

Ngā tauākī pūtea me ngā pūrongo ōtita

Financial statements and audit reports



Statement of responsibility

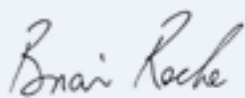
Under the Land Transport Management Act 2003, the Waka Kotahi NZ Transport Agency Board is responsible for the preparation of the National Land Transport Fund financial statements and statement of performance, and for the judgements made in them.

The Board is responsible for any end-of-year performance information provided by the National Land Transport Fund 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 National Land Transport Fund for the year ended 30 June 2021.

Signed on behalf of the Board:



Sir Brian Roche

Chair

30 September 2021



Cassandra Crowley

Chair of the Risk and
Assurance Committee

30 September 2021

Countersigned by:



Nicole Rosie

Chief Executive

30 September 2021



Howard Cattermole

Chief Financial Officer

30 September 2021

Financial statements

Statement of comprehensive revenue and expense for the year ended 30 June 2021

| | Note | Actual 2020/21 \$M | Budget 2020/21 \$M | Actual 2019/20 \$M |
|---|----------|--------------------------|--------------------------|--------------------------|
| Revenue inflows* | | | | |
| Land transport revenue | 3 | 4,274.7 | 3,877.8 | 3,790.2 |
| Management of Crown land | | 53.7 | 38.0 | 22.3 |
| Tolling revenue | | 12.6 | 11.3 | 11.1 |
| Interest revenue | | 1.0 | 5.3 | 3.7 |
| Total revenue inflows | 2 | 4,342.0 | 3,932.4 | 3,827.3 |
| Outflows | | | | |
| National Land Transport Programme (NLTP) | | 3,804.2 | 3,528.7 | 3,695.8 |
| Road Policing Programme | | 375.6 | 394.8 | 362.0 |
| Fuel excise duty/road user charges administration | | 4.8 | 5.0 | 4.8 |
| Forecasting and strategy | | 2.5 | 3.9 | 3.6 |
| Total outflows | 2 | 4,187.1 | 3,932.4 | 4,066.2 |
| Surplus/(deficit) from current National Land Transport Fund (NLTF) balance | | 154.9 | 0.0 | (238.9) |
| Fair value gain on long-term payables | | 30.4 | 2.9 | 1.1 |
| NLTP expenditure to be funded long-term | | 243.8 | (866.4) | (1,197.1) |
| Finance charges | | (9.8) | (8.3) | (8.1) |
| Surplus/(deficit) to be funded from future NLTF revenue | 2 | 264.4 | (871.8) | (1,204.1) |
| Surplus/(deficit) | | 419.3 | (871.8) | (1,443.0) |

* This heading has been used to be consistent with the terminology in the Land Transport Management Act 2003.

Statement of financial position

as at 30 June 2021

| | Note | Actual 2020/21 \$M | Budget 2020/21 \$M | Actual 2019/20 \$M |
|---------------------------------------|------|--------------------------|--------------------------|--------------------------|
| Assets | | | | |
| Cash and cash equivalents | 6 | 287.4 | 0.0 | 155.9 |
| Receivables | 3/6 | 240.2 | 454.7 | 223.1 |
| Prepayments | | 22.6 | 0.0 | 22.6 |
| Total assets | | 550.2 | 454.7 | 401.6 |
| Liabilities | | | | |
| Payables | 4/6 | 3,456.6 | 4,709.7 | 3,727.3 |
| Total liabilities | | 3,456.6 | 4,709.7 | 3,727.3 |
| Net assets | | (2,906.4) | (4,255.0) | (3,325.7) |
| General funds | | (2,906.4) | (4,255.0) | (3,325.7) |
| General funds closing balance* | 7 | (2,906.4) | (4,255.0) | (3,325.7) |

* This heading has been used to be consistent with the terminology in the Land Transport Management Act 2003.

Statement of changes in general funds balance

for the year ended 30 June 2021

| | Actual 2020/21 \$M | Budget 2020/21 \$M | Actual 2019/20 \$M |
|---|--------------------------|--------------------------|--------------------------|
| General funds opening balance | | | |
| General funds - current | 101.6 | 0.0 | 340.5 |
| General funds - long-term | (3,427.3) | (3,383.2) | (2,223.2) |
| Total general funds opening balance | (3,325.7) | (3,383.2) | (1,882.7) |
| Changes in general funds balance | | | |
| Surplus/(deficit) from current NLTF balance | 154.9 | 0.0 | (238.9) |
| Surplus/(deficit) to be funded from future NLTF revenue | 264.4 | (871.8) | (1,204.1) |
| Total changes in general funds balance | 419.3 | (871.8) | (1,443.0) |
| General funds closing balance | | | |
| General funds - current | 256.5 | 0.0 | 101.6 |
| General funds - long-term | (3,162.9) | (4,255.0) | (3,427.3) |
| Total general funds closing balance* | (2,906.4) | (4,255.0) | (3,325.7) |

* This heading has been used to be consistent with the terminology in the Land Transport Management Act 2003.

