



# Annual Report 2009/10

Report of the Ministry of Transport  
for the year ended 30 June 2010

Presented to the House of Representatives  
pursuant to Section 44 (1) of the Public Finance  
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# Message from our Chief Executive



2009/10 has been a year of significant change, challenge and achievement for the Ministry. The government's key focus is on lifting New Zealand's economic growth and productivity, and transport makes a significant positive contribution to these goals. The Minister of Transport has been very clear about his priority areas for transport which are land transport infrastructure, road safety and value for money.

To support these priorities the Ministry has worked closely with the NZ Transport Agency in the implementation of the Roads of National Significance programme. The Ministry also led work to amend the Vehicle Dimensions and Mass Rule to enable more freight to be carried on fewer trucks, therefore reducing operating costs, congestion and vehicle emissions.

The Ministry's work programme supported the wide range of Auckland governance-related issues to ensure that an integrated transport solution can be delivered. The Ministry worked with the KiwiRail Group to develop their Turnaround Plan. This resulted in an in-principle investment agreement by government in the rail freight business over the next three years. The Ministry also worked with KiwiRail on a number of initiatives in relation to Auckland and Wellington metro rail networks and rolling stock.

The Minister of Transport has been unequivocal in his commitment to reducing the number of New Zealanders being killed and injured on our roads. This has also been a key focus for the Ministry throughout the year, culminating in the release of *Safer Journeys: New Zealand's road safety strategy 2010–2020*. The development of the strategy was a truly collaborative effort across government and key stakeholders. Other significant road safety achievements for the year were the introduction of new laws covering illegal street racing and drug impaired driving, a ban on using hand-held mobile phones, and a number of other rules to make our roads safer.

The Ministry engaged with the aviation and finance sectors leading to the government's agreement in March 2010 to New Zealand's accession to the Cape Town Convention and an associated protocol on aircraft equipment. By taking this treaty action, New Zealand becomes part of an international system to protect commercial security interests in mobile

aircraft equipment. As a consequence, New Zealand's aircraft operators will be able to access discounted finance internationally for future aircraft acquisitions or leases.

In an effort to drive down costs and increase efficiency and effectiveness across the transport system, the Ministry initiated a number of reviews of legislation concerning land transport and Crown agency funding and management. These include the Land Transport Management Act, the Public Transport Management Act, and road user charges as well as reviews of the Civil Aviation Authority, the New Zealand Aviation Security Service and Maritime New Zealand.

As part of its own value-for-money initiatives, the Ministry was restructured to enable it to be more flexible and responsive to the highest priority policy issues for the government while maintaining a focus on long-term transport knowledge and issues. The Ministry developed and implemented its *Shaping our Future* programme to move away from operating as a conventional public sector department towards operating in a manner more consistent with a professional services organisation.

I am very proud of the work achieved by the Ministry throughout 2009/10 and I look forward to another busy and challenging year. I am confident that the Ministry is well placed to handle the transport challenges I know it will face now and in the future.



**Martin Matthews**  
Chief Executive

# About the Ministry

## OUR ROLE

The role of the Ministry of Transport is as a trusted, impartial and expert adviser to government; shaping transport for New Zealand. We will fulfil this by being an effective, professional services ministry.

We are committed to providing the best possible advice to support the government in growing the New Zealand economy so that we can all enjoy greater prosperity, security and opportunity.

### Nature and scope of functions

The Ministry of Transport (the Ministry) is the government's principal transport adviser, and the bulk of our work is in providing policy advice and support to ministers. Through our advice we aim to improve the overall performance of the transport system, improve the performance of transport Crown agencies, and achieve better value for money for the government and tax payers from investment in the transport system.

We help the government give effect to its policy by supporting the development of legislation, regulations and rules, and by accounting for funds invested in transport. We also represent New Zealand's interests internationally, particularly in the aviation and maritime areas.

We assist the government in its relationship with the transport Crown entities to ensure they are effectively governed, well performing and accountable. We work across government to provide a transport perspective on initiatives when appropriate. We also provide advice on the level and collection of road user charges and fuel excise duty needed to fund transport investment.

The Ministry is also responsible for some operational functions including:

- contracting the NZ Transport Agency to collect licensing fees, road user charges and fuel excise duty
- licensing all international airlines operating to and from New Zealand
- managing the Milford Sound/Piopiotaahi Aerodrome
- overseeing the Crown's interest in joint venture airports (airports operated by local authorities in partnership with the government)
- administering a contract with the Meteorological Service of New Zealand Limited (MetService) for the provision of a public weather warning and forecast service.

