

SECTION C

FINANCIAL STATEMENTS AND AUDIT REPORTS



STATEMENT OF RESPONSIBILITY

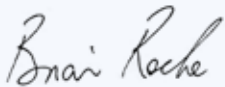
The Transport Agency Board is responsible for the preparation of the Transport Agency's financial statements and statement of performance and for the judgements made in them.

The board is responsible for any end-of-year performance information provided by the Transport Agency under section 19A of the Public Finance Act 1989.

The board has the responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the board's opinion, these financial statements and statement of performance fairly reflect the financial position and operations of the Transport Agency for the year ended 30 June 2019.

Signed on behalf of the board:



SIR BRIAN ROCHE

Chair

1 October 2019



DAVID SMOL

Member of the
Transport Agency
Board

1 October 2019

Countersigned by:



MARK RATCLIFFE

Interim Chief Executive
1 October 2019



**HOWARD
CATTERMOLÉ**

Chief Financial Officer
1 October 2019

HIGHLIGHTS FROM OUR FINANCIAL STATEMENTS

\$2.9 BILLION
TOTAL REVENUE
(2017/18: \$2.7 BILLION)

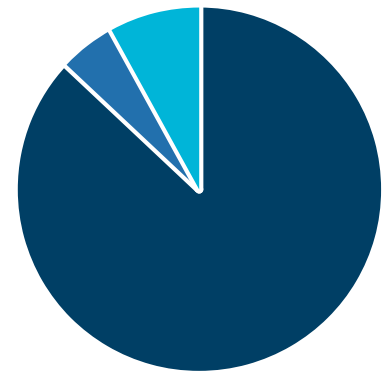
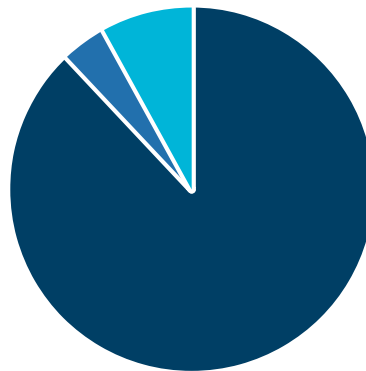
Most of the Transport Agency's income is from the National Land Transport Fund. We also receive revenue from the Crown to support our objectives and for specific projects. Most of the Crown revenue funding was to reinstate State Highway 1 after the Kaikōura earthquake. Other revenue comes from licensing and regulatory activities.

REVENUE BY SOURCE

2018/19

2017/18

- **National Land Transport Fund**
2018/19 **88.4%** 2017/18 **87.1%**
- **Other revenue**
2018/19 **7.9%** 2017/18 **8.0%**
- **Crown**
2018/19 **3.7%** 2017/18 **4.9%**



\$2.9 BILLION
TOTAL EXPENSE
(2017/18: \$2.6 BILLION)

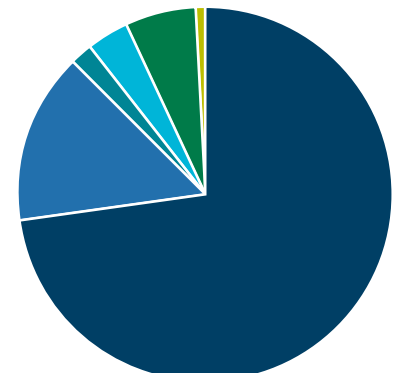
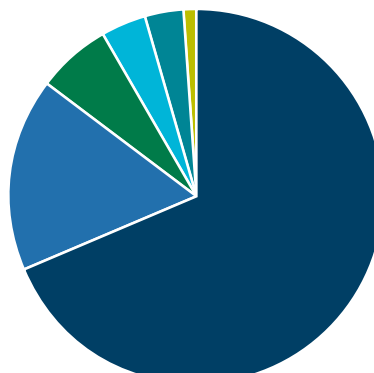
Our expenses are guided by the Government Policy Statement on land transport and the priorities identified in our *Amended statement of intent 2018-2022*. Last year, over two-thirds (69 percent) of our expenses directly related to: land transport funding we provided to approved organisations, activities funded from the Crown and maintenance and operation of the state highway network. Depreciation and amortisation made up 17 percent of our annual expenses and personnel and other operating expenses made up 14 percent.

EXPENSE BY TYPE

2018/19

2017/18

- **Land transport funding**
2018/19 **68.8%** 2017/18 **72.8%**
- **Depreciation and amortisation expense**
2018/19 **17.5%** 2017/18 **14.9%**
- **Other**
2018/19 **2.7%** 2017/18 **1.8%**
- **Personnel costs**
2018/19 **3.7%** 2017/18 **3.7%**
- **Operating expenses**
2018/19 **6.4%** 2017/18 **6.0%**
- **Transport Agency other activities**
2018/19 **0.9%** 2017/18 **0.8%**



The Transport Agency's other activities include road safety promotion and demand management.

\$51.1 BILLION
NET ASSETS/EQUITY
(2017/18: \$44.3 BILLION)

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

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
Total assets	53,841.9	49,421.3	46,351.3
Less total liabilities	2,732.9	2,596.9	2,085.8
NET ASSETS/EQUITY AT END OF YEAR	51,109.0	46,824.4	44,265.5

Our statement of financial position reflects the significant value held in the state highway network, with \$53.8 billion of assets and low levels of liabilities. The state highway network accounts for 92 percent of our asset base. During the year, we continued updating some of the estimates used in our valuation. This, together with capital spending and indexing of replacement costs, has led to further uplift in the valuation for 2018/19.

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE FOR THE YEAR ENDED 30 JUNE 2019

	NOTE	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
REVENUE				
Funding from the National Land Transport Fund	2	2,570.4	2,777.5	2,313.8
Funding from the Crown	2	107.1	89.6	129.9
Revenue from other activities	2, 4	229.2	209.8	212.2
Total revenue		2,906.7	3,076.9	2,655.9
EXPENSE				
Land transport funding		2,002.3	2,016.0	1,927.2
Employee costs	9	107.0	93.8	98.2
Operating expenses	10	213.0	196.9	179.0
Interest and finance costs	11	10.2	38.7	37.0
Depreciation, amortisation and state highway write-off	6	552.3	544.1	405.5
Assets vested to local authorities	6	24.4	182.8	0.0
Total expense	2	2,909.2	3,072.3	2,646.9
SURPLUS/(DEFICIT)		(2.5)	4.6	9.0
OTHER COMPREHENSIVE REVENUE AND EXPENSE				
Gain/(loss) state highway network revaluations	6	5,265.3	648.0	7,345.7
Net movement in cash flow hedges	11	(263.4)	5.7	(86.1)
Total other comprehensive revenue and expense		5,001.9	653.7	7,259.6
TOTAL COMPREHENSIVE REVENUE AND EXPENSE		4,999.4	658.3	7,268.6

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	NOTE	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
ASSETS				
Cash and cash equivalents		81.4	50.0	120.3
Debtor Crown	5	33.8	50.5	58.6
Receivables and other assets	5	119.3	101.7	103.7
Debtor National Land Transport Fund	5	335.7	498.3	351.7
Debtor National Land Transport Fund – debt related	5	2,223.2	1,954.8	1,547.3
Property assets held for sale	6	14.8	40.0	50.0
Public-private partnership assets	7	1,316.4	1,388.5	855.5
Property, plant, equipment and intangible assets		60.3	71.0	59.9
State highway network	6	49,657.0	45,266.5	43,204.3
Total assets		53,841.9	49,421.3	46,351.3
LIABILITIES				
Payables	10	490.6	596.4	575.2
Employee entitlements	9	15.0	17.0	14.7
Derivative financial liability	11	461.7	197.9	203.7
Borrowing and other liabilities	11	449.2	397.1	436.7
Public-private partnership liabilities	7	1,316.4	1,388.5	855.5
Total liabilities		2,732.9	2,596.9	2,085.8
NET ASSETS		51,109.0	46,824.4	44,265.5
EQUITY				
Contributed capital		0.0	5.6	5.6
Retained funds		24.3	34.9	43.3
Equity derived from the state highway network	12	51,476.3	46,906.4	44,344.8
Cash flow hedge reserve	11	(391.6)	(122.5)	(128.2)
TOTAL EQUITY		51,109.0	46,824.4	44,265.5

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

	NOTE	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
BALANCE AT 1 JULY		44,265.5	44,265.5	34,932.2
Surplus/(deficit)		(2.5)	4.6	9.0
State highway network revaluations	6	5,265.3	648.0	7,345.7
Movement in cash flow hedges	11	(263.4)	5.7	(86.1)
Capital contribution	12	1,842.3	1,900.6	2,064.7
Other equity movements		1.8	0.0	0.0
BALANCE AT 30 JUNE	12	51,109.0	46,824.4	44,265.5

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from the National Land Transport Fund	2,684.9	2,655.1	2,136.7
Receipts from the Crown	103.2	97.3	146.9
Receipts from other revenue	202.6	208.2	202.4
Payments to employees	(106.6)	(121.0)	(97.5)
Payments to suppliers	(2,235.7)	(2,170.9)	(1,985.1)
Goods and services tax (net)	(1.4)	0.7	(3.9)
Net cash from operating activities	647.0	669.4	399.5
CASH FLOWS FROM INVESTING ACTIVITIES			
National Land Transport Fund receipts from sale of state highway – held properties	34.9	42.1	37.1
Purchase of property, plant, equipment and intangible assets	(13.2)	(26.8)	(16.0)
Investment in the state highway network	(1,824.1)	(2,161.4)	(2,059.0)
Net cash from investing activities	(1,802.4)	(2,146.1)	(2,037.9)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution from the National Land Transport Fund	991.3	1,142.4	1,223.0
Capital contribution from the Crown	119.8	281.0	392.7
Receipts from borrowing	34.8	12.5	100.0
Repayment of borrowing	(23.0)	(23.0)	(15.0)
Interest paid on borrowing	(6.4)	(6.5)	(7.4)
Net cash from financing activities	1,116.5	1,406.4	1,693.3
Net increase/(decrease) in cash and cash equivalents	(38.9)	(70.3)	54.9
Cash and cash equivalents at the beginning of the year	120.3	120.3	65.4
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	81.4	50.0	120.3

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

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
SURPLUS/(DEFICIT)	(2.5)	4.6	9.0
ADD/(DEDUCT) NON-CASH/NON-OPERATING ITEMS			
Depreciation, amortisation and state highway write-off	552.3	544.1	405.5
Losses on disposal of non-financial assets	1.0	0.0	4.7
Net impact of assets vested to local authorities	24.4	182.8	0.0
Movement in discounting of receivables	(4.9)	32.9	13.9
Interest on borrowing	5.2	6.0	6.1
Movement in discounting of borrowing	1.5	(14.8)	(10.0)
Movement in ineffective portion of cash flow hedge	(5.4)	(0.2)	5.6
Total non-cash/non-operating items	574.1	750.8	425.8
ADD/(DEDUCT) MOVEMENTS IN WORKING CAPITAL			
(Increase)/decrease in Debtor National Land Transport Fund and Debtor Crown	101.2	(115.3)	(137.3)
(Increase)/decrease in receivables and other assets	(15.5)	3.5	(10.0)
Increase/(decrease) in creditors and other payables	(10.6)	23.5	111.5
Increase/(decrease) in employee entitlements	0.3	2.3	0.5
Net movements in working capital items	75.4	(86.0)	(35.3)
NET CASH FROM OPERATING ACTIVITIES	647.0	669.4	399.5

NOTES TO THE FINANCIAL STATEMENTS

1 / ENTITY INFORMATION

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. Legislation governing the Transport Agency's operations includes the Crown Entities Act 2004 and the Land Transport Management Act 2003.

The Transport Agency's primary objective is to provide services to the New Zealand public. Its purpose is to deliver effective, efficient, safe and resilient transport solutions that support a thriving New Zealand.

The Transport Agency does not operate to make a financial profit.

The financial statements for the Transport Agency are for the year ended 30 June 2019 and were approved by the Transport Agency Board on 1 October 2019.

BASIS OF PREPARATION

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 Transport Agency is designated as a public benefit entity (PBE) for financial reporting purposes. The financial statements have been prepared in accordance with Tier 1 PBE accounting standards.

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

The accompanying notes form part of these financial statements. Where an accounting policy is specific to a note, the policy is described in the note to which it relates.

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

Budget figures

The budget figures are derived from the *2018/19 Amended statement of performance expectations* as approved by the board on 9 November 2018. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are materially consistent with those adopted by the board in preparing these financial statements. The budget figures are not audited.

Explanations of major variances against budget are provided in the notes.

Taxes

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

The Transport Agency is a public authority, so is exempt from the payment of income tax.