Statement of cash flows

for the year ended 30 June 2021

| | Actual 2020/21 \$M | Budget 2020/21 \$M | Actual 2019/20 \$M |
|---|--------------------------|--------------------------|--------------------------|
| Cash flows from operating activities | | | |
| Receipts from land transport revenue | 4,324.9 | 3,860.1 | 3,861.4 |
| Payments to suppliers | (4,193.4) | (3,860.1) | (4,124.5) |
| Net cash from operating activities | 131.5 | 0.0 | (263.1) |
| Net increase/(decrease) in amounts held by the Crown | 131.5 | 0.0 | (263.1) |
| Amounts held by the Crown at the beginning of the year | 155.9 | 0.0 | 419.0 |
| Amounts held by the Crown at the end of the year* | 287.4 | 0.0 | 155.9 |

* The National Land Transport Fund is a notional account only. There are no actual cash and cash equivalents as funds are held by the Crown. However, this statement has been provided to meet the requirements of section 11 of the Land Transport Management Act 2003.

Reconciliation of net surplus/(deficit) to net cash from operating activities

| | Actual 2020/21 \$M | Budget 2020/21 \$M | Actual 2019/20 \$M |
|---|--------------------------|--------------------------|--------------------------|
| Net surplus/(deficit) after tax | 419.3 | (871.8) | (1,443.0) |
| Add/(less) movements in working capital items: | | | |
| (Increase)/decrease in receivables | (17.1) | (209.00) | 11.5 |
| Increase/(decrease) in payables | (270.7) | 1,080.8 | 1,168.4 |
| Net movements in working capital items | (287.8) | 871.8 | 1,179.9 |
| Net cash from operating activities | 131.5 | (0.0) | (263.1) |

Notes to the financial statements

1 Entity information

Reporting entity

The Land Transport Management Act 2003 includes a requirement for Waka Kotahi to prepare at the end of the financial year an annual report on the National Land Transport Fund.

All revenue from fuel excise duty, road user charges, motor vehicle registration and licensing fees, revenues from Crown appropriations, management of Crown land interest, and tolling are accounted for in the National Land Transport Fund.

The National Land Transport Fund is used to manage the funding of the:

- National Land Transport Programme for:
 - activities delivered by approved organisations
 - state highway, rapid transit and walking and cycling activities
 - other Waka Kotahi activities, such as transport planning and sector research
- New Zealand Police Road Policing Programme
- Ministry of Transport - for forecasting and strategy.

The National Land Transport Fund cash funds are held as part of the total Crown funds. The Ministry of Transport is responsible for authorising any payments from the National Land Transport Fund and administration of appropriations.

The National Land Transport Fund, being a notional entity, does not hold any physical assets.

The National Land Transport Fund does not have any employees.

The financial statements for the National Land Transport Fund are for the year ended 30 June 2021 and were approved by the Board on 30 September 2021.

Basis of preparation

The financial statements of the National Land Transport Fund have been prepared in accordance with the requirements of the Crown Entities Act 2004 and the Financial Reporting Act 2013, which includes the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

The National Land Transport Fund 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. Further details on the use of the going concern assumption are provided in note 7 and note 11.

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 *Statement of performance expectations 2020/21* as approved by the Board on 16 June 2020. 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).

The National Land Transport Fund is a notional entity, so is exempt from the payment of income tax.

Accounting standards issued and not yet effective

The National Land Transport Fund financial statements have adopted all accounting standards, amendments and interpretations to existing standards that have been published and are mandatory from 1 July 2020.