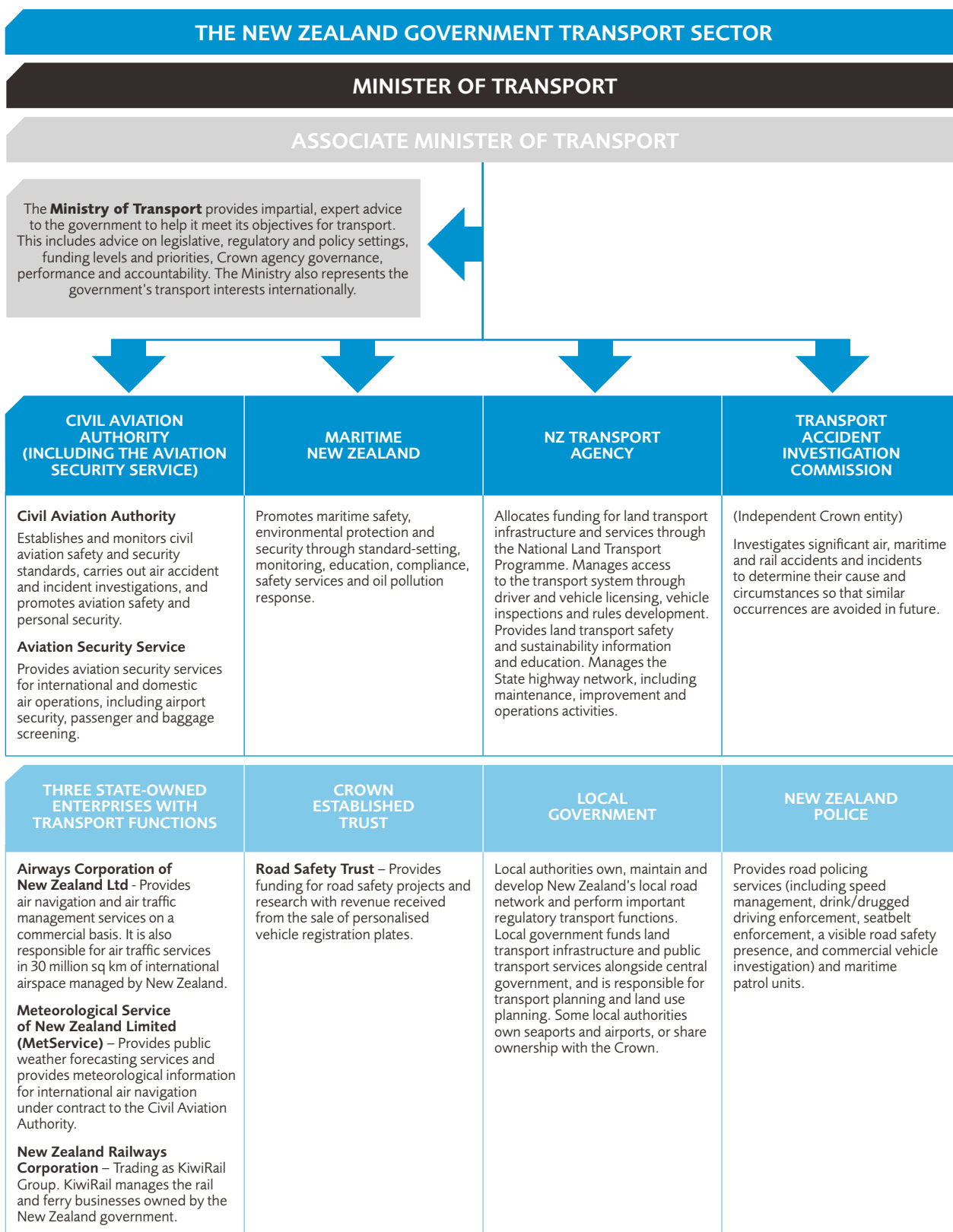
### Key personnel as at 30 June 2010

- Martin Matthews, Chief Executive
- Wayne Donnelly, General Manager Road and Rail
- Bruce Johnson, General Manager Aviation and Maritime
- Fiona Macmaster, Acting Chief Financial Officer
- Pam Madgwick, Chief Information Officer
- Heather Staley, General Manager Office of the Chief Executive

### What we are part of

The New Zealand government transport sector includes the Minister and Associate Minister of Transport, the Ministry of Transport, four Crown entities, three State-owned enterprises and one Crown established trust. These entities and their functions are explained in the following table.

Table 1



## THE MINISTRY'S OUTCOMES

### The government's overall goal

The government's overall goal is to grow the New Zealand economy in order to deliver greater prosperity, security and opportunities for all New Zealanders.

### The government's immediate priorities

The government recognises the potential for investment in transport infrastructure to support its goals for economic growth and productivity. As a result, land transport infrastructure, road safety and value for money were identified as the government's immediate priorities for transport.

### The Ministry's outcomes

Over the 2009/10 year the Ministry focused on three outcomes which were seen as contributing to the government's immediate priorities and overall goal. They were:

- enhanced value from government investment in transport infrastructure
- improved performance of the transport system
- improved performance of transport sector agencies.

The Ministry is committed to delivering value for money throughout the transport system. It focused on ensuring its advice and services, and those provided by the transport agencies, delivered savings without compromising on the quality of service provided.

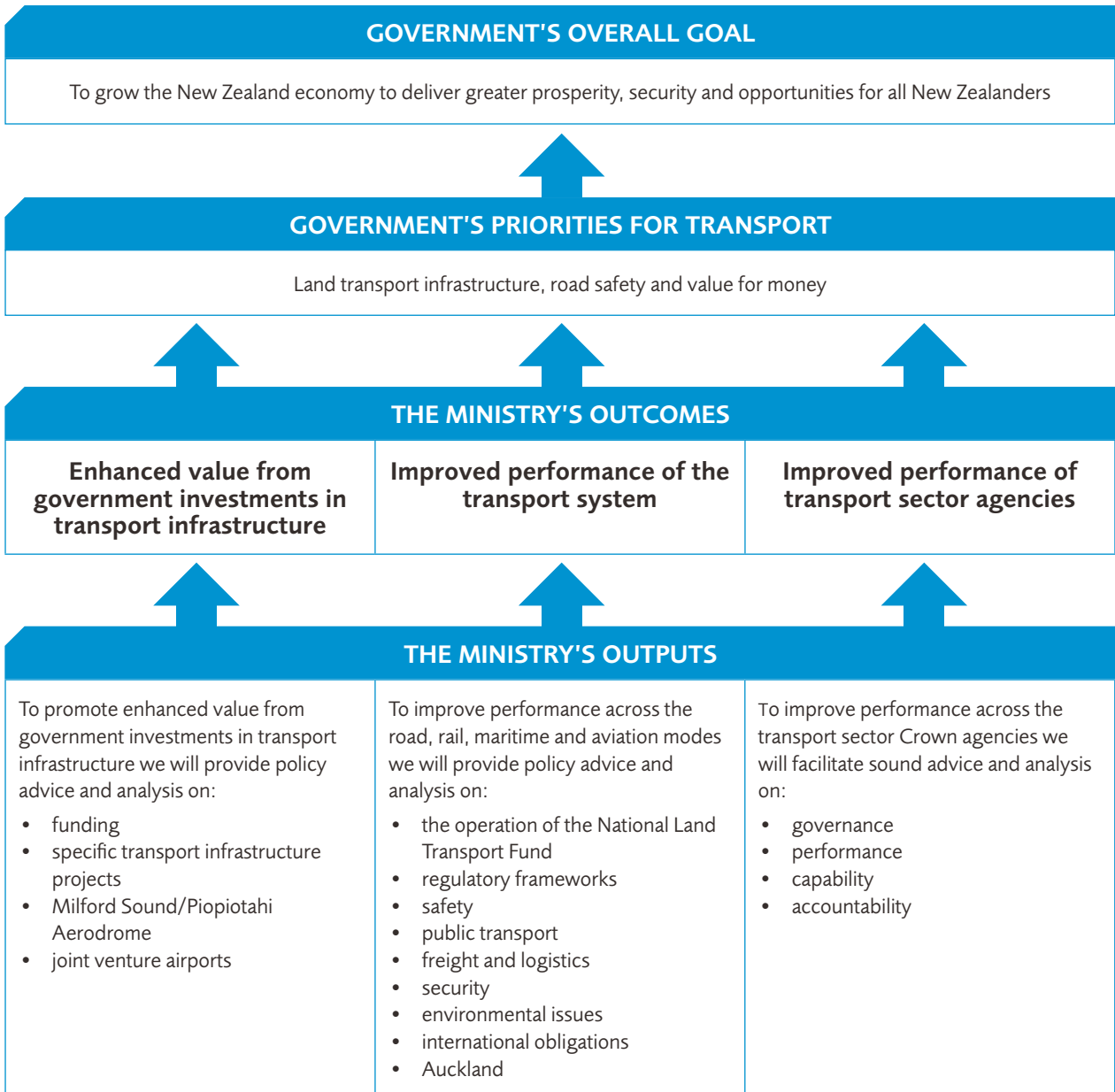
### Output classes

The Ministry had six output classes in 2009/10:

- policy advice
  - transport sustainability
  - ministerial services
  - rules management
- sector leadership and support
  - transport leadership and direction setting
  - ownership and purchase monitoring
- land transport revenue forecasting and strategy
- road user charges collection, investigation and enforcement
- refund of fuel excise duty
- airport operation and administration.