Accounting standards issued and not yet effective

The Transport Agency has adopted all accounting standards, amendments and interpretations to existing standards that have been published and are mandatory from 1 July 2018.

Financial instruments

In January 2017, the External Reporting Board issued PBE IFRS 9 *Financial Instruments*. This replaces PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. PBE IFRS 9 is effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.

The Transport Agency has adopted PBE IFRS 9 in 2018/19. This is consistent with the Treasury's decision to adopt PBE IFRS 9 for the Financial Statements of the Government of New Zealand in 2018/19.

PBE IFRS 9 impacts on the classifications of the following financial assets:

- cash and cash equivalents
- Debtor National Land Transport Fund and Debtor Crown
- other receivables and other assets.

Until 30 June 2018, the Transport Agency had classified these financial assets in the category 'loans and receivables' under PBE IPSAS 29. From 1 July 2018, these financial assets are classified in the category 'financial assets measured at amortised cost'. The measurement of the financial assets does not change as a result of the reclassification.

The standard introduces the 'expected credit losses' (ECLs) model, which replaces the existing 'incurred loss' model for impairment under PBE IPSAS 29. This is disclosed in note 5.

Critical accounting judgements, estimates and assumptions

In preparing the financial statements, the Transport Agency has applied judgements, estimates and assumptions concerning the future that may differ from the subsequent actual results. These judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors. The most significant judgements, estimates and assumptions applied to the financial statements are disclosed in note 6 and relate to the valuation of the state highway network.

2 / OPERATING FUNDING REVENUE AND EXPENSE

	FUNDING REVENUE			EXPENSE		
	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
NATIONAL LAND TRANSPORT FUND						
Local road maintenance	653.4	668.0	609.7	653.4	668.0	609.7
State highway improvements	559.3	736.2	411.6	564.0	712.8	393.3
State highway maintenance	485.5	478.8	525.6	494.1	480.7	531.4
Public transport	449.2	466.0	382.4	449.3	466.0	382.6
Local road improvements	225.7	192.8	246.2	225.7	192.8	246.2
Investment management	60.1	61.3	55.9	62.6	61.3	57.5
Walking and cycling	42.7	37.9	43.3	42.7	37.9	43.3
Road safety promotion and demand management	43.7	50.6	34.2	44.3	50.6	34.7
Regional improvements	23.6	22.3	0.0	23.6	22.3	0.0
Transitional rail	19.2	35.4	0.0	19.2	35.4	0.0
Road user charges collection, investigation and enforcement	4.3	4.2	4.3	5.0	4.5	4.3
Local road improvements (Housing Infrastructure Fund)	3.0	23.3	0.0	3.0	23.3	0.0
Refund of fuel excise duty	0.7	0.7	0.6	0.8	0.8	0.8
Other	0.0	0.0	0.0	0.0	0.0	1.2
TOTAL NATIONAL LAND TRANSPORT FUND FUNDING AND EXPENSE	2,570.4	2,777.5	2,313.8	2,587.7	2,756.4	2,305.0
CROWN						
Kaikōura earthquake response	41.9	35.0	62.2	41.9	35.0	62.2
SuperGold card administration and public transport concessions	29.4	29.4	28.3	29.4	29.4	28.3
Urban Cycleways Programme	12.7	20.4	33.3	12.7	20.4	34.2
Local road improvements (Provincial Growth Fund)	10.9	0.0	0.0	10.9	0.0	0.0
Investment management (Provincial Growth Fund)	5.4	0.0	0.0	5.4	0.0	0.0
Other Crown funding and expense	6.8	4.8	6.1	7.6	5.0	3.8
TOTAL CROWN FUNDING AND EXPENSE	107.1	89.6	129.9	107.9	89.8	128.5
TOTAL FUNDING AND EXPENSE FROM FEES, CHARGES AND OTHER REVENUE	229.2	209.8	212.2	213.6	226.1	213.4
TOTAL REVENUE AND EXPENSE	2,906.7	3,076.9	2,655.9	2,909.2	3,072.3	2,646.9

The table above represents funding from the National Land Transport Fund and the Crown and relevant expenses for operating transport infrastructure and other services throughout New Zealand.

In 2018/19, the total land transport funding paid from the National Land Transport Fund to approved organisations was \$2,002.3 million (2017/18: \$1,927.2 million).

The total for the Transport Agency's maintenance of state highways and operating expense was \$906.9 million (2017/18: \$719.7 million).

Funding from the National Land Transport Fund and the Crown

The Transport Agency is primarily funded through revenue received from the National Land Transport Fund and the Crown.

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

Funding from fees, charges and other revenue

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

Land transport funding

The Transport Agency receives land transport funding and then provides it to approved organisations for the delivery of services and uses it to maintain and operate the state highway network.

EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

Funding from the National Land Transport Fund was \$207.1 million (7 percent) below budget. Less funding was drawn down from the Fund due to the lower than budgeted spend on assets vested to local authorities.

Funding from the Crown was \$17.5 million (19 percent) above budget. This was mainly due to Provincial Growth Fund initiatives that were not included in the operating budget.

Total expense was \$163.1 million (5 percent) below budget. This was due to fewer than budgeted state highway assets being vested to local authorities mainly due to delays in the completion of the MacKays to Peka Peka project. These state highway assets are expected to be vested in 2019/20.

3 / CAPITAL FUNDING AND EXPENDITURE

	CAPITAL FUNDING			CAPITAL EXPENDITURE		
	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	RESTATED* ACTUAL 2017/18 \$M	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	RESTATED* ACTUAL 2017/18 \$M
NATIONAL LAND TRANSPORT FUND						
Public-private partnerships	724.3	465.0	433.3	724.3	465.0	433.3
State highway improvements	626.4	643.7	775.2	646.9	656.7	776.7
State highway maintenance	222.0	186.2	202.1	222.9	186.2	204.4
Regional improvement	114.9	90.0	140.1	114.9	90.0	140.1
Public transport	60.6	83.0	0.0	62.0	83.0	0.0
Walking and cycling	14.6	41.1	6.7	14.6	41.1	6.7
Auckland Transport Package	12.5	12.5	121.7	12.5	12.5	121.7
Rapid transit	9.9	130.4	0.0	9.9	130.4	0.0
Road safety promotion and demand management	1.0	1.4	1.3	1.0	1.4	1.3
Investment management	0.9	9.0	2.9	0.9	9.0	2.9
TOTAL NATIONAL LAND TRANSPORT FUND CAPITAL FUNDING AND EXPENDITURE	1,787.1	1,662.3	1,683.3	1,809.9	1,675.3	1,687.1
CROWN						
Kaikōura earthquake response	71.2	202.0	370.5	71.2	202.0	370.5
Accelerated Regional Roding Programme	18.8	33.4	43.6	18.8	33.4	43.6
Regional improvements (Provincial Growth Fund)	0.8	40.0	0.0	0.8	40.0	0.0
Urban Cycleways Programme	0.3	5.0	4.4	0.3	5.0	4.4
TOTAL CROWN CAPITAL FUNDING AND EXPENDITURE	91.1	280.4	418.5	91.1	280.4	418.5
TOTAL CAPITAL FUNDING AND EXPENDITURE	1,878.2	1,942.7	2,101.8	1,901.0	1,955.7	2,105.6

* 2017/18 actual balances for state highway improvements have been restated to include funding and expenditure for state highway disposals.

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

EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

Funding from the National Land Transport Fund was \$124.8 million (8 percent) above budget. More funding was required to be drawn down from the Fund due to the higher than budgeted capital expenditure detailed below.

Funding from the Crown was \$189.3 million (68 percent) below budget. This was the result of Kaikōura State Highway 1 reinstatement work moving into 2019/20.

Total capital expenditure was \$54.7 million (3 percent) below budget. This was mainly the result of initiatives within the Kaikōura State Highway 1 reinstatement work being moved into 2019/20 and lower than budgeted spend on capital activities within the National Land Transport Programme including rapid transit, walking and cycling, and public transport. The major variance in rapid transit is due to the budget being set before work on the detailed business case had commenced. These underspends were offset by higher than budgeted expenditure on public-private partnerships due to non-cash movements in the related interest rate swaps. State highway maintenance was also above budget due to higher replacement spend following extreme weather events.

4 / REVENUE FROM OTHER ACTIVITIES

	ACTUAL 2018/19 \$M	ACTUAL 2017/18 \$M
FEES AND CHARGES		
Motor vehicle licensing fees	51.7	53.1
Driver licensing fees	35.8	35.3
Driver testing fees	24.3	24.3
Road user charges collections	13.0	12.7
Certification review fees	11.9	11.8
Transport licensing fees	11.2	11.0
Standards development fee and certification levies	6.9	6.7
Over dimension and overweight permits	1.3	1.2
Rail licensing fees	1.2	1.2
Border inspection fees	0.8	0.9
Total fees and charges	158.1	158.2
Recoveries from National Land Transport Programme activities*	33.6	9.2
Tolling fees and contributions	16.0	15.2
Interest and finance income	15.4	22.7
Levy on personalised plates for community road safety initiatives	3.8	3.3
Administration fee from Accident Compensation Corporation	1.0	0.8
Miscellaneous revenue	1.3	2.8
TOTAL REVENUE FROM OTHER ACTIVITIES	229.2	212.2

* Includes developer contributions.

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

	ACTUAL 2018/19 \$M	ACTUAL 2017/18 \$M
Debtor National Land Transport Fund	335.7	351.7
Debtor National Land Transport Fund – debt related	2,223.2	1,547.3
Debtor Crown	33.8	58.6
Other receivables	105.0	100.4
Loans and advances	1.5	1.5
Other current assets	12.8	1.8
TOTAL	2,712.0	2,061.3
Classified as follows:		
Current	502.3	535.5
Non-current	2,209.7	1,525.8
TOTAL	2,712.0	2,061.3

Receivables are recognised at face value less an allowance for doubtful debt calculated using the ECLs model.

Other receivables

Other receivables include third-party receivables and GST receivable and are net of ECLs of \$4.5 million (2017/18: \$2.9 million). The Transport Agency applies the simplified approach and recognises lifetime ECLs for other receivables. Lifetime ECLs result from all possible default events over the expected life of the receivable. The ECLs for other receivables are calculated in two groups, tolling debtors and other debtors, to reflect the differences in collection and default rate history.

The impact of changes to the estimation technique or assumptions used in calculating the lifetime ECLs during 2018/19, following the adoption of PBE IFRS9, are shown in the table below.

	LIFETIME ECL - OTHER RECEIVABLES 2018/19 \$M
Opening balance as at 1 July 2018 (PBE IPSAS 29)	2.9
Adoption of PBE IFRS 9 posted through equity	1.4
ADJUSTED OPENING BALANCE AS AT 1 JULY 2018 (PBE IFRS 9)	4.3
Impairment expensed	1.5
Amounts written off	(1.3)
CLOSING BALANCE AT 30 JUNE 2019	4.5

Receivables are written off when they are deemed uncollectable. The total receivables written off during the year amounted to \$1.3 million (2017/18: \$1.2 million). Of the receivables written off, none were still subject to enforcement activities.

Debtor National Land Transport Fund and Debtor Crown

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

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

There is no indication that receivables from the National Land Transport Fund or the Crown are impaired as at 30 June 2019.

EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

Debtor National Land Transport Fund and Debtor Crown were \$179.3 million (33 percent) below budget. This was mainly the result of lower than expected expenditure towards the end of the year on activities within the National Land Transport Programme, including lower than planned payments to approved organisations. The decrease in Debtor Crown was mainly due to planned initiatives within the Kaikōura State Highway 1 reinstatement being moved into 2019/20.

Debtor National Land Transport Fund – debt related was \$268.4 million (14 percent) above budget. This was due to fair value movements in the interest rate swap contracts entered into for the Transmission Gully and Pūhoi to Warkworth public-private partnership agreements.

6 / STATE HIGHWAY NETWORK

	ACTUAL 2018/19 \$M	ACTUAL 2017/18 \$M
Opening balance	43,204.3	34,218.8
Additions	1,752.5	2,070.7
Depreciation*	(497.5)	(382.8)
Write-offs*	(42.1)	(10.5)
Assets vested to local authorities	(24.4)	0.0
Disposals	(35.9)	(37.2)
Revaluation of state highway network	5,265.3	7,345.7
Assets transferred from/(to) held for sale	34.8	(0.4)
CLOSING BALANCE	49,657.0	43,204.3

* Depreciation, amortisation and state highway write-off balance in the statement of comprehensive revenue and expense included \$12.7 million (2017/18: \$12.2 million) of depreciation and amortisation relating to property, plant, equipment and intangible assets and is not included in the state highway network disclosure above.

The cost of constructing the state highway network is recognised as an asset. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future service potential will be realised and the cost can be measured reliably. Repairs and maintenance costs are expensed during the financial period in which they are incurred.