2

Statement of inflows, outflows and capital expenditure including the previous two financial years

| | Actual 2020/21 \$M | Actual 2019/20 \$M | Actual 2018/19 \$M |
|---|--------------------------|--------------------------|--------------------------|
| Revenue inflows | | | |
| Land transport revenue | 4,274.7 | 3,790.2 | 3,854.4 |
| Management of Crown land | 53.7 | 22.3 | 53.9 |
| Tolling revenue | 12.6 | 11.1 | 11.3 |
| Interest revenue | 1.0 | 3.7 | 9.9 |
| Total revenue inflows | 4,342.0 | 3,827.3 | 3,929.5 |
| Outflows | | | |
| National Land Transport Programme (NLTP) | 3,804.2 | 3,695.8 | 3,680.9 |
| Road Policing Programme | 375.6 | 362.0 | 337.5 |
| Fuel excise duty/road user charges administration | 4.8 | 4.8 | 4.9 |
| Forecasting and strategy | 2.5 | 3.6 | 1.0 |
| Total outflows | 4,187.1 | 4,066.2 | 4,024.3 |
| Surplus/(deficit) from current National Land Transport Fund (NLTF) balance | 154.9 | (238.9) | (94.8) |
| Fair value gain on long-term payables | 30.4 | 1.1 | 2.8 |
| NLTP expenditure to be funded long-term | 243.8 | (1,197.1) | (670.9) |
| Finance charges | (9.8) | (8.1) | (7.7) |
| Surplus/(deficit) to be funded from future NLTF revenue | 264.4 | (1,204.1) | (675.8) |
| Surplus/(deficit) | 419.3 | (1,443.0) | (770.6) |

The statement of inflows, outflows, and capital expenditure, including the previous two financial years, is provided under the requirements of the Land Transport Management Act 2003.

Separate disclosure of the management of Crown land and interest is required under the Land Transport Management Act 2003.

Revenue inflows

Revenue is recognised when specific criteria have been met for each of the National Land Transport Fund activities and the revenue can be reliably measured.

Land transport revenue and tolling revenue have been classified and treated as non-exchange revenue and accounted for in accordance with PBE IPSAS 23. The nature of these revenue streams is that of taxes and duties. The payment of taxes and duties does not entitle the payer to an equivalent value of services or benefits, because no direct exchange relationship exists between paying taxes and duties and receiving services or benefits from the National Land Transport Fund.

The interest earned on the nominal cash balance and the management of Crown land has been classified and treated as exchange revenue and accounted for in accordance with PBE IPSAS 9.

Outflows

The National Land Transport Fund accounts for the flow of funds to:

- Waka Kotahi – for the funding of the National Land Transport Programme, and administration of fuel excise duty and road user charges
- New Zealand Police – which provides the Road Policing Programme
- the Ministry of Transport – for forecasting and strategy.

Under section 9(1) of the Land Transport Management Act 2003, the National Land Transport Fund also funds search and rescue activities, and recreational boating safety and safety awareness.

See section C for details of activities funded by the National Land Transport Fund.

Explanation of major variances against budget

Revenue inflows

Land transport revenue was \$4,274.7 million, \$396.9 million (10 percent) above budget of \$3,877.8 million. The budget was developed before April 2020 and reflected the outlook of COVID-19 alert levels and expected impact on economic recovery at the time when New Zealand was put into alert level 4 lockdown after the outbreak of COVID-19. Revenue has recovered close to pre-COVID lockdown levels.

Outflows

National Land Transport Programme was \$3,804.2 million, \$275.5 million (8 percent) above budget of \$3,528.7 million. This was mainly due to higher than planned spend on a number of output classes including state highway maintenance, walking and cycling, transitional rail and local road maintenance.

National Land Transport Programme expenditure to be funded long-term was (\$243.8) million, \$1,110.2 million below budget of \$866.4 million. This reflects the expenditure on public-private partnerships, Housing Infrastructure Fund, fair value changes of financial instruments, and expenditure that is financed by borrowing facilities. The variance mainly relates to planned use \$643.0 million of notional borrowing that did not eventuate as revenue recovered to pre-COVID levels in 2020/21. The budget developed before April 2020 assumed additional financing (referred to as notional borrowing in the *Statement of performance expectations 2020/21*) for the funding gap between budgeted expenditure and revenue when it was set in April 2020. The other contributing factors for the variance are the repayment of a \$175 million short term borrowing facility, and movements in the public-private partnerships of (\$99.3) million including movements in the fair value of financial instruments (interest rate swaps) due to recent increases in the interest rates.

3 Land transport revenue and receivables

| | Actual 2020/21 \$M | Actual 2019/20 \$M |
|--|--------------------------|--------------------------|
| Revenue | | |
| Fuel excise duty | 2,191.3 | 1,936.0 |
| Road user charges | 2,006.5 | 1,773.2 |
| Motor vehicle registration and annual licensing fees | 232.4 | 226.5 |
| Total revenue | 4,430.2 | 3,935.7 |
| Less refunds | | |
| Fuel excise duty | 71.3 | 73.7 |
| Road user charges | 62.8 | 57.1 |
| Motor vehicle registration and annual licensing fees | 1.0 | 0.9 |
| Total refunds | 135.1 | 131.7 |
| Less bad debt write-off | 3.0 | 7.3 |
| Movement in provision for doubtful debts | 17.4 | 6.5 |
| Total bad and doubtful debts | 20.4 | 13.8 |
| Total land transport revenue | 4,274.7 | 3,790.2 |

As per the Land Transport Management Act 2003, a payment is made for maritime search and rescue activities from fuel excise duty prior to the duty becoming land transport revenue. This payment was \$24.8 million (2019/20: \$14.4 million).