Table 2 shows how the Ministry's outputs contributed to the government's overall goal.

**Table 2**



# Performance highlights 2009/10

During the year the Ministry delivered over 90 percent of its Output Plan as agreed with the Minister. On top of this programme of work, the Ministry also undertook a number of new initiatives that emerged throughout the year such as the KiwiRail Turnaround Plan, the SuperGold Card review and a number of value-for-money reviews.

The Ministry has also contributed to whole-of-government work programmes over the year. Some had significant implications for transport, particularly the Auckland Governance Reform, the introduction of the Emissions Trading Scheme, production of a National Infrastructure Plan and the Resource Management Act reforms.

## **ENHANCED VALUE FROM GOVERNMENT INVESTMENT IN TRANSPORT INFRASTRUCTURE**

The key achievements for the 2009/10 year that contribute to the Ministry's outcome of enhanced value from government investment in transport infrastructure were:

### **KiwiRail Turnaround Plan**

The Ministry provided transport policy support for the development and due diligence of the Turnaround Plan for rail freight prepared by the KiwiRail Group. The government supported the Turnaround Plan with significant funding.

### **Metro rail operating model**

During the 2009/10 year the metro rail operating model for the Auckland and Wellington regions was developed and agreed by Cabinet. Work has since begun on implementing parts of the operating model, such as establishing track access charges for both metro rail and the freight business, improving the performance of the two present metro rail operating contracts, and assisting with the public transport revenue modelling project to determine appropriate fare and subsidy levels.

### **Auckland metro rail**

During the 2009/10 year Cabinet approved a \$500 million appropriation to develop new infrastructure and purchase new electric multiple units. The electrification of the Auckland network will help reduce congestion by providing more frequent trains at peak times. This is part of a comprehensive approach to develop Auckland's transport systems.

### **Vehicle Dimensions and Mass Amendment Rule 2010**

The Ministry led the development of a new amendment rule allowing for increases to the mass and dimension limits for heavy vehicles through a new permit regime. The aim of this Rule is to improve heavy vehicle productivity, which will be achieved by enabling more freight to be carried on fewer trucks. This will reduce road congestion, vehicle emissions and operating costs while growing New Zealand's economy.

### **Freight information gathering system**

The Ministry is implementing a national freight information gathering system that is centred on cargo movements through ports. A trial to record containerised freight data is underway at four North Island ports. The system will be rolled out to all ports in 2010/11 following the results of the trial. This will develop a clear picture for freight movements to guide future infrastructure investment decisions.

## **IMPROVED PERFORMANCE OF THE TRANSPORT SYSTEM**

The key achievements for the 2009/10 year that contribute to the Ministry's outcome of improved performance of the transport system were:

### **Safer Journeys strategy**

The Safer Journeys road safety strategy was launched on 3 March 2010. It sets a new direction for road safety, taking a Safe System approach with actions aimed at improving the safety of roads and roadsides, speeds, vehicles and road use. The Ministry led the development of the strategy, working with our road safety partner organisations and looking at research, evidence and experience in other jurisdictions. The views of stakeholders and road users have also been a major contribution. The Ministry held extensive public consultation on a Safer Journeys discussion document and received more than 1,500 submissions. Targeted consultation was held to ensure youth views were considered as young drivers are a significant road safety issue.

Since its launch, progress has already been made on a number of actions proposed in the strategy. The government has agreed to actions aimed at improving the safety of young drivers and reducing the impact of alcohol on road safety. These measures have included significant proposed changes for New Zealand such as raising the driving age, allowing the use of alcohol interlocks and tougher penalties for driving offences causing death. Work also began on the Cabinet paper covering motorcycles, the give way rule and additional young driver actions.

Work is progressing on further actions through five interagency groups addressing roads, speed, road use, vehicles and communications.

### **New road safety measures**

A range of road safety measures came into force over the 2009/10 year. These included measures to address illegal street racing and new provisions to combat drug impaired driving. Rule changes included a ban on using hand-held mobile phones while driving and restrictions on the use of snow tyres.

### **Road user charges system review**

In August 2009, the government announced its response to the independent review of the road user charges (RUC) system. Over the past year the Ministry has focused on proposals for legislative change to simplify and modernise the RUC system and reduce RUC evasion. In January 2010, regulations were made enabling the electronic display of RUC licences and the use of electronic distance recorders as an alternative to mechanical hubodometers.

### **Auckland governance**

As part of a joint project with the Department of Internal Affairs, the Ministry led the work to set up the transport functions of the new Auckland local government arrangements. In 2009/10, policy advice was provided on the transport governance framework and the legislation needed to implement the framework was agreed by Cabinet. This included the establishment of Auckland Transport as a statutory entity and council-controlled organisation of Auckland Council with responsibility for local roads and public transport.

### **Public Transport Management Act**

The Ministry led the development of a new operating model for public transport to achieve the government's goal of growing public transport with less reliance on increased subsidies. The Ministry worked collaboratively with the sector to develop this model, with the key stakeholders agreeing to the public transport operating model in principle. The Auckland and Wellington regions are preparing to trial the model.

### **Cape Town Convention**

The Ministry engaged with the aviation and finance sectors to obtain the government's agreement in March 2010 to New Zealand's accession to the Cape Town Convention and an associated protocol on aircraft equipment. By taking this treaty action, New Zealand becomes part of an international system to protect commercial security interests in mobile aircraft equipment. As a consequence, New Zealand's aircraft operators will be able to access discounted finance internationally for future aircraft acquisitions or leases.

## **IMPROVED PERFORMANCE OF TRANSPORT SECTOR AGENCIES**

The key achievements for the 2009/10 year that contribute to the Ministry's outcome of improved performance of the transport sector agencies were:

### **CAA funding review**

The Civil Aviation Authority (CAA) funding review was progressed and draft consultation documents have been prepared. The six week consultation period is intended to begin in October 2010. The Sector Reference Group will work with the CAA to provide feedback on the submissions and the longer-term value-for-money work.

