORT



## To the readers of NZ Transport Agency and groups financial statements and performance information for the year ended 30 June 2016

The Auditor-General is the auditor of NZ Transport Agency (the "Transport Agency") and group. 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 87 to 126, that comprise the statement of financial position as at 30 June 2016, 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 12 to 35 and 55 to 82.

In our opinion:

- the financial statements of the Group:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2016; 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 2016, 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 26 September 2016. 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 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 the 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 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 is 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 out an independent review on Drivers Licensing End-to-End System Integrity, provided Transport Service Delivery Site Audit support and Risk Workshop Facilitation. These assignments are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interest 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 2015 to 30 June 2016.

## BACKGROUND

The Land Transport Management Act 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 including 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 and 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.<sup>1</sup> 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 2016 indicates the page was accessed on average 30 times a month (2015: 11).

A further link on this page links to a webpage that lists all the funding decisions the Transport Agency has made since August 2008 (the prescribed date in the Land Transport Management Act 2003 is 1 October 2008).<sup>2</sup> The page is updated monthly once the previous month's decisions have been confirmed. Monitoring of the webpage during 2016 indicates the page was accessed on average 73 times a month (2015: 133).

The key system used by the Transport Agency is the web-based Transport Investment Online (TIO) system, which 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 assessing and evaluating 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. Approved organisations can see the details of their proposals and the Transport Agency's recommendations and decisions.

<sup>1</sup> [www.nzta.govt.nz/planning-and-investment/our-investments/investment-decisions/how-decisions-are-made/](http://www.nzta.govt.nz/planning-and-investment/our-investments/investment-decisions/how-decisions-are-made/)

<sup>2</sup> [www.nzta.govt.nz/planning/what-funding/board-decisions/index.html](http://www.nzta.govt.nz/planning/what-funding/board-decisions/index.html)

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 scrutiny principle. These include:

- management reviews and checking of assessments and 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 2016

We have carried out work to provide limited assurance on whether any matter has come to our attention that would lead us to believe that the report prepared by the NZ Transport Agency (the "Transport Agency") on Putting the Scrutiny Principle into Practice (the "Report") on pages 149-150 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 other 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 other 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 2016.

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 149-150 for the year ended 30 June 2016 is not fairly stated.

Our limited assurance engagement was completed on 26 September 2016 and our opinion is expressed as at that date.



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**BRENT MANNING**

KPMG

ON BEHALF OF THE AUDITOR-GENERAL

WELLINGTON, NEW ZEALAND