Receivables (included in the statement of financial position)

| | Actual 2020/21 \$M | Actual 2019/20 \$M |
|--|--------------------------|--------------------------|
| Debtors - fuel excise duty | 227.1 | 192.7 |
| Debtors - motor vehicle register/road user charges | 60.0 | 59.9 |
| Provision for doubtful debt | (46.9) | (29.5) |
| Total receivables | 240.2 | 223.1 |

Receivables are recognised at face value less an allowance for doubtful debt calculated using the expected credit losses (ECLs) model.

Debtors - motor vehicle register/road user charges

The provision for doubtful debt relates to road user charges, the ECLs are \$46.9 million (2019/20: \$29.5 million). The National Land Transport Fund applies the simplified approach and recognises lifetime ECLs for these debtors. Lifetime ECLs recognise all possible default events over the expected life of the receivable. The ECLs were calculated in two groups, motor vehicle register, debtors and road user charges debtors, to reflect the differences in collection and default rate history. There was no indication that Debtors - motor vehicle register were impaired at 30 June 2021.

There have been no changes to the estimation techniques or assumptions used in calculating the lifetime ECLs during 2020/21.

The movement in ECLs for the year are shown in the table below.

| | Lifetime ECL - debtors - road user charges 2020/21 \$M | Lifetime ECL - debtors - road user charges 2019/20 \$M |
|--------------------------------------|---|---|
| Opening balance as at 1 July | 29.5 | 23.0 |
| Movement in doubtful debts provision | 17.4 | 6.5 |
| Closing balance as at 30 June | 46.9 | 29.5 |

Receivables are written-off when they are deemed uncollectable. The total receivables written-off during the year amounted to \$3.0 million (2019/20: \$7.3 million). Of the receivables written-off none were still subject to enforcement activities.

Debtors - fuel excise duty

There was no indication that Debtors - fuel excise duty were impaired as at 30 June 2021.

4 Payables

| | Actual 2020/21 \$M | Actual 2019/20 \$M |
|---|--------------------------|--------------------------|
| Current payable to Waka Kotahi - current balance | 293.6 | 299.9 |
| Current payable to Waka Kotahi - to be funded from future revenue | 134.5 | 241.0 |
| Non-current payable to Waka Kotahi - to be funded from future revenue | 3,028.5 | 3,186.4 |
| Total payables | 3,456.6 | 3,727.3 |

Current payable to Waka Kotahi - current balance is funded from current revenue, is non-interest bearing and normally settled by the end of the month following the date of supply. Therefore, the carrying value approximates fair value.

Current payable to Waka Kotahi - to be funded from future revenue is a mixture of interest and non-interest-bearing advances that will be settled within 1 year. Therefore, the carrying value approximates fair value.

Non-current payable to Waka Kotahi - to be funded from future revenue is a mixture of interest and non-interest-bearing advances that will be settled between 1 year and 30 years.

Non-interest bearing non-current payables are discounted to present value as at 30 June 2021.

5 Planned outflows

The planned aggregate funding outflows, including both committed and probable outflows, from the National Land Transport Fund (as follows), reflect the contribution to the National Land Transport Programme 2021-24 including payments to NZ Police and Kiwirail and the \$2 billion debt facility assumed within the National Land Transport Programme. The National Land Transport Programme 2021-24 has been largely developed leading up to balance date and was adopted on 31 August 2021.

| | Actual 2020/21 \$M | Actual 2019/20 \$M |
|---|--------------------------|--------------------------|
| Not later than one year | 4,940.2 | 3,938.0 |
| Later than one year and not later than five years | 8,170.2 | 3,138.1 |
| Later than five years | 3,381.9 | 6,467.6 |
| Total planned outflows | 16,492.3 | 13,543.7 |

6 Financial instruments and financial risk management

Financial instruments

The carrying amounts of financial assets and liabilities in each of the categories are as follows.