### **Value-for-money review of Maritime New Zealand**

The Ministry and Maritime New Zealand are working on a joint project (the Maritime New Zealand Review) with the purpose of conducting a value-for-money review and a fuller review of the Marine Safety Charge. This project started in late 2009 and is scheduled to continue throughout the 2010/11 year.

### **Review of passenger security charges**

A review of the Aviation Security Service's passenger security charges commenced in September 2009, and new charges came into effect on 1 April 2010. The international passenger security charge was reduced from \$15 to \$10, and the domestic passenger security charge is reduced from \$4.66 to \$4.35 from the three years from 1 April 2010.

### **Review of marine safety charges**

A review of the marine safety charge was completed during the year. Cabinet agreed to the reduction of the marine safety charge for cruise ships from \$8.29 per passenger to \$3.30 per passenger. This will be gazetted in early July and the new rate will come into force on 1 October 2010.

### **Driver licensing fees and charges**

The Ministry completed a review of the driver licensing fees and charges with the purpose of rectifying the imbalance between revenue and expenditure. The final policy Cabinet paper was agreed by Cabinet on 24 May 2010 and the regulations to give effect to the fee amendments were signed by the Executive Council on 31 May 2010. The amended fees came into effect on 1 July 2010.

## **Building a more capable and responsive Ministry**

On 1 September 2009 the Ministry restructured and committed itself to operating in a new way — as a professional services ministry. This move enables the Ministry to be more flexible, responsive and effective as the government's principal adviser on transport.

The Ministry's change programme *Shaping our Future* focuses on improving the Ministry's performance by being more responsive to the highest priority policy issues for the government, improving productivity, and having more flexibility in allocating resources in the delivery of its annual work programme.

# Non-financial Performance

## Statement of Responsibility

In terms of the Public Finance Act 1989, I am responsible, as Chief Executive of the Ministry of Transport, for the preparation of the Ministry of Transport's financial statements and statement of service performance, and the judgements made in them.

I have the responsibility of establishing and maintaining, and I have established and maintained, a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting.

In my opinion, these financial statements and statement of service performance fairly reflect the financial position and operations of the Ministry for the year ended 30 June 2010.



**Martin Matthews**  
Chief Executive

Countersigned by:



**Fiona Macmaster**  
Manager Finance  
30 September 2010

## Maintaining and developing capability

### OPERATING AS A PROFESSIONAL SERVICES MINISTRY

In 2009 the Ministry began implementing its *Shaping our Future* programme, to move the Ministry towards operating as a professional services ministry.

### SHAPING OUR FUTURE

*Shaping our Future* is underpinned by six development goals to support the changes.

**Development goal 1: We are clear about our position, by identifying key issues, using good policy practice to develop a view on them and are clearly communicating them.**

#### *Developing sector expertise and strategy*

The Ministry has seven sector teams that are responsible for policy development, centres of knowledge, key relationship management with stakeholders, and driving much of our longer-term strategic thinking on transport issues.

#### *Strengthened financial and economic capability*

The Ministry has strengthened its internal financial and economic analysis capability by establishing a Financial and Economic Analysis Team. The team advises on options and methodology for economic and financial analysis on key policy projects. A new position of General Manager Financial and Economic Performance was established to lead this work.

**Development goal 2: We are flexible at managing ourselves to focus on what matters most, by identifying our priorities, allocating resources accordingly and ensuring we are effective and efficient in our work.**

#### *Transport Managers' Group*

The Ministry has established the Transport Managers' Group (TMG) to manage resource allocation across the whole of the Ministry — to ensure that the right skills are deployed to the most critical areas at the right time. TMG is central to the Ministry's professional services model, and increasing our responsiveness to changing priorities.

#### *Focus on leadership of policy projects*

Policy Project Managers have been appointed to lead the Ministry's most significant policy initiatives. Policy Project Managers are critical to delivering on the Output Plan.

#### *Managed reduction of full-time equivalent (FTE) positions within the Ministry*

The Ministry has reduced its staffing level while taking on new responsibilities such as rail policy advice. Some positions were disestablished as a result of the reorganisation and the Ministry has maintained the selective non-replacement recruitment policy approach adopted in 2008/09. The Ministry's FTE count has reduced from 182 in June 2008 to 167 FTE in June 2010 and is on track to reach its target of 162 FTE by June 2011.

**Development goal 3: We have working partnerships with our stakeholders, by establishing a mutual understanding of and respect for our roles, responsibilities and relationships within government and with transport agencies and the wider transport sector, and build an understanding of their interests.**

#### *Stakeholder engagement strategy*

The Ministry developed and implemented a stakeholder engagement strategy to improve our working partnerships across the sector, so that policy development is well informed by stakeholder interest. The strategy also ensures stakeholder engagement is consistent with the professional services ministry model of operating.

#### *Key relationship managers*

The Ministry has established a number of 'key relationship manager' roles, which have helped the Ministry to build collaborative relationships with key stakeholders. These relationships will be used to improve the Ministry's effectiveness and reputation as a trusted and impartial adviser.

**Development goal 4: We develop and challenge our people, by establishing deliberate professional development practices, encouraging staff to take on new opportunities in areas that matter and utilising coaching to support staff to fulfil their potential.**

#### *New principles of staffing*

One of the founding principles of the professional services model is flexible deployment of staff to high priority work that matches skills and expertise. More than half of the Ministry's policy staff have been deployed to projects or activities outside of their sector teams.

#### *Staff professional development programme*

The quality of the Ministry's advice and the effectiveness of its operations will largely be determined by the quality of its staff. The Ministry has established a structured professional development programme for managers, all advisers and business services staff. This will ensure all staff have a consistent level of skill in core competencies for the Ministry.

**Development goal 5: We have business systems that support us, by making the most of our people and their time and ensuring our systems focus on the achievement of our role.**

*Information and knowledge management*

The Ministry established an Information Group to develop a knowledge-based culture at the Ministry. Substantial work has been done to ensure easy access to, and appropriate training on, business systems to support the delivery of the Ministry's work programme.

*Establishment of Programme Management Office*

A Programme Management Office (PMO) serves as the hub for designing, implementing and embedding sound project management methodologies for the delivery of policy projects and related activities. The PMO uses accredited project management tools and reporting frameworks to prioritise and deliver the Ministry's policy programme.

**Development goal 6: We have lifted our leadership and managerial performance.**

*Lifting leadership and managerial performance*

In May 2010 the Ministry committed to undertaking a management capability assessment to identify the Ministry's strengths and areas for improvement in this area by December 2010. This is a critical next step in lifting the Ministry's leadership and managerial performance.