Valuation

The state highway network (excluding land and formation) is valued using an optimised depreciated replacement cost methodology based on the estimated current cost of constructing the existing assets by the most appropriate method of construction, reduced by factors for the age, condition and performance of the assets. The estimated current cost is expected to change over time. Formation is valued using unit rates for formation types applied to carriageway lengths multiplied by width, including shoulders. Formation is a non-depreciable asset class. Qualified independent valuers carry out the valuation as shown in the table below.

STATE HIGHWAY NETWORK COMPONENT	VALUER
Roads, bridges, culverts, tunnels, underpasses, including formation works, road structure, drainage works and traffic facilities	WSP Opus, utilising unit prices provided by BondCM
Land	Darroch Limited

The components of the state highway network at optimised depreciated replacement cost and the related depreciation expense are shown in the table below.

STATE HIGHWAY NETWORK COMPONENTS	OPTIMISED DEPRECIATED REPLACEMENT COST		DEPRECIATION EXPENSE	
	ACTUAL 2018/19 \$M	ACTUAL 2017/18 \$M	ACTUAL 2018/19 \$M	ACTUAL 2017/18 \$M
Land	13,744.2	12,351.1	0.0	0.0
Formation	12,884.2	10,647.9	0.0	0.0
Pavement base course	6,284.7	6,099.4	74.3	47.6
Pavement surface	1,038.6	878.2	131.4	117.1
Drainage	1,769.5	1,563.7	43.8	25.3
Traffic facilities	1,451.1	1,382.7	88.9	91.2
Bridges	8,067.0	7,431.1	108.7	69.3
Culverts and subways	737.7	762.2	14.8	8.1
Other structures	3,680.0	2,088.0	35.6	24.2
TOTAL	49,657.0	43,204.3	497.5	382.8

State highway assets increased in value by \$6.5 billion with the increase mainly due to the following changes in valuation estimates and assumptions from the continuation of the valuation improvement programme.

- Unit prices applied to formation (a term used for the constructed land form profile and platform on which the pavement structure is built) were provided by an independent cost estimator (BondCM).
- A percentage rate for brownfield costs (a generic term for the additional costs of constructing in a particular location because of the increased intensity of surrounding land use compared with the cost of constructing in a vacant greenfield location) was applied to carriageways. The brownfield rate is a percentage loading applied to the unit costs, as part of the preliminary and general component.

In addition to the above improvement project drivers, the valuation also increased as a result of indexation of base unit rates, to reflect current costs of construction, and as a result of land revaluation, which primarily reflects increased land development intensification in the Auckland Unitary Plan.

Depreciation

Depreciation is calculated on a straight-line basis on state highway network assets (other than land, held properties, formation and the subbase component of pavement) at rates that will spread the cost of the assets to their estimated residual values over their useful lives. The depreciation expense for 2018/19 is calculated based on the 30 June 2018 valuation.

Impairment

State highway network assets are reviewed for impairment whenever events or changes in circumstances indicate that there may be a reduction in the asset's future service potential. An impairment loss is recognised when the asset's carrying amount exceeds the recoverable service amount. The recoverable service amount is the higher of the asset's fair value less cost to sell and value in use. Impairment of state highway network assets is deducted from the asset revaluation reserve to the extent of an existing credit balance for that asset class. Any excess is recognised in surplus or deficit.

Kaikōura reinstatement (State Highway 1)

Sections of State Highway 1 affected by the Kaikōura earthquake were written off in 2016/17 along with an adjustment for the impairment of the damaged network. The impairment recognition will remain until completion of the works and the set-up of the new assets of the reinstated corridor. The Kaikōura reinstatement costs are being carried at cost.

MacKays to Peka Peka

MacKays to Peka Peka pavement surface has seen a decline in the utility of the asset from more excessive wear than expected. The total cost to remediate is estimated at \$25.0 million, and this is expected to be shared between the Transport Agency (56 percent) and the M2PP Alliance (44 percent). The amount of \$25.0 million was deducted against the asset's carrying amount with \$14.0 million charged to impairment for the Transport Agency's share of additional costs.

Estimates, assumptions and judgements

Due to the unique nature of the state highway network, the value of the assets cannot be measured with precision. There are some uncertainties about the values assigned to different components of the state highway network. These uncertainties include whether the Transport Agency databases have accurate quantities and whether some cost components and in-service data are captured completely. The Transport Agency is considering certain controls to improve the timeliness and accuracy of the main asset database - the Road Assessment and Maintenance Management database (RAMM). In addition, significant estimates and assumptions have been applied to the valuation, which include assumptions on quantities used in the construction of state highway network components, the life of the assets and the unit costs to apply. Changes to the underlying estimates and assumptions can cause a material movement in the state highway valuation and are reviewed periodically.

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

The state highway valuation improvement programme identified two streams of work to improve the accuracy of the underlying valuation. Stream 1 was completed in 2017/18. It changed the approach for the unit rates applied to several significant network components and updated the preliminary and general uplift factor. Stream 2 was undertaken during 2018/19 and focused on the formation costs, the professional fees component of the uplift factor and brownfield costs.

- Formation costs:** Unit cost rates for earthworks can vary significantly from site to site. Because of this high variability and the significance of earthworks as a component of the state highway valuation, a reassessment of earthworks costs was undertaken as an improvement action in 2018/19. BondCM, a cost estimator, was engaged to assess the formation earthworks cost rates for the various terrain classifications used in the valuation.
- Uplift factor:** Following on from the improvement work in the previous year, the focus in 2018/19 was on the estimation of professional fees, agency costs, allowance for third-party assets and an initial analysis of the one-off, non-repeatable works that occur with the initial construction but would not be required in asset replacement, such as consenting costs. Only the professional fees component was updated in the valuation assumptions for 2018/19.
- Brownfield costs:** Brownfield costs are significant when construction occurs in a high-density urban or city area. The previous valuation methodology was based on greenfield cost rates and did not recognise brownfield costs. The Transport Agency has adopted a rate of 15 percent for all replacement costs in urban and motorway environments and 5 percent for rural environments, as determined by WSP Opus.

The following represents estimated inputs used in the 2018/19 valuation.

STATE HIGHWAY NETWORK COMPONENT	QUANTITY	RATE (\$)	USEFUL LIFE (YEARS)	BASIS OF VALUATION
Land	Land corridor: 36,331ha	Market price	N/A	Corridor land (land associated with the road) is valued by Darroch Ltd at the market price per hectare of the surrounding land. Land quantity is sourced from the asset management database, which is derived from Land Information New Zealand. Held properties, which are properties not yet part of corridor land, are based on market prices determined by Darroch Ltd.
Formation (earthworks)	Formation: 103,252,988m ² Shoulder formation: 20,918,244m ²	Flat terrain: \$23 per m ² Rolling terrain: \$67 per m ² Mountainous terrain: \$127 per m ² Soft terrain: \$66 per m ² Special unit rates applied to some sections Overhead rate: 55.25%	N/A	Unit rates are provided by BondCM based on terrain type groupings and adjusted for construction overhead costs. Formation area is calculated using treatment length (typically sections of a road that have the same pavement and material type, are of a similar age and condition, and are expected to have a similar rate of deterioration) multiplied by the road width, including shoulder (these quantities are recorded in the asset management database).
Pavement subbase and base course	Pavement other: 37,814,869m ³ Shoulder base course: 3,047,686m ³	Base course: \$119-\$138 per m ³ Subbase: \$92-\$110 per m ³ Structural: \$100-\$108 per m ² Overhead rate: 55.25%	50 for basecourse N/A for subbase which is non-depreciable	Depth of subbase and base course type is determined from Austroads Pavement Design Guide. Unit rates are provided by BondCM and adjusted for overhead costs. Pavement area is calculated by multiplying treatment length by road width plus shoulder (these quantities are recorded in the asset management database).
Pavement surface	Pavement surface: 113,326,113m ²	Asphalt: \$26-\$108 per m ² Milling: \$5-\$17 per m ² Chipseal: \$7-\$8 per m ² Overhead rate: 55.25%	9-14	Unit rates are provided by BondCM and adjusted for overhead costs. Pavement surface area is recorded in the asset management database.
Drainage	Drainage: 53,549m and 63,799 units Stormwater channel: 15,159,790m	Drainage: \$451-\$18,132 per m Ancillary: \$60-\$7,017 per m Stormwater channel: \$36-\$387 per m Overhead rate: 55.25%	50	Unit rates are provided by BondCM and adjusted for overhead costs. Length/quantity is recorded in the asset management database. The large spread in rates relates to the drainage size, varying prices of the state highway networks' sub-component (sumps, manholes, kerb, and so on), location type (rural, urban and motorway) and region.

STATE HIGHWAY NETWORK COMPONENT	QUANTITY	RATE (\$)	USEFUL LIFE (YEARS)	BASIS OF VALUATION
Traffic facilities	Railings: 2,178,449m Signs: 187,358 units Traffic facilities: 11,632,918m	Traffic facilities: \$18,309-\$421,439 per km Signs: \$337-\$12,262 per unit Railing and barriers: \$99-\$40,780 per m Overhead rate: 55.25%	10-25	Unit rates are derived by WSP Opus from a combination of indexed historical cost data and recent construction costs. The large spread of rates relates to different prices for component type (guide, information, signs and so on), location type (rural, urban and motorway) and region.
Bridges	2,725 bridges	Routine (single span): \$4,199 per m ² Routine (multi span): \$3,431 per m ² Motorway ramps: \$4,967 per m ² Exceptional rates: \$1,533-\$13,142 per m ² Overhead rate: 55.25%	90-100	Unit rates are provided by BondCM, dependent on the number of spans, and multiplied by deck area. Exceptional rates are asset specific and reflect special circumstances (for example, special design such as an arch bridge) or difficult construction circumstance.
Culverts and subways	Culverts and subways: 1,667 units and 34,568m	Culverts and subways: \$6,049-\$42,547 per m Overhead rate: 55.25%	50-75	Unit rates are provided by BondCM, dependent on cross-sectional area, and multiplied by treatment length (and adjusted for overhead costs).
Other structures	Retaining walls: 3,924 units and 762,865m ² Tunnels: 34 structures Weigh stations: 136 structures	Retaining walls: \$476-\$2,644 per m Tunnels: \$5,000-\$270,000 per m Weigh station: \$702,475-\$819,554 per structure Overhead rate: 55.25%	10-100	Unit rates are derived from a combination of indexed historical cost data and recent construction costs. Tunnels includes excavation, lining, cladding and services.

Unit prices

A significant component of the valuation is based on unit prices provided by independent expert BondCM. BondCM applies rates calculated using the Auckland market as the base and then assessed for regional price differences for major cost elements (such as labour, plant and materials) from which a weighting is derived to determine regional rates for each item. The regional weightings are based on costs BondCM has observed in the regions. The unit rates provided by BondCM generally relate only to the cost of physical construction and do not include overhead costs that would also be incurred to replace the asset.

Overhead costs

Overhead costs are estimated by BondCM based on actual information for recently completed projects. The rate of overheads incurred on a project can vary significantly depending on whether the construction is taking place in a greenfields or brownfields environment. Overheads include the sum of preliminary and general on-costs (35 percent) multiplied by professional fees, including Transport Agency costs (15 percent), and brownfields costs for urban and motorway (15 percent) and rural carriageways (5 percent).

Quantities

The calculation of the state highway network valuation consists of estimated quantities that include the actual area and length of the network at the close of the prior year extracted from the asset management system. Completed construction projects within the current financial year are included in the calculation at cost.

Work in progress

Recent capital expenditure is not yet reflected in the asset database, because the projects are large and take several years to fully complete. The total work in progress included within the valuation is \$4.3 billion, which is included at cost. The associated quantities are not included in the inputs table.