| | Actual 2020/21 \$M | Actual 2019/20 \$M |
|---|--------------------------|--------------------------|
| Financial assets measured at amortised cost | | |
| Cash and cash equivalents | 287.4 | 155.9 |
| Receivables | 240.2 | 223.1 |
| Total financial assets measured at amortised cost | 527.6 | 379.0 |
| Financial liabilities measured at amortised cost | | |
| Payables | 3,456.6 | 3,727.3 |
| Total financial liabilities measured at amortised cost | 3,456.6 | 3,727.3 |

Financial risks

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

Market risk

The National Land Transport Fund's exposure to the risk of changes in market rates relates primarily to interest rates on long-term debt held by Waka Kotahi. The National Land Transport Fund has the obligation to fund Waka Kotahi long-term debt repayments, so is exposed to the underlying interest rate risk. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate swaps are held by Waka Kotahi to mitigate risks associated with interest rate fluctuations for the underlying debt instruments relating to the public-private partnerships, details of which are in the financial statements of Waka Kotahi annual report for 2020/21.

Credit risk

Credit risk is the risk that a third party will default on its obligation to the National Land Transport Fund, causing the National Land Transport Fund to incur a loss. In the normal course of business, the National Land Transport Fund is exposed to credit risk from 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.

Credit quality of financial assets

The National Land Transport Fund is a notional account only. The cash and cash equivalents reported in these statements are held by the Crown in the consolidated fund. The largest debtor is the Crown, which has a Standard and Poor's credit rating of AA+.

Liquidity risk

Management of liquidity risk

Liquidity risk is the risk that the National Land Transport Fund will encounter difficulty raising liquid funds to meet commitments as they fall due.

Prudent liquidity risk management implies maintaining sufficient cash. The National Land Transport Fund manages liquidity risk by continuously monitoring forecast and actual cash flow requirements.

Refer to note 5 for future outflows of National Land Transport Fund. The Board considers the National Land Transport Fund revenue forecast when planning the National Land Transport Programme to ensure the liquidity of the National Land Transport Fund is maintained.

Contractual maturity analysis of financial liabilities

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

| | 2020/21 | | | |
|-----------------|----------------------------|------------------|------------------|------------------------|
| | Less than 1 year \$M | 1-2 years \$M | 2-5 years \$M | Over 5 years \$M |
| Payables | 481.0 | 204.8 | 556.0 | 2,561.5 |

| | 2019/20 (restated*) | | | |
|-----------------|----------------------------|------------------|------------------|------------------------|
| | Less than 1 year \$M | 1-2 years \$M | 2-5 years \$M | Over 5 years \$M |
| Payables | 602.9 | 256.9 | 626.4 | 2,380.4 |

* Restatement relates to a change in methodology for the public-private partnerships liability maturity calculation.

7 General funds and capital management

| | Actual 2020/21 \$M | Actual 2019/20 \$M |
|---|--------------------------|--------------------------|
| General funds - current | 256.5 | 101.6 |
| Total general funds - current | 256.5 | 101.6 |
| National Land Transport Programme to be funded long-term | | |
| Auckland Transport Package | (354.0) | (355.0) |
| Housing Infrastructure Fund | (30.3) | (14.1) |
| Public-private partnerships* | (2,335.1) | (2,407.3) |
| NLTF borrowing facility for short-term advances | (75.0) | (250.0) |
| COVID-19 NLTF borrowing facility | (325.0) | (325.0) |
| Tauranga Eastern Link | (107.0) | (107.0) |
| Fair value changes in financial instruments | 63.5 | 31.1 |
| Total general funds - long term | (3,162.9) | (3,427.3) |
| Total general funds closing balance | (2,906.4) | (3,325.7) |

*Included related interest rate swaps.

The National Land Transport Fund has a negative general funds balance due to programmes that were accelerated and debt funding sourced from the Crown or via public-private partnerships. The funding received has been recognised as long-term payables that are not due for up to 30 years from balance date.

Although the National Land Transport Fund has a negative general funds balance, the Board considers the going concern assumption valid for the following reasons.