*Ministry capability strategy*

The Ministry is also working on the development of a capability strategy to ensure that it has the appropriate shape and skills mix to meet the current and future transport policy challenges.

## **MANAGING OUR BUDGET**

New Zealand continues to experience a challenging fiscal environment. We are committed to doing our best to ensure the Ministry delivers value for money, and does not make demands for additional funds during this difficult period.

Over the three years from 2008/09, the Ministry's departmental funding will decrease by nearly \$4 million. In addition, the Ministry faces cost increases arising from existing commitments in relation to staff costs (salaries), building and other expenses. Essentially we have to cut approximately 12 percent from our operational budget.

Ensuring the Ministry can allocate staff and consulting resource to highest priority work first is a major component of identifying value for money. The Ministry will continue to control costs through its recruitment practices, in addition to reducing expenditure on travel, entertainment, communications and other activities.

# Statement of Objectives and Service Performance

for the year ended 30 June 2010

## OUTPUT CLASS: POLICY ADVICE

Through this output class, the Ministry provides transport sector policy advice and ministerial services. This output class is supported by three outputs: transport sustainability, ministerial services and rules management.

### Output: Transport sustainability

This policy output involves the development and implementation of policy for all transport modes in consultation with the transport Crown entities. The aim of this output is to meet the overall objective of achieving a sustainable transport system.

Actual 2008/09	Performance Measures	Actual 2009/10	Standards/Targets 2009/10
Achieved	Key initiatives contained in the annual work programme are completed or progressed as agreed, or as subsequently amended by agreement between the Minister and the Chief Executive.	Partially achieved	Achieved
100%	Policy advice will be delivered in accordance with the Policy Advice Quality Characteristics as determined through delivery recorded against the project plan.	Not measured	100%
\$18,248,838	<b>Cost</b> The output is produced within appropriation (GST exclusive).	\$16,885,532	\$20,389,736

### Commentary on performance

A total of 13 out of 134 initiatives (10 percent) were not achieved for various reasons:

- one due to a delay from other entities
- three due to a change in approach/scope
- two due to awaiting completion of other projects
- three due to reprioritisation
- two due to awaiting further consultation
- two behind schedule.

In 2007 the Ministry initiated a yearly policy quality review by the New Zealand Institute of Economic Research but this was delayed in the 2009/10 year. The Ministry is developing its own internal policy quality framework and this will be operational in the 2010/11 year.

The lower than forecast cost of this output reflects the work by the Ministry to control costs following the economic downturn and government directives. It also reflects some work that was budgeted in the year but was delayed until 2010/11 as noted in the non-financial performance measure.

## OPERATING INTENTIONS

The Ministry's 2009–2012 Statement of Intent outlined its programme of planned actions for the period covered by this Annual Report.

These planned actions were separated by mode and a likely indicator of success was provided. It is acknowledged that some of those indicators of success are long-term in their nature and the Ministry expects to be demonstrating their success by 2012, as indicated in the 2009 Statement of Intent. This Annual Report has, where possible, recorded the deliverables against each of those planned actions. A progress update has been provided for initiatives that span more than the single reporting year that this report covers.

### Road

The planned actions and deliverables for 2009/10 as outlined in the Ministry's 2009–2012 Statement of Intent for the road programme were:

2009/10 PLANNED ACTIONS	DELIVERABLES
Investigate barriers to improve performance in public transport, including the degree of regulation required to improve competition and achieve better value for money.	<p><b>Public transport operating environment (previously public transport legislation):</b> A model that outlines how the public transport system will operate was developed, and key stakeholders were consulted and have agreed to the model in principle. A Memorandum of Understanding is in the process of being drawn up to set the operating agreement for the trial to resolve final details of the model.</p> <p><b>Overview of the review of the SuperGold Card transport off-peak travel scheme:</b> This included a public discussion document and targeted consultation with councils and operators.</p>
Review road safety initiatives and agree the key areas of focus to improve road safety over the next decade.	<p><b>Safer Journeys strategy:</b> The Safer Journeys road safety strategy was launched on 3 March 2010. It sets a new direction for road safety, taking a Safe System approach with actions aimed at improving the safety of roads and roadsides, speeds, vehicles and road use. Since its launch, the government has agreed to actions aimed at improving the safety of young drivers and reducing the impact of alcohol on road safety. Work has also begun on the Cabinet paper covering motorcycles, the give way rule and additional young driver actions.</p> <p><b>Several Acts</b> were passed, including the introduction of drug driving provisions as part of the Land Transport Amendment Act 2009 and the Land Transport (Enforcement Powers) Act 2009 to deal with illegal street racing. New rules affecting road user behaviour, tyres and wheels, work time and logbooks, traction engines, dangerous goods and steering systems also came into force on 1 April 2010.</p>
Investigate options for reducing harmful exhaust and greenhouse gas emissions.	<p><b>Safe and Fuel Efficient Driving New Zealand:</b> A programme targeting drivers of heavy commercial vehicles was developed with industry. The programme, Safe and Fuel Efficient Driving New Zealand (SAFED NZ), involved training senior instructors and providing supporting manuals, DVDs and a website. The programme leads to measurable fuel savings, as well as safety benefits.</p>

## Rail

The planned actions and deliverables for 2009/10 as outlined in the Ministry's 2009–2012 Statement of Intent for the rail programme were:

2009/10 PLANNED ACTIONS	DELIVERABLES
<p>Establish a transparent funding framework for commercial and subsidised rail activities.</p> <p>Implement new arrangements for metro rail services in Auckland and Wellington, and complete rail infrastructure upgrades.</p>	<p><b>Metro rail operating model:</b> During the 2009/10 year the metro rail operating model for Auckland and Wellington regions was developed and agreed by Cabinet. Work has begun on implementing parts of the operating model, such as establishing track access charges for both metro rail and the freight business, improving the performance of the two present metro rail operating contracts, and assisting with the public transport revenue modelling project to determine appropriate fare and subsidy levels.</p> <p><b>National rail network:</b> The Ministry worked with the Treasury to conduct a due diligence exercise on the KiwiRail Group Turnaround Plan. A detailed monitoring framework for the Turnaround Plan and rail-related appropriation was developed. The Ministry developed, in conjunction with the Crown Organisation Monitoring Unit, a manual for the monitoring and accountability framework for the KiwiRail Group.</p> <p><b>Auckland metro rail:</b> During the 2009/10 year, Cabinet approved a \$500 million appropriation to develop new infrastructure and purchase new electric multiple units. The Ministry worked with regional stakeholders to develop a financial model that will help determine metro rail costs and revenue forecasts. The electrification of the Auckland network will help reduce congestion by providing more frequent trains at peak times.</p>
<p>Establish appropriate governance, institutional and legislative frameworks for rail.</p>	<p>Urgent changes to rail governance arrangements were progressed through the Infrastructure Bill. Having removed the immediate impediments, the remaining governance arrangements are now fit for purpose.</p> <p>Resources were reprioritised to focus on the Turnaround Plan and metro rail.</p>
<p>Develop rail safety initiatives to improve the safety of those who operate on or near the rail system.</p>	<p>The Ministry began work on developing a draft rail safety strategy.</p>