Valuation inputs subject to estimation uncertainty

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

- **Preliminary and general (P&G) on-costs, related to multiple asset components:** P&G on-costs are associated with site establishment and disestablishment, site management and compliance costs, and contractor markup. In 2017/18, an analysis of recent projects revealed that P&G on-costs are higher than previously estimated due to higher health and safety requirements, higher compliance costs and general costs increases. This resulted in an increase in P&G on-costs from 10 percent for roading assets and 15 percent for structures to an average of 34 percent across all project types. Following further review during 2018/19 by BondCM and WSP Opus, this was refined to 35 percent.
- **Professional fees related to multiple asset components:** Professional fees are the costs for professional services from external consultants and internal costs for investigations, design and management surveillance quality. Professional fees of 15 percent are derived based on project averages provided by BondCM.
- **Formation:** This is the constructed land form profile and platform on which the pavement structure is built. Formation within the different terrain types can be highly variable, the valuation of formation is on an average basis with the unit rates used in the valuation provided by BondCM. For the 2018/19 valuation, a new terrain type of 'soft' has been incorporated for all regions, allowing some projects completed in the last five years to be updated to the new terrain type where applicable. Improvement work during the year also identified that roads being built today are at a higher level of service and safety standard than those built previously. However, the research and investigation to date has not identified a robust methodology on which to differentiate the levels of service in formation construction. The formation unit rates for the 2018/19 valuation are based on the existing levels of service assumption for all roads.
- **Brownfield costs:** A major component of brownfield costs are one-off costs necessary to make the land freely available to build the state highway. They include capital works relating to relocation and refurbishment of assets owned by other parties, work to protect the privacy and environment of adjoining properties, and compensation to landowners. Other components of the brownfield cost result from the increased constraints or requirements imposed when constructing in an already-developed location; for example, increased traffic management and security; limitations on available contractor areas for storage, parking, buildings and general operations; noise and dust limitations and restricted hours of work. BondCM provided a brownfield overhead rate for rural and urban areas that has been applied to the depreciable assets unit cost rates. The urban rate has also been applied to motorway carriageways.

Sensitivity analysis

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

	CHANGE IN OPTIMISED DEPRECIATED REPLACEMENT COST (\$M)
Movement in P&G on-costs by 10% (from 35% to 38.5%)	931
Movement in external professional fees by 10%	188
Movement in formation unit costs by 10%	1,288
Movement in bridge unit costs by 10%	807
Movement in unit prices* by 10%	1,613
Movement in land corridor quantities by 10%	1,195
Movement in brownfield costs by 10%	124

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

WSP Opus performed simulation analysis on the valuation to quantify the range of valuation outcomes that could occur as a result of changes in the different valuation inputs. WSP Opus concluded that the overall valuation is likely to be between -7.5 percent and +10 percent of the current value.

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

Work undertaken in 2018/19 and 2017/18 has reduced the likelihood of understatement of the state highway networks value. At this stage, it has not been determined whether further work is necessary to the inputs of the valuation, given the complexity and underlying assumptions required to make further changes. One of the key areas to be considered is whether different levels of service rates should apply depending on the age of the asset. The Transport Agency is also considering approaches to streamline the calculation of the valuation that will focus effort on the high-value asset classes annually and the lower-value asset classes less frequently.

Property assets held for sale

The Transport Agency owns 76 properties valued at \$14.8 million (2017/18: 134 properties valued at \$50.0 million) that have been classified as held for sale. It is expected that these properties will be sold by 30 June 2020.

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

EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

State highway assets were \$4,390.5 million (10 percent) above budget. The increase is mainly due to changes in valuation estimates and assumptions, in particular, changes in unit rates from BondCM and preliminary and general on-costs.

Assets vested to local authorities was \$158.4 million (87 percent) below budget. This is due to fewer than budgeted properties being vested to local authorities mainly due to delays in the completion of the MacKays to Peka Peka project. These properties are expected to be vested in 2019/20.

7 / PUBLIC-PRIVATE PARTNERSHIP ASSETS AND LIABILITIES

	ACTUAL 2018/19 \$M	ACTUAL 2017/18 \$M
Transmission Gully	798.5	549.3
Pūhoi to Warkworth	517.9	306.2
TOTAL PUBLIC-PRIVATE PARTNERSHIP ASSETS AND LIABILITIES	1,316.4	855.5

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. A matching liability represents the Transport Agency's obligations under the arrangement should conditions exist such that the arrangement will not continue through to the service commencement date. Before the service commencement date, there are no scheduled payments under the agreements.

On completion, the asset and liability will be remeasured to fair value. Once operational, the public-private partnership assets will be accounted for in accordance with the policies adopted by the Transport Agency in respect of the rest of the state highway.

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

Public-private partnership agreements

The Transport Agency has entered into public-private partnership agreements with:

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

Under the agreements, the contractors will finance, design, build, operate and maintain the sections of state highway. The Transport Agency provided land it owns to the contractors on which to build the state highway. The construction phase for Transmission Gully is expected to be completed in 2020 and for Pūhoi to Warkworth by the end of 2021. The operational agreements run for 25 years from the service commencement date, after which the responsibility for ongoing operation and maintenance of both roads will revert to the Transport Agency. As both state highways are under construction, no depreciation on the assets has been incurred.

At the time the public-private partnership assets become operational, the Transport Agency will pay the contractor a quarterly unitary charge in arrears subject to satisfactory performance against agreed service levels. The unitary charge has three components.

- A reduction in the service concession liability.
- Finance costs: Under the terms of the agreements, the operators have a provision to re-price the finance costs at intervals during the 25-year period. The Transport Agency has put in place interest rate swaps to hedge the re-pricing of the finance costs (see note 11 for details of the interest rate swaps).
- Service costs: These cover the operational costs of running, maintaining, insuring and ensuring the availability of the highway to the service level agreed with the Transport Agency. Some of these costs are indexed to the consumer price index or to other relevant indices and can be varied from time to time.

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

The Transmission Gully public-private partnership has resulted in a dispute between the parties relating to technical and commercial matters. Further information is disclosed in note 16.

Deed of Indemnity

The Crown has issued indemnities to each consortium for all indemnified amounts (as defined in the respective Deeds of Indemnity). In general terms, the indemnified amounts consist of sums payable by 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 is required to make a payment under its indemnity, the Transport Agency must reimburse it under the Reimbursement and Management Agreement.

Commitments

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

EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

Public-private partnership assets and liabilities were below budget by \$72.1 million (5 percent) mainly due to construction progress and changes in the calculation methodology for accruing the progressive construction cost.

8 / CAPITAL COMMITMENTS

The future aggregate construction contract commitments (calculated based on forecasted expenditure) for the state highway network are as follows.

	ACTUAL AS AT 30 JUNE 2019 \$M	ACTUAL AS AT 30 JUNE 2018 \$M
Not later than one year	1,197.7	1,077.6
Later than one year and not later than five years	1,171.2	1,188.7
Later than five years	2,067.2	2,145.0
TOTAL CAPITAL COMMITMENTS*	4,436.1	4,411.3

* Included in total capital commitments is \$2.2 billion relating to the construction of the public-private partnership assets.

9 / TRANSPORT AGENCY EMPLOYEE COSTS AND EMPLOYEE ENTITLEMENTS

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

	ACTUAL 2018/19 \$M	ACTUAL 2017/18 \$M
Salaries and wages	100.2	92.5
Defined contribution plan employer contributions	3.4	2.9
Other employee costs	3.4	2.8
TOTAL TRANSPORT AGENCY EMPLOYEE COSTS *	107.0	98.2

* Total Transport Agency employee costs excludes contractor costs, which are included under note 10.

Employee entitlements (included in the statement of financial position)

	ACTUAL 2018/19 \$M	ACTUAL 2017/18 \$M
Employee entitlements - current	11.3	10.7
Employee entitlements - non-current	3.7	4.0
TOTAL TRANSPORT AGENCY EMPLOYEE ENTITLEMENTS	15.0	14.7

10 / TRANSPORT AGENCY OPERATING EXPENSES AND PAYABLES

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

	NOTE	ACTUAL 2018/19 \$M	RESTATED ACTUAL 2017/18 \$M
Commissions and transaction costs	a	71.0	71.3
Contractors and professional services	b	51.0	34.3
Information technology		33.0	27.6
Road user safety advertising		18.4	13.5
Operating lease expense	c	16.5	10.8
Office and building management		7.5	6.1
Staff travel		6.7	5.8
Impairment of receivables		1.5	1.2
Meetings and conferences		0.6	0.7
Fees to principal auditors for:			
- audit of financial statements		0.5	0.4
- other services	d	0.3	0.1
Other operating expenses	e	6.0	7.2
TOTAL TRANSPORT AGENCY OPERATING EXPENSES		213.0	179.0

- a. This category includes payments to agents for driver licensing services, motor vehicle registration and motor vehicle licensing services, personalised plates, card merchant fees and bulk postage transaction costs.
- b. Significant increases in this category are primarily attributed to regulatory response costs.
- c. This category includes the cost of providing for onerous contracts arising from a non-cancellable building lease in Palmerston North.
- d. Other services by KPMG includes the half-year review, scrutiny principle review, cost model audit, value-for-money evaluation and light rail business case secondment.
- e. This category includes the cost of re-certifications relating to suspended vehicle certifiers.

EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

Operating expenses were \$16.1 million (8 percent) above budget due to the cost of re-certifications relating to suspended vehicle certifiers, the management of the regulatory response and the recognition of an onerous lease on the Transport Agency's Palmerston North premises.

Payables (included in the statement of financial position)

	ACTUAL 2018/19 \$M	ACTUAL 2017/18 \$M
Creditors	474.7	562.5
Income in advance	10.5	12.6
Onerous contracts	5.4	0.1
TOTAL TRANSPORT AGENCY PAYABLES	490.6	575.2
Classified as follows:		
Current	486.6	575.2
Non-current	4.0	0.0
TOTAL	490.6	575.2

Short-term creditors and other payables are recorded at face value. Creditors and other payables are non-interest bearing and are normally settled on 30-day terms. The carrying value of creditors and other payables approximates their fair value.

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

EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

Payables were \$105.8 million (18 percent) below budget. This is due to lower than expected state highway expenditure and lower than expected claims from local councils and other approved organisations.

11 / BORROWING, FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Transport Agency had the following borrowings at 30 June 2019.

NAME	NOTIONAL AMOUNT BORROWED \$M	ACTUAL 2018/19 \$M	ACTUAL 2017/18 \$M	INTEREST RATE APPLIED	COMMENTS
Auckland Transport Package	370.0	335.6	301.7	Interest-free	The interest-free loan was discounted using government bond rates of 2.14% to 2.63%.
Housing Infrastructure Fund	3.0	2.5	0.0	Interest-free	The interest-free loan was discounted using government bond rates of 1.57% to 1.72%.
TOTAL INTEREST-FREE BORROWING		338.1	301.7		
Christchurch earthquake recovery	183.4	0.0	24.2	Fixed rates ranging from 2.57% to 2.84%	The loan, including capitalised interest, was fully repaid during the financial year.
Tauranga Eastern Link	107.0	107.0	107.0	\$87.0 million at fixed rates ranging from 4.99% to 5.14%. \$20.0 million at floating.	Interest of \$4.7m was paid during the financial year.
TOTAL BORROWING		445.1	432.9		
Tolling funds held in trust		4.1	3.8		
TOTAL BORROWING AND OTHER LIABILITIES		449.2	436.7		
Classified as follows:					
Current		19.1	28.0		
Non-current		430.1	408.7		
TOTAL		449.2	436.7		

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

The discount on the Auckland Transport Package and Housing Infrastructure Fund interest-free loans resulted in a net fair value gain of \$6.0 million (2017/18: \$15.6 million).

Interest-free loan movements are as follows.

	ACTUAL 2018/19 \$M	ACTUAL 2017/18 \$M
OPENING BALANCE	301.7	211.7
Nominal value of loans issued	34.8	100.0
Fair value adjustment	(6.0)	(15.6)
Repayments	0.0	0.0
Amortised interest (at government bond rates)	7.6	5.6
CLOSING BALANCE	338.1	301.7

Borrowing facilities

The borrowing facilities available to the Transport Agency are as follows.

NAME	TOTAL AVAILABLE \$M	AMOUNT DRAWN DOWN AT 30 JUNE 2019 \$M	PURPOSE OR COMMENT
Short-term advance	250.0	0.0	To manage seasonal variations in cash flow (\$175.0 million) and to manage unexpected and unfavourable variations in cash flow (\$75.0 million).
Auckland Transport Package	375.0	370.0	To accelerate the programme of Auckland roading projects, including the Northern and Southern Corridors on State Highway 1. Interest-free loans with terms of four to nine years with repayments commencing June 2020.
Housing Infrastructure Fund	357.0	3.0	The \$1 billion Housing Infrastructure Fund was established to accelerate infrastructure projects and support housing development in New Zealand's high-growth urban areas. The Transport Agency's share of the Fund is an interest-free loan facility of \$357.0 million, which is for transport initiatives. All loans drawn under the interest-free facility are repayable 10 years from draw-down date.
Tauranga Eastern Link	107.0	107.0	To accelerate the construction of the Tauranga Eastern Link toll road. Loan repayments commence June 2034.
TOTAL	1,089.0	480.0	

Financial instruments

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

	ACTUAL 2018/19 \$M	ACTUAL 2017/18 \$M
FINANCIAL ASSETS MEASURED AT AMORTISED COST		
Cash and cash equivalents	81.4	120.3
Debtor National Land Transport Fund and Debtor Crown	2,592.7	1,957.6
Other receivables and other assets	119.3	103.7
TOTAL FINANCIAL ASSETS MEASURED AT AMORTISED COST	2,793.4	2,181.6
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		
Payables	490.6	575.2
Borrowing and other liabilities	449.2	436.7
Public-private partnership liabilities	1,316.4	855.5
TOTAL FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	2,256.2	1,867.4
FINANCIAL LIABILITY - HEDGING INSTRUMENTS		
Derivative financial liability	461.7	203.7
TOTAL FINANCIAL LIABILITY - HEDGING INSTRUMENTS	461.7	203.7

Interest and finance costs are as follows.