- The Fund's liquidity is actively managed.
- The Fund has a positive cash balance of \$287.4 million as at 30 June 2021 (2019/20: \$155.9 million).
- The Fund's forecasts demonstrate its ability to repay its obligations when they fall due.
- The Fund's main revenue source is land transport revenue, which is forecast with inputs from other government departments and has been accurately forecast in recent years (aside from the impact of COVID-19) and is forecast to be sufficient to meet all future outgoings and commitments.
- The Fund has the option to slow expenditure on the National Land Transport Programme or not approve projects within the programme.
- The Fund has the option to utilise the short-term shock borrowing facility of \$250 million to cover any revenue or expenditure shocks, or utilise the short-term seasonal borrowing facility of \$250 million to meet seasonal cash-flow cycles. Waka Kotahi has drawn down \$75 million of short term shock borrowing facility in 2019/20. The repayment of the shock facility has been included in the Fund's forecasts.
- The government approved an additional \$425 million COVID-19 borrowing facility for Waka Kotahi during 2019/20, \$125 million of this was drawn at 30 June 2020, with \$200 million having been drawn down in July 2020. Final repayments of the facility fall in financial year 2027/28. The facility is no longer available to be drawn down.
- In July 2020, the government approved additional funding of up to \$600 million and signalled its intention to allow Waka Kotahi to raise additional financing of up to \$300 million to manage ongoing COVID-19 impacts, to continue financial support for public transport and to allow the delivery of the remainder of the 2018-21 National Land Transport Programme. Out of the \$600 million funding available, Waka Kotahi utilised \$318.6 million. No drawdowns were made from the additional financing.

- The government approved the deferment of \$277 million of Auckland Transport Package debt. Which included \$65 million that was due on 30 June 2021. The residual \$212 million was deferred from the 2021-24 period to the 2024-27 period.
- The government has provided financial support to meet the additional costs associated with the COVID-19 claims from the two Waka Kotahi public-private partnership contracts.
- In August 2021, the government signalled its intention to provide financing up to \$2 billion for extra investments in the 2021-24 National Land Transport Programme.
- Joint ministers have provided a letter of comfort to the Board and have directed officials from the Treasury and Ministry of Transport to review and provide recommendations on existing Fund revenue settings and the case for new revenue tools.
- A debt management framework is in place to determine a sustainable and efficient level of future liabilities and is based on the expected level of fund inflows and forward commitments and comprises measures and target operating ranges to guide decision-making.

In the event of future extended lockdown periods, further financing or funding and/or reduction in expenditure may be required in order to prudently manage the National Land Transport Fund. The Board believes the above facilities, government interventions and management programmes provide sufficient headroom that any such additional support can be procured in advance of being required.

The cost of financing will be met from future inflows into the National Land Transport Fund. The Board actively manages the forward work programme of Waka Kotahi, within Government Policy Statement on land transport parameters, to manage the liquidity of the National Land Transport Fund and it remains the Board's view that under present economic settings the National Land Transport Fund continues to be able to fund repayment of financing and continue to meet the Waka Kotahi forward work programme. The Board recognises that as carbon-reducing activities increase, the method of funding transport will need to adapt and change. The Treasury and Ministry of Transport are to carry out a revenue review in 2021/22.

Capital management

The National Land Transport Fund's capital is its general funds. General funds are represented by net assets.

The National Land Transport Fund is subject to the financial management and accountability provisions of the Public Finance Act 1989, which imposes restrictions in relation to borrowings, the acquisition of securities, the issuing of guarantees and indemnities, and the use of derivatives.

Waka Kotahi actively manages the National Land Transport Fund general funds through prudent management of revenues, expenses, liabilities and general financial management.

Waka Kotahi has policies in place to ensure the viability of the long-term position of the National Land Transport Fund as well as ensuring the National Land Transport Fund effectively achieves the requirements set out in the Land Transport Management Act 2003.

8 Related party transactions

The National Land Transport Fund 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.

9 Contingencies

The National Land Transport Fund has no contingent liabilities or assets (2019/20: \$nil).

The National Land Transport Fund may have exposure to those contingent liabilities of Waka Kotahi arising from the delivery of the National Land Transport Programme.

10 Commitments to regions reporting

The Land Transport Management Amendment Act 2008 requires disclosure of expenditure incurred from the 2008/09 financial year to date, in fulfilling the Crown's commitment to certain specified activities as per the Act. Total expenditure for the two remaining activities to 30 June 2021 is \$591.1 million (2019/20: \$513.4 million) (commitment of \$760.0 million).

11 Events after the balance date

COVID-19 lockdown

On 17 August 2021, the Ministry of Health announced that a new COVID-19 case had been found in the community in Auckland. As a result, the New Zealand government imposed an alert level 4 lockdown initially for seven days in Auckland and Coromandel and three days for the rest of the country. Lockdowns (at alert levels 4 or 3) have been progressively extended. Based on previous lockdowns in 2020, it is expected that the lockdowns will have a material fiscal impact on the National Land Transport Fund position due to reduced revenue and increased costs from COVID-19 related claims from approved organisations, roading contractors and public-private partnership operators as well as a reduced farebox contributions to public transport services.

