

STRATEGIC RISK ASSESSMENT

This section presents the risks that could affect how we deliver our functions this year. We have assessed these risks based on assumptions about the main factors that influence our business. It includes:

- our risk assessment of revenue assumptions (p11)
- our risk assessment of procurement assumptions (p12)
- the impact of risks on our functions (p13)

Our operating assumptions are presented in full in appendix 1 (p91).



STRATEGIC RISK ASSESSMENT OF KEY OPERATING ASSUMPTIONS

We have assessed the strategic risks we could face if key assumptions about our operating environment, and the forecasts that underpin them, prove to be overly optimistic. By understanding the risks that could impact on our activities this year, we can identify how and why our performance may be affected and respond accordingly.

Assumptions and risks fall into two categories – those that affect revenue and those that affect procurement. They focus on the factors that drive demand for the transport solutions we provide to New Zealanders and those that shape the supply of products, services and funding that we and our partners invest in the transport system.

We have assessed each risk using a process based on the international standard *ISO 31000 – Risk management*, including an assessment of the likelihood of the risk occurring, the consequences if it does, and the subsequent level of risk (critical, high, medium or low).

The level of risk and its potential impact on delivering our functions is summarised on page 13. Our operating assumptions are detailed in appendix 1.

RISK ASSESSMENT OF REVENUE ASSUMPTIONS

For the key operating assumptions that affect revenue, the risks relate to lower than expected revenues, constraints on service delivery and delays in generating benefits from the investments we make.

FINANCIAL RISKS

We expect that revenue flowing into the National Land Transport Fund will continue to increase (refer figure 1, appendix 1). However, if travel demand decreases, due to lower than expected economic growth and/or higher crude oil prices, it is possible revenues will be lower than we anticipate. The financial consequence would be minor, at worst leading to total revenue coming in 5 percent lower than forecast, but this could still have a material impact, presenting a medium risk to our planning and investing and state highway functions.

We assume that vehicle licence transaction volumes will continue to grow (refer chart 5, appendix 1), but it is possible that the number of transactions we process will be lower than anticipated. Because we charge licensing fees to recover our costs, the financial consequences of lower than anticipated volumes would be insignificant, with the resulting impact on our functions noticeable but not material, presenting a low risk.

SERVICE DELIVERY RISKS

We expect the financial health of local government to decline slightly over the next four years from recent levels (refer figure 6, appendix 1). Although unlikely, our investment partners' financial standing could deteriorate further than anticipated, to a point where they may not be able to meet their co-funding commitments towards local roads and public transport. The consequence would be minor, at worst, leading to a temporary disruption to core services at a regional level. The impact on public transport provision is likely to be more immediate than on local roads. This presents a low risk that could affect our planning and investment and state highway functions.

We expect revenue from public transport fares to increase in line with expected patronage increases and price adjustments to fares (refer chart 8, appendix 1). Although unlikely, if revenue did not increase as expected, it could have minor consequences for service delivery, presenting a low risk that could affect our planning an investment function.

BENEFIT REALISATION RISKS

We expect patronage on public transport will continue to increase (refer figure 9, appendix 1). While unlikely, should patronage not increase as expected, the consequence would be minor, delaying the benefits that come from increasing road space for passenger vehicles in our major centres and improving accessibility in our smaller regions. This presents a low risk that could impact on our planning and investing function.

RISK ASSESSMENT OF PROCUREMENT ASSUMPTIONS

For the key operating assumptions that affect procurement, the risks relate to higher than expected input costs and constraints on service delivery.

FINANCIAL RISKS

We expect labour input costs, together with higher bitumen and material costs, to support increases above inflation in unit maintenance, improvements and renewal costs (refer figures 12 and 14, appendix 1). It is possible that these costs will rise faster than anticipated, which could have a minor impact, adding 5-10 percent of additional cost on budget. This presents a medium risk that could impact on our state highway function.

SERVICE DELIVERY RISKS

We expect the condition of local roads and the state highway network to improve slightly (refer figure 15, appendix 1). However, it is possible that the overall condition some of these roads could deteriorate as a result of applying the One Network Road Classification system (under which we tailor our investment to meet different customer levels of service on different parts of the network). Further deterioration could also occur if we fail to adopt good procurement management practices. The consequence of deterioration is likely to be insignificant, at worst, resulting in infrequent and inconsequential disruption to infrastructure. This presents a low risk that could impact on our state highway function.

IMPACT OF RISKS ON OUR FUNCTIONS

The following table presents the degree of risk associated with our primary operating assumptions – a function of the likelihood of the risk occurring and the consequences if it does – along with the functions that could be adversely affected should the associated operating assumption prove to be overly optimistic. All 15 operating assumptions are included in appendix 1.

OPERATING ASSUMPTION*	LEVEL OF RISK IF ASSUMPTIONS PROVE OVERLY OPTIMISTIC	FUNCTIONS THAT COULD BE ADVERSELY IMPACTED		
		Planning and investing in the land transport network	Providing access to and use of the land transport system	Managing the state highway network
RISK ASSESSMENT OF REVENUE ASSUMPTIONS				
Financial risks				
National Land Transport Fund to increase across all revenue streams ¹	MEDIUM	●		●
Motor vehicle licence transaction volumes to grow ⁵	LOW	●	●	●
Service delivery risks				
Financial health of local government to worsen slightly ⁶	LOW	●		●
Fare revenue contributions to the National Land Transport Programme to increase ⁸	LOW	●		
Benefit realisation risks				
Patronage on public transport patronage to increase ⁹	LOW	●		
RISK ASSESSMENT OF PROCUREMENT ASSUMPTIONS				
Financial risks				
Bitumen prices to recover and labour costs to rise ¹²	MEDIUM	●		●
Civil construction prices to increase ¹³	MEDIUM	●		●
Unit maintenance, operation and renewal costs to rise above inflation ¹⁴	MEDIUM	●		●
Service delivery risks				
Condition of local roads and the state highway network to improve slightly ¹⁵	LOW	●		●

* Refer to appendix 1 (pages 91-94) for operating assumptions.