	ACTUAL 2018/19 \$M	ACTUAL 2017/18 \$M
Interest on borrowing	5.2	6.1
Discount on Debtor National Land Transport Fund - debt related	2.8	19.6
Amortisation of discount on borrowing	7.6	5.7
Ineffective portion of cash flow hedge	(5.4)	5.6
TOTAL INTEREST AND FINANCE COSTS	10.2	37.0

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

Financial risks

The Transport Agency's activities expose it to a variety of risks, including market risk, credit risk and liquidity risk. The Transport Agency has policies to manage the risks associated with financial instruments and seeks to minimise exposure from these risks.

Market risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The 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 2019, approximately 96 percent of loans (2017/18: 93 percent) are either interest-free or on a fixed interest rate.

The Transport Agency has entered into public-private partnership agreements for the construction of Transmission Gully and Pūhoi to Warkworth. The arrangements require that a unitary charge is paid to the contractors from the time the section of state highway becomes operational. The unitary charge includes payment for finance costs that the operators have provision to re-price periodically during the 25-year term. The Transport Agency has entered into interest rate swap contracts to hedge the re-pricing of interest costs. The total amount of forecast payments exposed to interest rate risk is fully hedged.

Details of the interest rate swaps held with the New Zealand Debt Management Office are as follows.

SWAP RELATES TO	NOTIONAL VALUE OF INTEREST RATE SWAP \$M	COMMENCEMENT DATE	MATURITY DATE	INTEREST RATE PAY LEG (FIXED)	INTEREST RATE RECEIVE LEG	FAIR VALUE OF LIABILITY \$M
Transmission Gully	857.8	February 2021	October 2043	5.58	Floating, with periodic reset	332.5
Pūhoi to Warkworth	765.0	August 2023	August 2045	4.16	Floating, with periodic reset	129.2
TOTAL DERIVATIVE FINANCIAL LIABILITY						461.7

The interest rate swaps are accounted for as derivative financial instruments.

Derivative financial instruments are initially recognised at fair value on the date at which a derivative contract is entered into and are subsequently re-measured to fair value at balance date. The fair value of interest rate swaps are determined using a valuation technique based on cash flows discounted to present value using current market interest rates.

The Transport Agency's derivatives are considered level 2 on the fair value hierarchy. The fair value of the derivatives is estimated using inputs that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices). Inputs for the valuation were derived from Bloomberg and are independently valued by Bancorp Treasury Services Limited on a six-monthly basis.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Generally, when market interest rates are below the fixed interest rates of the interest rate swap, then the interest rate swap will be in a liability position.

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

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

The table below shows the movement of the cash flow hedge reserve.

	ACTUAL 2018/19 \$M	ACTUAL 2017/18 \$M
Balance as at 1 July	(128.2)	(42.1)
Effective cash flow hedge	(263.4)	(86.1)
CASH FLOW HEDGE RESERVE	(391.6)	(128.2)

During the year, the total ineffective portion of the cash flow hedge reserve charged to surplus or deficit is \$5.4 million surplus (2017/18: \$5.6 million deficit). The ineffectiveness is a result of the late designation, for hedge accounting purposes, of interest rate swaps relating to Transmission Gully.

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

	2018/19		2017/18	
	+1% \$M	-1% \$M	+1% \$M	-1% \$M
EFFECT ON SURPLUS OR DEFICIT				
Cash and cash equivalents	0.8	(0.8)	1.2	(1.2)
EFFECT ON OTHER COMPREHENSIVE REVENUE AND EXPENSE				
Derivative financial liability	205.2	(250.7)	155.2	(193.1)
EFFECT ON SURPLUS OR DEFICIT				
Borrowing	(1.3)	0.8	(1.0)	1.4

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.

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

The Transport Agency holds all cash and term deposits with Westpac New Zealand Limited. At 30 June 2019, Westpac had a Standard and Poor's credit rating of AA-. The largest debtor is the Crown, which has a Standard and Poor's credit rating of AA+.

Liquidity risk

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

The Transport Agency manages liquidity risk by continuously monitoring forecast and actual cash flow requirements and maintaining funding facilities of \$175.0 million to manage seasonal variations in cash flow and \$75.0 million to manage unexpected and unfavourable variations in cash flow.

The table below analyses financial liabilities by relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts below are contractual cash flows that will sometimes differ from the carrying amounts of the relevant liability in the statement of financial position.

	2018/19			
	LESS THAN 1 YEAR \$M	1-2 YEARS \$M	2-5 YEARS \$M	OVER 5 YEARS \$M
Payables	490.6	0.0	0.0	0.0
Borrowing	19.9	70.9	226.9	269.5
Derivative financial liability	0.0	9.1	117.3	462.4
Public-private partnership liabilities	0.0	163.4	317.2	1,937.9
TOTAL	510.5	243.4	661.4	2,669.8
	2017/18			
	LESS THAN 1 YEAR \$M	1-2 YEARS \$M	2-5 YEARS \$M	OVER 5 YEARS \$M
Payables	575.2	0.0	0.0	0.0
Borrowing	28.5	20.0	218.1	316.3
Derivative financial liability	0.0	0.0	51.5	227.1
Public-private partnership liabilities	0.0	0.0	223.5	1,257.0
TOTAL	603.7	20.0	493.1	1,800.4

EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

Cash and cash equivalents was above budget by \$31.4 million (63 percent). Additional cash was held to meet expected year end claims from suppliers and approved organisations.

Borrowing was above budget by \$52.1 million (13 percent) due to borrowing being drawn down earlier than budgeted for the Auckland Transport Package.

Derivative financial liability was above budget by \$263.8 million (133 percent) due to movements in the fair value of the interest rate swap contracts entered into for the Transmission Gully and Pūhoi to Warkworth public-private partnership agreements. The fair value movements reflect market interest rates that have decreased compared with the rates payable under the respective interest rate swaps.

12 / EQUITY AND CAPITAL MANAGEMENT

The table below shows movements in equity during the year.

	GENERAL FUNDS \$M	RETAINED FUNDS \$M	MEMORANDUM ACCOUNTS \$M	EQUITY DERIVED FROM THE STATE HIGHWAY NETWORK \$M	CASH FLOW HEDGE RESERVE \$M	TOTAL \$M
BALANCE AT 1 JULY 2017	5.6	17.0	25.8	34,925.9	(42.1)	34,932.2
Surplus/(deficit)	0.0	7.9	1.1	0.0	0.0	9.0
Other comprehensive revenue and expense	0.0	0.0	0.0	7,345.7	(86.1)	7,259.6
Total comprehensive revenue and expense	0.0	7.9	1.1	7,345.7	(86.1)	7,268.6
Changes in equity	0.0	(8.5)	0.0	2,073.2	0.0	2,064.7
Total changes in equity	0.0	(0.6)	1.1	9,418.9	(86.1)	9,333.3
BALANCE AT 30 JUNE 2018/1 JULY 2018	5.6	16.4	26.9	44,344.8	(128.2)	44,265.5
Surplus/(deficit)	0.0	21.4	(23.9)	0.0	0.0	(2.5)
Other comprehensive revenue and expense	0.0	0.0	0.0	5,265.3	(263.4)	5,001.9
Total comprehensive revenue and expense	0.0	21.4	(23.9)	5,265.3	(263.4)	4,999.4
Changes in equity - capital contribution from National Land Transport Fund	0.0	0.0	0.0	1,842.3	0.0	1,842.3
Changes in equity - prior year adjustment for PBE IFRS 9 expected credit loss	0.0	(0.7)	0.0	(0.7)	0.0	(1.4)
Changes in equity - prior year Community Road Safety Programme to equity	0.0	3.2	0.0	0.0	0.0	3.2
Changes in equity - transfer regulatory losses from memorandum accounts to retained funds	0.0	(4.2)	4.2	0.0	0.0	0.0
Changes in equity - transfer rail licensing deficit to retained funds	0.0	(2.5)	2.5	0.0	0.0	0.0
Changes in equity - transfer from general funds	(5.6)	5.6	0.0	0.0	0.0	0.0
Changes in equity - transfer developer contributions from retained funds to equity derived from the state highway network	0.0	(24.6)	0.0	24.6	0.0	0.0
Total changes in equity	(5.6)	(1.8)	(17.2)	7,131.5	(263.4)	6,843.5
BALANCE AT 30 JUNE 2019	0.0	14.6	9.7	51,476.3	(391.6)	51,109.0

Equity derived from the state highway network

	ACTUAL 2018/19 \$M	ACTUAL 2017/18 \$M
STATE HIGHWAY INVESTMENT		
Balance at 1 July	25,381.1	23,307.9
Transfer from the National Land Transport Programme and the Crown	1,866.2	2,073.2
BALANCE AT 30 JUNE	27,247.3	25,381.1
STATE HIGHWAY REVALUATION RESERVE		
Balance at 1 July	18,963.7	11,618.0
Revaluations - state highway network	5,265.3	7,345.7
BALANCE AT 30 JUNE	24,229.0	18,963.7
TOTAL EQUITY DERIVED FROM THE STATE HIGHWAY NETWORK	51,476.3	44,344.8

Capital management

The Transport Agency's capital is its equity. 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 imposes restrictions in relation to borrowing, acquiring securities, issuing guarantees and indemnities and using derivatives.

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

Memorandum accounts

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

	NOTE	ACTUAL 2018/19 \$M	ACTUAL 2017/18 \$M
Customer licensing activities	a	0.4	9.1
Road user charges collection		0.3	3.7
Vehicle standards compliance activities	b	9.0	14.1
TOTAL MEMORANDUM ACCOUNT - OTHER FEES AND CHARGES		9.7	26.9

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 permitting, and standards development and certification.

Memorandum accounts reflect the cumulative surplus or deficit of those services that are intended to be fully recovered from third parties through fees, levies or charges. The balance of each memorandum account is expected to trend to zero over time. The Transport Agency has commenced a fee and funding review for its regulatory activities, given the significant decline in memorandum account balances and the need to incur significant additional costs to improve its regulatory function.

13 / OPERATING LEASES

Operating leases as lessee

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

	ACTUAL 2018/19 \$M	ACTUAL 2017/18 \$M
Not later than one year	12.6	11.4
Later than one year and not later than five years	31.4	34.3
Later than five years	15.4	9.5
TOTAL NON-CANCELLABLE OPERATING LEASES	59.4	55.2

Significant operating leases are limited to buildings for office accommodation. An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

14 / RELATED PARTY TRANSACTIONS AND BOARD MEMBER REMUNERATION

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 relationship under normal terms and conditions for such transactions. Further, transactions with other government agencies (for example, government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions for such transactions.

Key management personnel compensation and board member remuneration have been presented to the nearest thousand dollars (\$000) to provide more meaningful information to the users of the financial statements.

Key management personnel compensation

	NOTE	ACTUAL 2018/19 \$000	ACTUAL 2017/18 \$000
Board members			
Remuneration		309	326
Number of positions	a	7	8
Leadership team			
Remuneration	c	6,702	5,569
Number of personnel	d	23	17
TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION		7,011	5,895
TOTAL PERSONNEL		30	25

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

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

c. Includes full year remuneration of the leadership team.

d. Leadership team roles were revised as part of an organisational transformation resulting in changes in key management personnel throughout the financial year.

The total number of key management personnel at balance date is 18 (2017/18: 24).

Board member remuneration

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

	APPOINTED	RESIGNED	ACTUAL 2018/19 \$000	ACTUAL 2017/18 \$000
Sir Brian Roche (Chair)	June 2019		6	0
Sheridan Broadbent	February 2019		15	0
Mark Darrow	May 2017		36	36
Leo Lonergan	May 2016		36	36
Nick Rogers*	September 2013		40	36
David Smol	February 2019		15	0
Vanessa van Uden	May 2017		36	36
Michael Stiassny (Chair)	April 2018	April 2019	60	18
Dame Fran Wilde (Deputy Chair)**	May 2016	January 2019	27	50
Chris Ellis	May 2016	December 2018	20	36
Adrienne Young-Cooper	August 2011	December 2018	18	36
Chris Moller (Chair)	March 2010	January 2018	0	42
TOTAL BOARD MEMBER REMUNERATION			309	326

* Nick Rogers was appointed interim board chair from 27 April 2019 to 10 June 2019.