Waka Kotahi has determined that the restrictions imposed from 17 August 2021 are a non-adjusting post-balance date event. Therefore, no adjustments have been made to the financial statements. Waka Kotahi is currently assessing the fiscal impact and working with the Ministry of Transport on the likely impact of the lockdowns. Waka Kotahi has informed the Ministry of Transport that it may require financial support for the National Land Transport Fund to offset the financial impacts of COVID-19 on Waka Kotahi and local authorities (e.g. reduced public transport farebox and lower land transport revenue into the National Land Transport Fund).

Transmission Gully Public-Private Partnership

On 18 September 2021, it was announced that the proposed road opening day for Transmission Gully of 27 September 2021 will be delayed. Waka Kotahi is currently discussing with Wellington Gateway Partnership, and the Builder on the new roading opening day. Waka Kotahi has determined that this delay is a non-adjusting post balance date event, and therefore no adjustments have been made in the financial statements. Refer to note 5 for details on the previous COVID-19 related settlements.

Crown financing for National Land Transport Programme 2021-24

In August 2021, the Crown signalled its intention to provide financing up to \$2 billion to manage funding constraints over the National Land Transport Programme 2021-24. The additional financing would allow increased investments in several activity classes such as public transport service, walking and cycling, state highway maintenance, and local road maintenance. Waka Kotahi has determined that this is a non-adjusting post-balance date event, and therefore no adjustments have been made in the financial statements.

Statement of performance (unaudited)

Output class funding to Waka Kotahi

| | Actual 2020/21 \$M | Budget 2020/21 \$M | Actual 2019/20 \$M |
|---|--------------------------|--------------------------|--------------------------|
| Investment management | 67.2 | 81.8 | 80.7 |
| Public transport | 563.5 | 626.4 | 607.1 |
| Walking and cycling | 191.5 | 122.8 | 70.5 |
| Road safety promotion and demand management | 56.3 | 57.8 | 48.1 |
| Local road improvements | 267.5 | 308.6 | 245.5 |
| Local road maintenance | 700.1 | 668.9 | 584.5 |
| Regional improvements | 111.6 | 123.7 | 96.7 |
| State highway improvements | 890.8 | 1,091.5 | 1,296.8 |
| State highway maintenance | 774.4 | 304.3 | 569.0 |
| Rapid transit | 20.9 | 42.8 | 32.3 |
| Transitional rail | 160.4 | 100.0 | 64.6 |
| Funding to Waka Kotahi - current | 3,804.2 | 3,528.7 | 3,695.8 |
| Road policing | 375.6 | 394.8 | 362.0 |
| Total output class funding | 4,179.7 | 3,923.5 | 4,057.8 |
| Auckland Transport Package | (1.0) | (66.0) | (15.0) |
| Housing Infrastructure Fund | 16.2 | 20.0 | 11.1 |
| Public-private partnerships | (99.3) | 293.7 | 629.2 |
| Reinstatement of earthquake-damaged roads in Christchurch | 0.0 | 0.0 | 0.0 |
| Repayment for Transmission Gully | 0.0 | (3.5) | 0.0 |
| Borrowing (notional borrowing) | 0.0 | 643.3 | 0.0 |
| NLTF borrowing facility for shock/seasonal costs | (175.0) | 0.0 | 250.0 |
| COVID-19 National Land Transport Fund borrowing facility | 0.0 | 0.0 | 325.0 |
| Fair value changes in financial instruments to surplus or deficit | 15.3 | (21.1) | (3.2) |
| Total output class funding (long-term) | (243.8) | 866.4 | 1,197.1 |

The output class funding (current) above is net of borrowing used to finance activities carried out by Waka Kotahi.

The output class funding (long-term) reflects the expenditure on public-private partnerships, Housing Infrastructure Fund, fair value changes of financial instruments, and expenditure that is financed by borrowing facilities. The most significant movement in 2020/21 relates to COVID-19 budgeted expenditure financed by borrowing facilities that did not eventuate of \$643.0 million, repayment of the \$175.0 million short-term borrowing facility and movements in the fair value of financial instruments (interest rate swaps) associated with the public-private partnerships of (\$99.3) million. The \$643.0 million was covered by additional Crown funding and debt deferment together with higher than expected revenue.