## Aviation

The planned actions and deliverables for 2009/10 as outlined in the Ministry's 2009–2012 Statement of Intent for the aviation programme were:

2009/10 PLANNED ACTIONS	DELIVERABLES
<p>Maintain and enhance international air traffic rights to support passenger travel and freight movement.</p>	<p><b>Cape Town Convention:</b> New Zealand's accession to the Cape Town Convention and its Protocol on Aircraft Equipment in March 2010 has enabled New Zealand's aircraft operators to access discounted finance or leases for future aircraft acquisitions.</p> <p><b>Review of passenger security charges (Avsec charges):</b> From 1 April 2010 the aviation security charge paid by out-bound airlines was reduced. This followed a review of the Aviation Security Service's passenger security charges, which commenced in September 2009.</p> <p><b>Multilateral coordination:</b> The Ministry successfully participated in an International Civil Aviation Organization high-level meeting on aviation and the environment. The Ministry produced an outcome where the United States agreed to pursue a global annual average fuel efficiency improvement of 2 percent until 2020.</p> <p><b>Air services:</b> The Ministry continued working through the issues outstanding in air services negotiations with the European Union. However, given the differences between our respective positions on significant issues, it was difficult to reach a mutually acceptable position. Further negotiations were put on hold pending further developments on either side.</p> <p>Negotiations were also held with Papua New Guinea in March 2010 where an understanding was reached on liberalising some elements of the air services arrangements.</p> <p><b>New Zealand–Japan air services agreement:</b> An agreement was reached with Japan on amendments to the New Zealand–Japan air services agreement to permit the operation of Boeing B777-300 aircraft on the route.</p>
<p>Ensuring levels of aviation safety and security.</p>	<p>Work was progressed, in conjunction with Air New Zealand and the Civil Aviation Authority, on evaluating the feasibility of flight deck barriers on 19-seat aircraft.</p>
<p>Manage the Crown's interest in charging and capital expenditure initiatives at joint venture airports.</p>	<p><b>Joint venture airports - management of Crown interests:</b> The Ministry visited each of the six joint venture airports to meet with airport management and monitor capital developments. This assisted the Ministry to effectively manage the Crown appropriation for joint venture airports. Funding was approved for upgrade of the New Plymouth Airport terminal, the reseal of the runway at Whakatane Airport and operational losses at Whanganui Airport.</p>

In addition to the programmes of action outlined in the Ministry's 2009–2012 Statement of Intent, the following initiatives arose:

- **International air linkages:** The Ministry supported the Ministry of Tourism on its work on international air linkages, including providing advice on air services agreements and data and information from the Ministry's sources.
- **Levy on Australian airlines:** Jetstar decided to relinquish its New Zealand safety certification, and instead operate using its Australian certification under the 2007 mutual recognition arrangement for aviation certification that New Zealand has with Australia. The Ministry worked with the Civil Aviation Authority to provide advice to the government on introducing a reduced per domestic passenger safety levy rate for Australian airlines operating on this basis.
- **Security:** The Ministry undertook additional engagement with the United States Transport Security Administration and Asia-Pacific Aviation Regulators as a result of increased security requirements following the terrorist incident on an aircraft from Europe to the United States in December 2009.

## Maritime

The planned actions and deliverables for 2009/10 as outlined in the Ministry's 2009–2012 Statement of Intent for the maritime programme were:

2009/10 PLANNED ACTIONS	DELIVERABLES
Address workforce shortages in shipping and related industries.	<i>Maritime New Zealand-led coastal shipping and qualifications review:</i> Maritime New Zealand is developing a revised qualification and operating limits framework. The Ministry has participated in the steering group for this project. The proposed framework will be released for consultation later in 2010.
Facilitate improved port and harbour navigational safety.	The Ministry worked on the drafting instructions for the Maritime Transport Amendment Bill, which includes changes to strengthen port and harbour navigational safety. Work also continued with Maritime New Zealand on changes to Part 90 of the Maritime Rules to improve New Zealand's pilotage framework.
Review transport policy priorities to enable investment in port facilities and shipping services.	<i>Freight information gathering system:</i> The information gathered through the freight information system will inform transport policy priorities regarding freight networks.
Examine barriers to competition, market entry and performance of shipping.	The Ministry and Maritime New Zealand worked with the domestic shipping sector to identify ways to better accommodate operators' needs within the regulatory safety framework through administrative practice and maritime rule changes.

In addition to the programmes of action as outlined in the Ministry's 2009–2012 Statement of Intent, the following initiatives arose:

- Obtained search and rescue and boating safety awareness funding under section 9(1) Land Transport Management Act from 2010/11 onwards.
- *2010 review of the marine safety charge (MSC):* A reduction in the marine safety charge paid by cruise ships was announced in May 2010. The charge will decrease from 1 October 2010.
- *Submarine Cables and Pipelines Protection Act 1996:* The Ministry initiated two prosecutions under the Act and commenced investigations in a further three incidents.
- *Pohokura cable:* The Ministry consulted on and analysed submissions on proposals for changes to the Pohokura cable protection order.
- *Carriage of coastal shipping by international shipping (S198):* The Ministry processed three authorisation requests involving nine LPG tankers and two cruise ships.

## Output: Ministerial services

This output involves the provision of advice to the Minister(s) on issues arising across all modes of transport, draft responses to ministerial correspondence and parliamentary questions, speech drafts, development of legislation (Acts and regulations) and other services.

Actual 2008/09	Performance Measures	Actual 2009/10	Standards/ Targets 2009/10
Achieved	Legislation development and issuing of drafting instructions as agreed with the Minister(s) for the relevant calendar year.	Achieved	Achieved
3,481*	<b>Quantity</b> Number of draft Ministerial letters.	1,871**	1,300–1,600
75%	<b>Timeliness</b> Percentage of draft Ministerials completed within 20 working days of receipt by the Ministry, unless specified urgent.	60%	≥95%
\$5,770,486	<b>Cost</b> The output is produced within appropriation (GST exclusive).	\$6,813,310	\$6,579,420

\* This was the total number of ministerials received.

\*\* This was the total number of ministerials requiring a reply (4,648 were received).