** No deputy chair has been formally appointed since Dame Fran Wilde resigned on 31 January 2019.

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

The Transport Agency has Directors and Officers Liability and Professional Indemnity Insurance cover in respect of the liability or costs of board members and employees. The board also has insurance cover against personal accident and other travel-related risk for board members and employees where injury or loss occurs while on Transport Agency business.

No board members received compensation or other benefits in relation to cessation (2017/18: \$nil).

15 / EMPLOYEE REMUNERATION

TOTAL REMUNERATION PAID OR PAYABLE	NO. OF STAFF 2018/19	NO. OF STAFF 2017/18
100,000-109,999	118	126
110,000-119,999	94	91
120,000-129,999	102	98
130,000-139,999	90	66
140,000-149,999	56	44
150,000-159,999	38	37
160,000-169,999	26	27
170,000-179,999	29	11
180,000-189,999	18	11
190,000-199,999	14	10
200,000-209,999	10	6
210,000-219,999	8	4
220,000-229,999	4	7
230,000-239,999	3	2
240,000-249,999	5	3
250,000-259,999	6	2
260,000-269,999	2	2
270,000-279,999	2	2
280,000-289,999	4	2
290,000-299,999	2	1
300,000-309,999	4	2
310,000-319,999	1	1
320,000-329,999	1	1
330,000-339,999	0	3
340,000-349,999	0	1
350,000-359,999	1	0
360,000-369,999	1	2
370,000-379,999	2	0
380,000-389,999	2	1
390,000-399,999	2	0
400,000-409,999	1	0
710,000-719,999	0	1
TOTAL EMPLOYEES	646	564

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

During the year ended 30 June 2019, 24 (2017/18: nil) Transport Agency employees received compensation and other benefits in relation to cessation of \$1.8 million (2017/18: \$nil) these costs are excluded from the remuneration table above.

16 / CONTINGENCIES

Contingent liabilities as at 30 June 2019

Regulatory function

The Transport Agency has changed the way it manages its regulatory function. As a result of these changes, several service providers were suspended during the period to 30 June 2019, and the Transport Agency has offered to pay certain re-certification costs where a potential safety risk exists. The Transport Agency has provided \$5.1 million for the cost of these re-certifications relating to suspended vehicle certifiers. If further non-compliance issues with other regulated organisations are discovered, additional costs may be incurred. Until these ongoing investigations are completed, the final costs of regulatory re-certification are uncertain.

There are regulatory appeals from decisions made in our capacity as regulator that are currently before the courts. These include appeals to decline to grant or revoke a passenger endorsement, revoke a transport service licence, revoke a vehicle inspectors appointment or request the return of a personalised licence plate. The current value of possible obligations arising from regulatory appeals is not material.

Roading and other contract disputes

There are claims of \$385.4 million (2017/18: \$7.6 million) relating to a variety of roading and other contract disputes.

- In February 2019, the Transport Agency received a claim for \$352 million from the Wellington Gateway Partnership in relation to the Transmission Gully public-private partnership. The claim relates to the delays in the commencement of work. The Transport Agency's view is that there is no liability in relation to this claim.
- Apart from the above matters, there is regular dialogue between the Transport Agency and its contractors over technical and commercial matters that may result in material dispute between the parties. As at 30 June 2019, the Transport Agency does not consider that any matters formally notified to date are likely to have material financial impact.

Southern Corridor vibration complaints

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

17 / EVENTS AFTER BALANCE DATE

No significant events occurred after balance date.

SUPPLEMENTARY INFORMATION (UNAUDITED)

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

In this section you will find:

- a summary of total Transport Agency expenditure
- performance by segment of the business
- a summary of National Land Transport Programme funding
- details of land transport management (road tolling scheme)
- details of Regional Fuel Tax.

This information is consistent with and should be read in conjunction with the financial highlights on pages 83 to 84 and the audited financial statements on pages 85 to 118.

TRANSPORT AGENCY EXPENDITURE

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
Personnel costs*	143.7	122.4	121.8
Operating expenses	174.2	168.3	150.8
Depreciation and amortisation expense	14.7	11.3	13.5
Transport Agency operating activities expense	332.6	302.0	286.1
Transport Agency capitalised expenditure	43.6	53.7	37.3
Transport Agency activities expenditure	376.2	355.7	323.4
Transport Agency expenditure			
Transport Agency expenditure allocated to National Land Transport Programme activities	47.5	35.5	34.2
TOTAL TRANSPORT AGENCY EXPENDITURE	423.7	391.2	357.6

* Includes contractor costs.

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

PERFORMANCE BY SEGMENT OF THE BUSINESS

The following tables provide detailed financial performance information for each of segment of the Transport Agency. Segment areas are:

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

TRANSPORT AGENCY OPERATIONS

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
REVENUE			
Transport Agency activities	30.1	28.3	22.2
National Land Transport Programme	117.8	102.6	109.0
Memorandum accounts - other fees and charges	160.9	162.7	161.4
Total revenue	308.8	293.6	292.6
EXPENDITURE			
Transport Agency activities	32.5	28.2	23.7
National Land Transport Programme	158.9	147.3	139.3
Capital expenditure	(43.6)	(44.7)	(37.3)
Memorandum accounts - other fees and charges	184.8	171.2	160.4
Total expenditure	332.6	302.0	286.1
SURPLUS/(DEFICIT)			
Transport Agency activities	(2.4)	0.1	(1.5)
National Land Transport Programme	2.5	0.0	7.0
Memorandum accounts - other fees and charges	(23.9)	(8.5)	1.0
SURPLUS/(DEFICIT)	(23.8)	(8.4)	6.5

Movement of operations net surplus to equity

The table above 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.

- **Transport Agency activities** refers to Crown funded (excluding the driver test subsidy) contracted services and non-third-party fees and charges activities.
- **National Land Transport Programme** refers to activities funded from the National Land Transport Fund.
- **Memorandum account - other fees and charges** refers to activities funded from fees and charges.

LAND TRANSPORT FUNDING

	NOTE	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
REVENUE				
National Land Transport Fund		2,462.1	2,668.0	2,214.7
Developer contributions on capital projects		21.9	27.8	3.8
Non-cash revenue	a	13.7	0.0	21.3
Total revenue		2,497.7	2,695.8	2,239.8
EXPENDITURE				
National Land Transport Programme		3,541.7	4,034.0	3,457.8
Public-private partnerships		724.3	465.0	433.3
Depreciation and other non-cash items		539.6	530.0	393.3
Capital expenditure		(2,329.2)	(2,346.2)	(2,048.0)
Total expenditure		2,476.4	2,682.8	2,236.4
SURPLUS/(DEFICIT)		21.3	13.0	3.4

a. This category includes the initial write-down of interest-free loans of \$6 million (2017/18: \$16 million) and amortisation of discount on the Debtor National Land Transport Fund – debt related of \$8 million (2017/18: \$5 million).

SPECIFIC PROJECTS FUNDED BY THE CROWN

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
REVENUE			
SuperGold card administration and public transport concessions	29.3	29.4	28.3
Urban Cycleways Programme	12.7	20.4	33.3
Investment management (Provincial Growth Fund)	5.4	0.0	0.0
Local road improvements (Provincial Growth Fund)	10.9	0.0	0.0
Kaikōura Earthquake Response	41.9	35.0	62.2
Total revenue	100.2	84.8	123.8
EXPENDITURE			
SuperGold card administration and public transport concessions	29.3	29.4	28.3
Urban Cycleways Programme	13.0	25.4	38.6
Investment management (Provincial Growth Fund)	5.4	0.0	0.0
Local road improvements (Provincial Growth Fund)	10.9	0.0	0.0
Regional improvements (Provincial Growth Fund)	0.8	40.0	0.0
Kaikōura Earthquake Response	113.1	237.0	432.7
Accelerated Regional Roding Programme	18.8	33.4	43.6
Capital expenditure	(91.1)	(280.4)	(418.5)
Total expenditure	100.2	84.8	124.7
SURPLUS/(DEFICIT)	0.0	0.0	(0.9)
TOTAL SURPLUS/(DEFICIT) OF SEGMENTS	(2.5)	4.6	9.0

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

NATIONAL LAND TRANSPORT PROGRAMME

The National Land Transport Programme is a three-year programme of funding for land transport infrastructure and services throughout New Zealand. The Transport Agency develops the National Land Transport Programme based on the policy direction in the Land Transport Management Act 2003 and the Government Policy Statement on land transport.

The following table shows the movements in the National Land Transport Programme balance for the first year of the 2018–21 National Land Transport Programme.

NATIONAL LAND TRANSPORT PROGRAMME

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
INFLOWS			
Capital contribution from the National Land Transport Fund (NLTF)	1,027.9	1,155.2	1,212.9
Capital contribution from the NLTF - public-private partnerships	724.3	465.0	433.3
Funding from the NLTF	2,558.8	2,769.8	2,282.5
Funding from the NLTF (rental and interest income)	30.2	25.8	26.5
Funding from state highway disposals	35.0	42.1	37.1
Funding from other activities	48.3	27.8	33.9
Total inflows from the National Land Transport Fund	4,424.5	4,485.7	4,026.2
OUTFLOWS			
State highway improvements	1,210.9	1,369.5	1,174.8
Auckland Transport Package	12.5	12.5	121.7
Public-private partnerships*	724.3	465.0	433.3
State highway maintenance	717.0	665.0	735.8
Local road improvements	225.7	192.8	246.2
Local road maintenance	677.0	691.0	608.7
Local road improvements (Housing Infrastructure Fund)	3.0	23.3	0.0
Transitional rail	19.2	35.4	0.0
Rapid transit	9.9	130.4	0.0
Public transport	511.3	549.0	382.6
Walking and cycling	57.3	79.0	50.0
Regional improvements	138.5	112.3	140.1
Road safety promotion and demand management	44.7	52.0	36.0
Investment management	63.5	70.3	60.0
Interest and finance costs	9.7	38.7	37.0
Total outflows	4,424.5	4,486.2	4,026.2
Carry over into next year	0.0	(0.5)	0.0
Opening balance	1.0	(3.5)	1.0
CLOSING BALANCE	1.0	(4.0)	1.0

* Includes the fair value movement of the interest rate swaps.

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.

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

NORTHERN GATEWAY TOLL ROAD FOR THE YEAR ENDED 30 JUNE 2019

	ACTUAL 2018/19 000	BUDGET 2018/19 000	FORECAST 2019/20 000	ACTUAL 2017/18 000
TRAFFIC VOLUMES (NUMBER OF VEHICLES)				
Light vehicle	6,928	7,128	7,067	6,808
Heavy vehicle	570	589	581	559
Exempt	20	23	20	21
Unidentifiable	0	1	0	1
Technical loss	13	16	13	15
TOTAL	7,531	7,757	7,681	7,404

	ACTUAL 2018/19 \$000	BUDGET 2018/19 \$000	FORECAST 2019/20 \$000	ACTUAL 2017/18 \$000
TOLL REVENUE (PORTION DESIGNATED FOR REPAYMENT OF CROWN DEBT)				
Light vehicle	9,196	9,266	9,801	8,853
Heavy vehicle	1,956	1,995	2,020	1,900
Interest	46	51	0	51
TOTAL	11,198	11,312	11,821	10,804

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

The Transport Agency does not include Northern Gateway tolling revenue in its financial statements.

The tolling revenue is collected and passed to the Crown to repay the debt the Crown holds.