Where borrowing facilities are used to fund expenditure, rather than a specific project, the debt needs to be apportioned across activity classes. This reduces current expenditure in the period the borrowing is drawn down, and increases expenditure in the period the borrowing is repaid. In financial year 2019/20, \$575.0 million of borrowing was drawn down and was apportioned to activity classes. During financial year 2020/21, \$175.0 million was repaid. The apportionment of the remaining \$400.0 million across activity classes and the impact on the 2018-21 National Land Transport Programme is as follows.

| Output class | \$75.0 million borrowing facility \$M | \$325.0 million borrowing facility \$M | Total \$M | 2018-21 National Land Transport Programme pre-financing | 2018-21 National Land Transport Programme post-financing |
|----------------------------|--|---|------------------|--|---|
| State highway improvements | 26.0 | 158.3 | 184.3 | 3,603.1 | 3,418.8 |
| State highway maintenance | 49.0 | 88.9 | 137.9 | 2,188.8 | 2,050.9 |
| Public transport | 0.0 | 77.8 | 77.8 | 1,758.2 | 1,680.4 |
| Total apportionment | 75.0 | 325.0 | 400.0 | | |

Explanations of major variances against budget

Public transport was \$62.9 million (10 percent) below budget. The underspend was primarily due to the reimbursement from the Crown in 2020/21 for \$89.9 million of COVID-19 costs that were accrued in the National Land Transport Fund accounts in 2019/20.

Walking and cycling was \$68.6 million (56 percent) above budget. This was mainly due to the Innovating Streets projects that were not in the 2020/21 budget, the additional works for Bayfair to Baypark not initially in scope and certain projects progressing faster than planned.

State highway improvements were \$200.7 million (18 percent) below budget. This was due to underspends across a number of projects, deferral of a \$65.0 million Auckland Transport Package loan repayment and reimbursement from the Crown in 2020/21 for \$81.0 million of COVID-19 costs that were accrued in National Land Transport Fund accounts in 2019/20. Refer to note 2 of the Waka Kotahi annual report 2020/21 financial statements for the total COVID-19 costs that were funded by the Crown.

State highway maintenance was \$470.1 million (154 percent) above budget. The budget assumed \$411.7 million of the expenditure to be funded by debt (referred to as 'notional borrowing' in the *Statement of performance expectations 2020/21*) due to reduced revenue as result of the COVID-19 outbreak. As revenue recovered to pre-COVID-19 levels, debt was not required in 2020/21 and expenditure was via land transport revenue.

Transitional rail was \$64.6 million (60 percent) above budget. Expenditure increased this year following prior year delays in projects. In addition, there have been contract variations on some of the significant programmes of rail work.

Public-private partnerships were \$393 million (134 percent) below budget as a result of the fair value movements of related financial instruments.

Borrowing (notional borrowing) was \$643.3 million, (100 percent) below budget. The budget assumed additional financing (referred to as 'notional borrowing' in the *Statement of performance expectations 2020/21*) for the funding gap between budgeted expenditure and revenue when it was set in April 2020. As revenue recovered to pre-COVID-19 levels in 2020/21 and with crown funding and debt deferment occurring, the planned use of \$643.0 million of borrowing did not eventuate.

National Land Transport Fund borrowing facility for shocks/seasonal costs was \$175.0 million (100 percent) below budget. This was due to repayment of the short-term seasonal borrowing facility and the facility not being redrawn before 30 June 2021, as expected.

Independent auditor's report

To the readers of National Land Transport Fund's financial statements and performance information for the year ended 30 June 2021

The Auditor-General is the auditor of National Land Transport Fund (the "NLTF"). The Auditor-General has appointed me, Ed Loudon, using the staff and resources of KPMG, to carry out the audit of the financial statements and the performance information, of the NLTF on his behalf.

Opinion

We have audited:

- the financial statements of the NLTF on pages 263 to 275, that comprise the statement of financial position as at 30 June 2021, the statement of comprehensive revenue and expense, statement of changes in general funds balance 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 service delivery and investment performance measures included in the performance information of the NLTF on pages 220 to 246.

In our opinion:

- the financial statements of the NLTF on pages 263 to 275:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2021; 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 service delivery and investment performance measures included in the performance information of the NLTF on pages 220 to 246:
 - presents fairly, in all material respects, the NLTF's performance for the year ended 30 June 2021, 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 30 September 2021. 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.

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

The Board is responsible on behalf of the NLTF 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 NLTF for assessing the NLTF'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 NLTF, 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 NLTF'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 NLTF'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 NLTF'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 NLTF'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 NLTF 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 is responsible for the other information. The other information comprises the information included on pages 208 to 218, 220 to 246 (excluding service delivery and investment performance measures), 248 to 262, and 276 to 278 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 NLTF 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 NLTF.



Ed Loudon

KPMG Wellington

On behalf of the Auditor-General
Wellington, New Zealand