### Commentary on performance

The increase in cost is mainly due to the allocation of more time to this area for reasons explained below.

### Ministerial correspondence

The figure shown above of 1,871 reflects the number of ministerials requiring a reply. In addition to this, the Ministry received 2,777 letters that did not require a reply — a total of 4,648.

The total number of ministerials processed in 2009/10 (4,648) represents a 34 percent increase on 2008/09 (3,481). While 2,777 letters did not require a response, they still have to be processed which takes staff time and a cost is incurred.

The Ministry has failed to meet its timeliness target for the year. In response to this, the Ministry decentralised the drafting of ministerial responses from April 2010. Policy teams are now responsible for drafting responses in an effort to improve the percentage of ministerials completed within 20 working days.

### Legislation

During 2009/10, four transport Acts were passed:

- Land Transport (Enforcement Powers) Amendment Act 2009
- Land Transport Amendment Act 2009
- Road User Charges Amendment Act 2009
- Civil Aviation (Cape Town Convention and Other Matters) Amendment Act 2010.

Each of these Acts was passed in short timeframes. The first went from inception to passage in less than nine months, and the last had only four months between the government confirming policy for the Bill and it passing.

For the Cape Town Convention legislation, in lieu of Select Committee consideration, the Ministry engaged with stakeholders on the relationship between the Convention and the Personal Property Securities Act, resulting in a Supplementary Order Paper. The Bill was passed on 23 June and received Royal Assent on 30 June to come into force on 1 November 2010.

The legislation to implement *Safer Journeys: New Zealand's road safety strategy 2010–2020*, is still under way at 30 June 2010.

The Ministry also worked on the Land Transport Management Act 2003 (LTMA) with the focus on improving the processes within the Act, and achieving a durable piece of legislation for administering the land transport system. Rather than a major rewrite of the legislation, the review is looking at simplifying, and increasing the effectiveness of, planning, funding and accountability under the LTMA. The review is also looking at measures to reduce the barriers to using tolling, borrowing and public private partnerships to fund transport projects and will also repeal the regional fuel tax provisions in the LTMA.

## Output: Rules management

This output provides for management and development of the transport rules and related regulations process. It involves accepting the need for a rule, developing and consulting with the public on the rule, supporting the Minister in the Cabinet and parliamentary process and facilitating the signing of rules, and any associated regulation, into law. It also includes negotiating and managing the annual programme and agreements for rules development services by the transport Crown entities.

Actual 2008/09	Performance Measures	Actual 2009/10	Standards/Targets 2009/10
Partially achieved	Rules and regulations are developed as specified in the agreed annual rules programme.	Partially achieved	Priority work as detailed in the work programme
\$4,058,725	<b>Cost</b> The output is produced within appropriation (GST exclusive).	\$4,069,335	\$4,109,844

### Commentary on performance

There were 29 rules planned for completion in 2009/10. Fourteen were completed.

Mode	Planned for Completion	Completed
Land	10	9
Maritime	13	3
Aviation	6	2
<b>Total</b>	<b>29</b>	<b>14</b>

Completion against target is at 48 percent. This is explained further below.

The following rules were completed:

#### *Land transport rules*

- Omnibus 2009
- Steering Systems Amendment Rule
- Traction Engines Rule
- Road User Amendment Rule (1) 2009
- Road User Amendment Rule (2) 2009
- Vehicle Dimensions and Mass Amendment Rule
- Tyres and Wheels Amendment Rule
- Dangerous Goods Amendment Rule
- Worktime and Logbooks Amendment Rule

#### *Maritime rules*

- Part 40E – Sailing Vessels
- Part 200 – Offshore installations and discharges
- Part 42B – Fire Fighting Equipment

#### *Aviation rules*

- Part 21 – Special Category Aircraft
- Civil Aviation Omnibus Amendment Rule (09)

Progress on other rules is as follows:

#### Land

The outstanding rule will be carried forward to the 2010/11 programme.

#### Maritime

Of the ten rules not completed, five are in their final stage of development. Delays in rule development are a result of changes to rule scope, issues associated with drafting, and additional complications with stakeholder engagement.

#### Aviation

The four rules not completed are in the final stages of preparation for Ministerial consideration. These are legacy rules which have been on the programme for some time. Delays in rule completion are a result of changing scopes affecting proposed draft final rule provisions and the need for extended consultation.

### Output class: Policy advice — financial performance (amounts are GST exclusive)

Actual 2008/09 \$000		Actual 2009/10 \$000	Main Estimates 2009/10 \$000	Supplementary Estimates 2009/10 \$000
27,817	Revenue Crown	27,199	31,078	30,491
540	Other revenue	726	288	588
28,357	<b>Total revenue</b>	27,925	31,366	31,079
28,078	Total expenses	27,769	31,366	31,079
<b>279</b>	<b>Net surplus</b>	<b>156</b>	-	-

## OUTPUT CLASS: SECTOR LEADERSHIP AND SUPPORT

Through this output class, the Ministry provides strategic leadership across the government transport sector. This enables transport Crown entities and other relevant agencies to align their strategic direction to contribute to the objectives of the transport government.

It also includes monitoring of, and advice to the Minister on, management of the Crown's ownership and/or purchase interest in the transport sector Crown entities and other organisations.

The services provided will contribute to all the other sector outcomes and towards ensuring the government transport sector is efficient and effective.

This output class is supported by two outputs: transport leadership and direction setting, and ownership and purchase monitoring.

### Output: Transport leadership and direction setting

This output focuses on the Ministry's role to provide strategic transport leadership and overall direction.

Actual 2008/09	Performance Measures	Actual 2009/10	Standards/ Targets 2009/10
Partially achieved	Develop a programme and accompanying strategic documents to implement the government's priorities for transport.	Ongoing	Achieved
New	Begin work on the second Government Policy Statement for Land Transport Funding to be published by 30 June 2011.	Underway	Underway
Partially achieved	Programme to support implementation of the updated New Zealand Transport Strategy is developed and implemented following the release of the Strategy, in accordance with agreed timeframes.	Partially achieved	Achieved
\$2,168,695	<b>Cost</b> The output is produced within appropriation (GST exclusive).	\$1,312,056	\$1,584,214

### Commentary on performance

The New Zealand Transport Strategy 2008 (NZTS) was published in August 2008 and provided a clear statement of the previous government's direction for transport over a 30 year period to 2040. The current government in general terms supports the overall intent of the NZTS, but considers that moving too quickly on modal shift will have a negative impact on economic efficiency. The government will develop a forward plan for transport to meet its economic growth goals.