TAURANGA EASTERN LINK TOLL ROAD FOR THE YEAR ENDED 30 JUNE 2019

	ACTUAL 2018/19 000	BUDGET 2018/19 000	FORECAST 2019/20 000	ACTUAL 2017/18 000
TRAFFIC VOLUMES (NUMBER OF VEHICLES)				
Light vehicle	3,452	3,275	3,625	3,261
Heavy vehicle	511	476	536	480
Exempt	12	13	13	12
Unidentifiable	0	1	0	0
Technical loss	19	20	20	19
TOTAL	3,994	3,785	4,194	3,772
TOLL REVENUE (PORTION DESIGNATED FOR REPAYMENT OF DEBT)				
	ACTUAL 2018/19 \$000	BUDGET 2018/19 \$000	FORECAST 2019/20 \$000	ACTUAL 2017/18 \$000
Light vehicle	3,662	3,406	4,082	3,365
Heavy vehicle	1,894	1,738	2,050	1,753
Interest	13	13	0	13
TOTAL	5,569	5,157	6,132	5,131
DEBT AND OTHER FINANCIAL OBLIGATIONS				
Borrowing	107,000	107,000	107,000	107,000
TOTAL	107,000	107,000	107,000	107,000

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

TAKITIMU DRIVE TOLL ROAD FOR THE YEAR ENDED 30 JUNE 2019

	ACTUAL 2018/19 000	BUDGET 2018/19 000	FORECAST 2019/20 000	ACTUAL 2017/18 000
TRAFFIC VOLUMES (NUMBER OF VEHICLES)				
Light vehicle	3,647	3,135	3,829	3,191
Heavy vehicle	702	664	737	656
Exempt	15	13	15	13
Unidentifiable	0	1	0	0
Technical loss	38	46	40	36
TOTAL	4,402	3,859	4,621	3,896
TOLL REVENUE (PORTION DESIGNATED FOR REPAYMENT OF DEBT)				
	ACTUAL 2018/19 \$000	BUDGET 2018/19 \$000	FORECAST 2019/20 \$000	ACTUAL 2017/18 \$000
Light vehicle	3,255	2,728	3,646	2,752
Heavy vehicle	2,483	2,305	2,690	2,284
Interest	13	13	0	13
TOTAL	5,751	5,046	6,336	5,049
TOLL REVENUE INFLOW TO THE NATIONAL LAND TRANSPORT FUND				
Takitimu Drive	5,680	4,987	5,016	4,996
TOTAL	5,680	4,987	5,016	4,996

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

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

FINANCIAL STATEMENTS FOR ROAD TOLLING OPERATIONS

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE FOR THE YEAR ENDED 30 JUNE 2019

	NOTE	ACTUAL 2018/19 \$000	BUDGET 2018/19 \$000	ACTUAL 2017/18 \$000
REVENUE				
Toll fees	a	16,084	15,497	15,276
Total revenue		16,084	15,497	15,276
EXPENSE				
Expense		16,878	15,820	15,635
Total expense		16,878	15,820	15,635
NET DEFICIT		(794)	(323)	(359)

a. Toll fees excludes tolling revenue used to repay debt. The tolling revenue used to repay debt is included in the Northern Gateway, Tauranga East Link and Takitimu Drive information on the previous pages.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	ACTUAL 2018/19 \$000	BUDGET 2018/19 \$000	ACTUAL 2017/18 \$000
ASSETS			
Current assets	22,125	23,888	25,273
Non-current assets	11,025	8,771	13,260
Total assets	33,150	32,659	38,533
LIABILITIES			
Liabilities	12,345	12,045	11,462
Total liabilities	12,345	12,045	11,462
NET ASSETS/EQUITY	20,805	20,614	27,071

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

	ACTUAL 2018/19 \$000	BUDGET 2018/19 \$000	ACTUAL 2017/18 \$000
Net cash from operating activities	22,644	22,665	22,332
Net cash from financing activities	(21,826)	(21,308)	(20,456)
Net increase in cash and cash equivalents	818	1,357	1,876
Cash and cash equivalents at the beginning of the year	11,319	11,319	9,443
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	12,137	12,676	11,319

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

REGIONAL FUEL TAX

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

The Transport Agency is mandated to administer and manage the collection of the Regional Fuel Tax. Currently, the only Regional Fuel Tax is for Auckland. Proceeds are remitted to Auckland City Council and the Transport Agency is paid a fee for the services provided.

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

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE FOR THE YEAR ENDED 30 JUNE 2019

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M
REVENUE		
Regional Fuel Tax	153.3	150.0
Rebates	(8.9)	(8.7)
Crown funds retained	(1.0)	(1.0)
Interest received	0.1	0.0
Total revenue	143.5	140.3
Distributed to:		
Auckland City Council	142.7	139.4
Transport Agency administration fee	0.8	0.9
Total distributions	143.5	140.3
NET SURPLUS/(DEFICIT)	0.0	0.0

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M
ASSETS		
Cash and cash equivalents	18.9	18.2
Total assets	18.9	18.2
LIABILITIES		
Payables	15.9	15.2
Regional Fuel Tax rebate reserve	3.0	3.0
Total liabilities	18.9	18.2
NET ASSETS/EQUITY	0.0	0.0

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019**

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M
Net cash from operating activities	18.9	18.2
Net increase in cash and cash equivalents	18.9	18.2
Cash and cash equivalents at the beginning of the year	0.0	0.0
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	18.9	18.2

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

OUTPUT CLASS INCOME AND EXPENDITURE

INVESTMENT MANAGEMENT

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
OPERATING REVENUE			
Crown (Crash Analysis System)	0.8	0.8	0.8
Crown (Provincial Growth Fund)	5.4	0.0	0.0
National Land Transport Fund	60.1	61.3	55.9
Other	1.9	0.0	1.1
Total operating revenue	68.2	62.1	57.8
OPERATING EXPENSES			
Transport Agency (Crash Analysis System)	0.2	0.8	0.3
Funding to approved organisations (Provincial Growth Fund)	5.4	0.0	0.0
Funding to approved organisations	11.5	12.3	8.4
Transport Agency operating activities	51.1	49.0	49.1
Total operating expenses	68.2	62.1	57.8
Surplus/(deficit)	0.0	0.0	0.0
CAPITAL FUNDING			
National Land Transport Fund capital contribution	0.9	9.0	2.9
Total capital funding	0.9	9.0	2.9
CAPITAL EXPENDITURE			
Capital investment	0.9	9.0	2.9
Total capital expenditure	0.9	9.0	2.9
Net capital movement	0.0	0.0	0.0
TOTAL MOVEMENT	0.0	0.0	0.0

ROAD USER CHARGES COLLECTION, INVESTIGATION AND ENFORCEMENT

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
OPERATING REVENUE			
National Land Transport Fund (investigation and enforcement)	3.8	3.8	3.8
National Land Transport Fund (refund)	0.5	0.4	0.5
Fees and charges	13.1	13.5	12.7
Total operating revenue	17.4	17.7	17.0
OPERATING EXPENSES			
Transport Agency (investigation and enforcement)	2.5	2.0	2.2
Transport Agency (refund)	2.5	2.5	2.1
Transport Agency (collection)	16.5	15.1	13.2
Total operating expenses	21.5	19.6	17.5
SURPLUS/(DEFICIT)	(4.1)	(1.9)	(0.5)

REFUND OF FUEL EXCISE DUTY

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
OPERATING REVENUE			
National Land Transport Fund	0.7	0.7	0.6
Other	0.1	0.1	0.2
Total operating revenue	0.8	0.8	0.8
OPERATING EXPENSES			
Transport Agency operating activities	0.8	0.8	0.8
Total operating expenses	0.8	0.8	0.8
SURPLUS/(DEFICIT)	0.0	0.0	0.0

STATE HIGHWAY IMPROVEMENTS

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
OPERATING REVENUE			
National Land Transport Fund	548.0	726.0	401.4
National Land Transport Fund (tolling)	11.3	10.2	10.2
Developer contributions	20.5	13.0	1.5
Interest and finance income	13.7	14.8	21.3
Other income	0.8	0.0	1.1
Total operating revenue	594.3	764.0	435.5
OPERATING EXPENSES			
Assets vested to local authorities	24.4	182.8	0.0
Depreciation and state highway write-offs	539.6	530.0	393.3
Interest on Tauranga Eastern Link borrowing	4.7	0.0	5.1
Other interest and finance costs	5.0	38.2	30.9
Other expenses	0.1	0.0	4.7
Total operating expenses	573.8	751.0	434.0
Surplus/(deficit)	20.5	13.0	1.5
CAPITAL FUNDING			
Crown (Accelerated Regional Rooding Programme)	18.8	33.4	43.6
National Land Transport Fund capital contribution	591.4	601.6	738.1
National Land Transport Fund (Auckland Transport Package)	12.5	12.5	121.7
National Land Transport Fund (public-private partnerships)	724.3	465.0	433.3
National Land Transport Fund (state highway disposals)	35.0	42.1	37.1
Depreciation funding utilised for investment in the state highway network	539.6	530.0	393.3
Net non-cash funding for losses/(income) utilised for investment in state highway network	24.4	182.8	4.8
Total capital funding	1,946.0	1,867.4	1,771.9
CAPITAL EXPENDITURE			
Crown investment (Accelerated Regional Rooding Programme)	18.8	33.4	43.6
Auckland Transport Package	12.5	12.5	121.7
Public-private partnerships*	724.3	465.0	433.3
Capital investment in the state highway network	1,167.3	1,327.6	1,137.5
Transport Agency capitalised expenditure	43.6	41.9	37.3
Total capital expenditure	1,966.5	1,880.4	1,773.4
Net capital movement	(20.5)	(13.0)	(1.5)
TOTAL MOVEMENT	0.0	0.0	0.0

* During the year, the total public-private partnership construction costs were \$460.9 million (2017/18: \$347.2 million). This capital expenditure item included the cash flow hedge reserve movement during the year of \$263.4 million deficit (2017/18: \$86.1 million deficit).

STATE HIGHWAY MAINTENANCE

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
OPERATING REVENUE			
Crown (Kaikōura earthquake response)	41.9	35.0	62.2
National Land Transport Fund	466.6	463.2	509.3
National Land Transport Fund (rental and interest income)	18.9	15.6	16.3
Other revenue*	9.5	1.9	8.1
Total operating revenue	536.9	515.7	595.9
OPERATING EXPENSES			
Maintenance of the state highway network (Kaikōura earthquake response)	41.9	35.0	62.2
Maintenance of the state highway network	449.9	450.5	492.8
Works funded by third party contributions	5.5	1.9	6.7
Transport Agency operating activities	38.7	28.3	31.9
Total operating expenses	536.0	515.7	593.6
Surplus/(deficit)	0.9	0.0	2.3
CAPITAL FUNDING			
Crown (Kaikōura earthquake response)	71.2	202.0	370.5
National Land Transport Fund capital contribution	222.0	186.2	202.1
Total capital funding	293.2	388.2	572.6
CAPITAL EXPENDITURE			
Crown investment (Kaikōura earthquake response)	71.2	202.0	370.5
Capital investment	222.9	186.2	204.4
Total capital expenditure	294.1	388.2	574.9
Net capital movement	(0.9)	0.0	(2.3)
TOTAL MOVEMENT	0.0	0.0	0.0

* Includes contributions from third parties of \$5.5 million (2017/18: \$6.7 million).

WALKING AND CYCLING

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
OPERATING REVENUE			
Crown (Urban Cycleways Programme)	12.7	20.4	33.3
National Land Transport Fund	42.7	37.9	43.3
Total operating revenue	55.4	58.3	76.6
OPERATING EXPENSES			
Funding to approved organisations (Urban Cycleways Programme)	12.7	20.4	34.2
Funding to approved organisations	42.7	37.9	43.3
Total operating expenses	55.4	58.3	77.5
Surplus/(deficit)	0.0	0.0	(0.9)
CAPITAL FUNDING			
Crown (Urban Cycleways Programme)	0.3	5.0	4.4
National Land Transport Fund capital contribution	14.6	41.1	6.7
Total capital funding	14.9	46.1	11.1
CAPITAL EXPENDITURE			
Crown investment (Urban Cycleways Programme)	0.3	5.0	4.4
Capital investment	14.6	41.1	6.7
Total capital expenditure	14.9	46.1	11.1
Net capital movement	0.0	0.0	0.0
TOTAL MOVEMENT	0.0	0.0	(0.9)

PUBLIC TRANSPORT

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
OPERATING REVENUE			
National Land Transport Fund	449.2	466.0	382.4
Developer contributions	1.4	0.0	0.0
Other	0.1	0.0	0.2
Total operating revenue	450.7	466.0	382.6
OPERATING EXPENSES			
Funding to approved organisations	448.7	465.5	382.6
Transport Agency operating activities	0.6	0.5	0.0
Total operating expenses	449.3	466.0	382.6
Surplus/(deficit)	1.4	0.0	0.0
CAPITAL FUNDING			
National Land Transport Fund capital contribution	60.6	83.0	0.0
Total capital funding	60.6	83.0	0.0
CAPITAL EXPENDITURE			
Capital investment	62.0	83.0	0.0
Total capital expenditure	62.0	83.0	0.0
Net capital movement	(1.4)	0.0	0.0
TOTAL MOVEMENT	0.0	0.0	0.0

SUPERGOLD CARD ADMINISTRATION AND PUBLIC TRANSPORT CONCESSIONS

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
OPERATING REVENUE			
Crown	29.4	29.4	28.3
Total operating revenue	29.4	29.4	28.3
OPERATING EXPENSES			
Funding to approved organisations	29.3	29.3	28.2
Transport Agency operating activities	0.1	0.1	0.1
Total operating expenses	29.4	29.4	28.3
SURPLUS/(DEFICIT)	0.0	0.0	0.0

LOCAL ROAD IMPROVEMENTS

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
OPERATING REVENUE			
Crown (Provincial Growth Fund)	10.9	0.0	0.0
National Land Transport Fund	225.7	192.8	246.2
National Land Transport Fund (Housing Infrastructure Fund)	3.0	23.3	0.0
Total operating revenue	239.6	216.1	246.2
OPERATING EXPENSES			
Funding to approved organisations (Provincial Growth Fund)	10.9	0.0	0.0
Funding to approved organisations	225.7	192.8	246.2
Funding to approved organisations (Housing Infrastructure Fund)	3.0	23.3	0.0
Total operating expenses	239.6	216.1	246.2
SURPLUS/(DEFICIT)	0.0	0.0	0.0

LOCAL ROAD MAINTENANCE

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
OPERATING REVENUE			
National Land Transport Fund	653.4	668.0	597.0
National Land Transport Fund (reinstatement of local roads in Christchurch)	0.0	0.0	(2.3)
Total operating revenue	653.4	668.0	594.7
OPERATING EXPENSES			
Funding to approved organisations	653.4	667.5	593.7
Interest and finance costs	0.0	0.5	1.0
Total operating expenses	653.4	668.0	594.7
Surplus/(deficit)	0.0	0.0	0.0
BORROWING FUNDING			
National Land Transport Fund (reinstatement of earthquake-damaged roads in Christchurch)	23.6	23.0	15.0
Total borrowing funding	23.6	23.0	15.0
BORROWING REPAYMENT			
Repayment of borrowing (reinstatement of earthquake-damaged roads in Christchurch)	23.6	23.0	15.0
Total borrowing repayment	23.6	23.0	15.0
Net borrowing	0.0	0.0	0.0
TOTAL MOVEMENT	0.0	0.0	0.0

REGIONAL IMPROVEMENTS

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
OPERATING REVENUE			
National Land Transport Fund	23.6	22.3	0.0
Total operating revenue	23.6	22.3	0.0
OPERATING EXPENSES			
Funding to approved organisations	23.6	22.3	0.0
Total operating expenses	23.6	22.3	0.0
Surplus/(deficit)	0.0	0.0	0.0
CAPITAL FUNDING			
Crown (Provincial Growth Fund)	0.8	40.0	0.0
National Land Transport Fund capital contribution	114.9	90.0	140.1
Total capital funding	115.7	130.0	140.1
CAPITAL EXPENDITURE			
Funding to approved organisations (Provincial Growth Fund)	0.8	40.0	0.0
Capital investment	114.9	90.0	140.1
Total capital expenditure	115.7	130.0	140.1
Net capital movement	0.0	0.0	0.0
TOTAL MOVEMENT	0.0	0.0	0.0

ROAD TOLLING

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
OPERATING REVENUE			
Fees and charges	16.1	15.5	15.2
Total operating revenue	16.1	15.5	15.2
OPERATING EXPENSES			
Transport Agency operating activities	16.9	15.8	15.6
Total operating expenses	16.9	15.8	15.6
SURPLUS/(DEFICIT)	(0.8)	(0.3)	(0.4)

ROAD SAFETY PROMOTION AND DEMAND MANAGEMENT

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
OPERATING REVENUE			
National Land Transport Fund	43.7	50.6	34.2
Community Road Safety Programme	3.8	3.3	3.4
Other	0.6	0.0	0.4
Total operating revenue	48.1	53.9	38.0
OPERATING EXPENSES			
Funding to approved organisations	18.3	22.0	12.8
Transport Agency (vehicle impoundment)	0.0	0.2	0.2
Transport Agency operating activities	26.0	28.4	21.7
Transport Agency (Community Road Safety Programme)	0.6	0.9	1.4
Total operating expenses	44.9	51.5	36.1
Surplus/(deficit)	3.2	2.4	1.9
CAPITAL FUNDING			
National Land Transport Fund capital contribution	1.0	1.4	1.3
Total capital funding	1.0	1.4	1.3
CAPITAL EXPENDITURE			
Capital investment	1.0	1.4	1.3
Total capital expenditure	1.0	1.4	1.3
Net capital movement	0.0	0.0	0.0
TOTAL MOVEMENT	3.2	2.4	1.9

LICENSING AND REGULATORY COMPLIANCE

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
OPERATING REVENUE			
Crown (driver licensing stop orders)	0.1	0.1	0.1
Crown (driver test subsidy)	1.4	1.4	1.4
Crown (drug and alcohol assessments)	0.7	1.0	0.6
Crown (ministerial advice and official correspondence)	0.5	0.6	0.5
Crown (rules development)	0.8	0.9	0.9
Better Public Services seed funding	2.8	0.0	0.9
Regional Fuel Tax administration	0.7	0.0	1.0
Fees and charges	94.3	94.3	93.6
Other	0.4	0.0	0.0
Total operating revenue	101.7	98.3	99.0
OPERATING EXPENSES			
Drug and alcohol assessments	0.8	1.1	0.8
Ministerial advice and official correspondence	3.3	3.0	0.6
Rules development	0.5	0.1	1.0
Fees and charges funded activities	114.7	102.4	94.8
Better Public Services seed funding	2.8	0.0	0.9
Regional fuel tax administration	0.3	0.0	0.2
Other	1.3	0.0	0.0
Total operating expenses	123.7	106.6	98.3
Surplus/(deficit)	(22.0)	(8.3)	0.7
CAPITAL EXPENDITURE			
Regional Fuel Tax capital expenditure	0.0	0.0	0.7
Total capital expenditure	0.0	0.0	0.7
Net capital movement	0.0	0.0	(0.7)
TOTAL MOVEMENT	(22.0)	(8.3)	0.0

MOTOR VEHICLE REGISTRY

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
OPERATING REVENUE			
Fees and charges	52.1	53.5	53.6
Total operating revenue	52.1	53.5	53.6
OPERATING EXPENSES			
Transport Agency operating activities	53.7	53.7	52.3
Total operating expenses	53.7	53.7	52.3
SURPLUS/(DEFICIT)	(1.6)	(0.2)	1.3

RAPID TRANSIT

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
CAPITAL FUNDING			
National Land Transport Fund capital contribution	9.9	130.4	0.0
Total capital funding	9.9	130.4	0.0
CAPITAL EXPENDITURE			
Capital investment	9.9	130.4	0.0
Total capital expenditure	9.9	130.4	0.0
NET CAPITAL MOVEMENT	0.0	0.0	0.0

TRANSITIONAL RAIL

	ACTUAL 2018/19 \$M	BUDGET 2018/19 \$M	ACTUAL 2017/18 \$M
OPERATING REVENUE			
National Land Transport Fund	19.2	35.4	0.0
Total operating revenue	19.2	35.4	0.0
OPERATING EXPENSES			
Funding to approved organisations	19.2	35.4	0.0
Total operating expenses	19.2	35.4	0.0
SURPLUS/(DEFICIT)	0.0	0.0	0.0

INDEPENDENT AUDITOR'S REPORT



TO THE READERS OF NZ TRANSPORT AGENCY'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2019

The Auditor-General is the auditor of NZ Transport Agency (the "Transport Agency"). 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, of the Transport Agency on his behalf.

Opinion

We have audited:

- the financial statements of the Transport Agency on pages 85 to 118, that comprise the statement of financial position as at 30 June 2019, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies and other explanatory information; and
- the performance information of the Transport Agency on pages 27 to 80.

In our opinion:

- the financial statements of the Transport Agency on pages 85 to 118:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2019; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity International Public Sector Accounting Standards; and
- the performance information on pages 27 to 80:
 - presents fairly, in all material respects, the Transport Agency's performance for the year ended 30 June 2019, including:
 - for each class of reportable outputs:
 - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
 - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
 - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 1 October 2019. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of matter

Without modifying our opinion, we draw your attention to Note 6 in the financial statements which describes the accounting policy, the valuation inputs and estimates made in determining the fair value of the state highway network. The state highway network is a significant asset of the Transport Agency and changes in valuation inputs and estimates can have a material impact on the financial statements. Note 6 also provides a sensitivity analysis to highlight such impacts. We consider the disclosures about the valuation of the state highway network to be adequate.

Responsibilities of the Board for the financial statements and the performance information

The Board is responsible on behalf of the Transport Agency for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Board is responsible for such internal control as they determine is necessary to enable them to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board is responsible on behalf of the Transport Agency for assessing the Transport Agency's ability to continue as a going concern. The Board is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Transport Agency, or there is no realistic alternative but to do so.

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



Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Transport Agency's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Transport Agency's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- We evaluate the appropriateness of the reported performance information within the Transport Agency's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Transport Agency's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Transport Agency to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. Our responsibilities arise from the Public Audit Act 2001.

**Other information**

The Board responsible for the other information. The other information comprises the information included on pages 4 to 26, 27 to 80 (excluding key performance indicators, service delivery and investment performance measures) 82 to 84, 119 to 140 and 147 to 174, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Transport Agency in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than in our capacity as auditor, we have no relationship with, or interests, in the Transport Agency.

A handwritten signature in black ink, appearing to be 'Brent Manning', written over a horizontal line.

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

Legislative requirement

The Land Transport Management Act 2003 (section 96(1)(d)(ii)) states that the Transport Agency must ensure that: *it gives, when making decisions in respect of land transport planning and funding ..., the same level of scrutiny to its own proposed activities and combinations of activities as it would give to those proposed by approved organisations.*

The Transport Agency must, among other things, develop systems and procedures to give effect to this scrutiny principle and must report on its implementation of those systems and procedures in its annual report. This section meets that requirement.

Systems and procedures

The Transport Agency has systems and procedures that give effect to the scrutiny principle. The three sets of procedures to support compliance are:

- operational procedures – to support individuals to apply the appropriate level of scrutiny when making decisions
- managerial procedures – to oversee the application of the scrutiny principle
- monitoring and reporting procedures – to confirm the operational procedures are followed and the scrutiny principle has been properly applied.

The operational procedures enable staff and board members of 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 analysis
- applying the same level of tolerance to cost estimates
- having staff with equivalent seniority and experience involved with equivalent decisions.

Implementation

We publish our approach to giving effect to the scrutiny principle on our website.¹ A webpage lists the systems and procedures in place to apply the scrutiny principle and provides links to the procurement manuals and Planning and Investment Knowledge Base where the systems and procedures are detailed.

Monitoring of the webpage during 2018 shows the page was accessed 54 times. (The scrutiny principle page was revamped during the year, so comparative statistics are not available for 2017.)

The webpage also has links to two other webpages that list all funding decisions made by the Transport Agency Board² and delegated Transport Agency staff³ since 1 August 2008.⁴ Both pages are updated monthly once the previous month's decisions have been confirmed. Monitoring in 2018 shows the:

- board decisions webpage was accessed an average 199 times a month (2017: 95)
- delegated funding decisions webpage was accessed an average 36 times a month (2017: 19).

The main system we use to manage the National Land Transport Programme is the web-based Transport Investment Online system. This system contains all the activities proposed for funding and sets out for all applicants (both approved organisations and the Transport Agency for its own activities), and the information required for assessing and evaluating the activities for funding. The system records the decisions made by the Transport Agency, including any conditions applied to the funding. The system is transparent with approved organisations able to see the details of their proposals and the Transport Agency's recommendations and decisions.

¹ NZ Transport Agency. 2018. *Scrutiny principle*. www.nzta.govt.nz/planning-and-investment/planning-and-investment-knowledge-base/planning-and-investment-principles-and-policies/planning-and-investment-principles/scrutiny-principle/

² NZ Transport Agency. 2018. Board funding decisions. <https://www.nzta.govt.nz/planning-and-investment/funding-and-investing/investmentdecisions/board-decisions/>

³ NZ Transport Agency. 2018. Delegated funding decisions. www.nzta.govt.nz/planning-and-investment/funding-and-investing/investmentdecisions/delegated-decisions/

⁴ The prescribed date in the Land Transport Management Act 2003 for reporting on these decisions is 1 October 2008.

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 2019

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 page 144 of the annual report does not fairly reflect the implementation of systems and procedures that are required to give the same level of scrutiny to its own proposed activities and combinations of activities, when making decisions in respect of land transport planning and funding under subpart 1 of Part 2 of the Land Transport Management Act 2003 (the Act), as it would give to those proposed by approved organisations.

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

Responsibilities of the Directors

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

Responsibility of the Auditor

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

We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements (New Zealand) 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information ((ISAE (NZ) 3000 (Revised)) in order to state whether anything has come to our attention that would indicate that the systems and procedures, as described in the Report, have not, in all material respects, been consistently applied in order to give effect to the "scrutiny principle" for the year ended 30 June 2019.

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 page 144, for the year ended 30 June 2019 is not fairly stated.

Our limited assurance engagement was completed on 1 October 2019 and our opinion expressed as at that date.

A handwritten signature in black ink, appearing to be 'Brent Manning', written over a horizontal line.

BRENT MANNING

KPMG

On behalf of the Auditor-General

Wellington, New Zealand