To assist in the development of the forward plan the Ministry is analysing strategic trends and issues on an ongoing basis and developed a paper for the Minister to initiate a debate in Cabinet about the longer-term direction for the transport sector. As a result four long-term transport outcomes were agreed by the Minister. These outcomes have been used for the Ministry's and the transport Crown entities' Statements of Intent for 2010–2013.

Work has begun on the next Government Policy Statement for Land Transport Funding to be released at the end of June 2011. The Government Policy Statement (GPS) is the policy lead document for the allocation of funding for land transport projects, which will feed into the funding allocation for the next three-year National Land Transport Programme (NLTP). The NLTP is expected to be published by the NZ Transport Agency in June 2012.

### Output: Ownership and purchase monitoring

This output involves assessing and advising on transport Crown entities' ongoing capability and performance in contributing to the government's objectives, relevant government policy and each Crown entity's statutory mandate. It includes providing advice to transport Ministers and Crown entities on where improvements can be made. This output also supports the Minister in the selection, appointment and development of Crown entity and other transport agency boards.

Actual 2008/09	Performance Measures	Actual 2009/10	Standards/Targets 2009/10
Achieved	Effective governance, performance and capability of transport Crown entities.	Achieved	Achieved
\$1,347,966	<b>Cost</b> The output is produced within appropriation (GST exclusive).	\$1,003,147	\$915,786

### Commentary on performance

#### *The Secretary for Transport's Responsibilities under Section 101*

From August 2008, Section 101 of the Land Transport Management Act 2003 introduced a new responsibility for the Secretary for Transport (Chief Executive) to 'monitor and review specified activities and procedures...for the purpose of evaluating the performance of the land transport funding and planning system.'

Given the NZ Transport Agency's responsibility for key elements of this funding and planning system, the Chief Executive and the NZ Transport Agency Board agreed that an effective means of discharging the Section 101 responsibility was for the Chief Executive to sit on the NZ Transport Agency Board's Audit, Risk and Assurance Committee (the Committee), have input into the Board's work programme, and utilise the results of the NZ Transport Agency's internal audit function to address the Section 101 responsibility. The Chief Executive could still undertake additional review work if needed.

During 2009/10, the Committee and Chief Executive agreed a work programme that would address the Section 101 requirements over the 2009–2012 period, and the Chief Executive received committee papers and attended meetings. The first audit report covering elements of the Section 101 responsibility was received at the Committee's August 2010 meeting. The Chief Executive will consider whether this information meets his responsibility and discuss any refinements to the current approach with the Committee.

### Facilitate effective governance, performance and capability of transport Crown entities

The key services provided during 2009/10 were:

- Advising the Ministers on the re/appointment of new Chairs for all four Crown entities, and three new members for both the Civil Aviation Authority and the NZ Transport Agency.
- Advising Ministers and Crown entities on the latter's proposed actions to improve performance, including working with the Civil Aviation Authority and the Office of the Auditor-General on a work programme to address the latter's *Report on the Civil Aviation Authority's progress with improving certification and surveillance*.
- Working with Crown entities to facilitate an improved understanding of the requirements for reviews of fees and charges, and around consideration of value for money (for example, the Civil Aviation Authority Funding Review and the Maritime New Zealand Review).
- Advising Ministers and entity Boards on improving strategic alignment, transparency, and performance information in the Crown entities' Statements of Intent for 2010–13; facilitating related discussions between the Minister and Boards; and drafting Ministerial Letters of Expectations.
- Advising the Ministers and Crown entities on the proposed management of revenue and expenditure pressures in light of the economic downturn.
- Working with the NZ Transport Agency on implementing new requirements (under section 11(2)(f) of the Land Transport Management Act 2003) for the second annual report on the National Land Transport Fund.

### Output class: Sector leadership and support — financial performance (amounts are GST exclusive)

Actual 2008/09 \$000		Actual 2009/10 \$000	Main Estimates 2009/10 \$000	Supplementary Estimates 2009/10 \$000
3,517	Revenue Crown	2,315	1,950	2,500
-	Other revenue	-	-	-
3,517	<b>Total revenue</b>	2,315	1,950	2,500
3,517	Total expenses	2,315	1,950	2,500
-	<b>Net surplus / (deficit)</b>	-	-	-

## OUTPUT CLASS: LAND TRANSPORT REVENUE FORECASTING AND STRATEGY

Through this output class, the Ministry provides land transport revenue forecasting and strategy advice.

Actual 2008/09	Performance Measures	Actual 2009/10	Standards/ Targets 2009/10
100%	Revenue forecasts are completed as required.	100%	100%
100%	Revenue system improvements developed and implemented as agreed, in accordance with agreed timeframes.	100%	100%
New	Fuel excise duty and road user charges levels adjusted as required, in accordance with agreed timeframes.	100%	100%
\$1,910,686	<b>Cost</b> The output is produced within appropriation (GST exclusive).	\$1,615,218	\$1,700,000

### Commentary on performance

The Ministry is appropriated \$1 million for this appropriation from fees paid on the road tax revenue. Due to the work on the road user charges (RUC) review, costs have exceeded this. The Ministry has funded the additional costs from its baseline rather than requesting additional funding.

RUC and fuel excise duty were increased on 1 October 2009 as agreed by the government.

The planned actions and deliverables for 2009/10 as outlined in the Ministry's 2009–2012 Statement of Intent for the land transport revenue forecasting programme were:

2009/10 PLANNED ACTIONS	DELIVERABLES
Examine ways to improve the operation of the National Land Transport Fund (NLTF) through simplification, efficiency improvements and other changes that will deliver value for money.	<p><b>Implementation of the road user charges (RUC) review:</b> Consultation with key stakeholders was completed. On 1 January 2010 the RUC Amendment Regulations that allow for the use of electronic distance recorders and electronic display of RUC licences came into force.</p> <p>The first electronic distance recorders received approval from the Secretary for Transport (Chief Executive) in February 2010.</p> <p>Work resulting from the implementation of the accepted recommendations included:</p> <ul style="list-style-type: none"> <li>• a new approach to the definition of licence weight</li> <li>• the reform of the time licence system and the list of exempted vehicles</li> <li>• modernising the regulatory framework for electronic management systems</li> <li>• updating and improving the road user charges compliance regime.</li> </ul> <p>Policy approval was obtained for the proposals, which will be contained in new legislation planned for 2010/11.</p>

### Output Class: Land transport revenue forecasting and strategy — financial performance (amounts are GST exclusive)

Actual 2008/09 \$000		Actual 2009/10 \$000	Main Estimates 2009/10 \$000	Supplementary Estimates 2009/10 \$000
916	Revenue Crown	1,615	1,000	1,700
800	Other revenue	-	-	-
1,716	<b>Total revenue</b>	1,615	1,000	1,700
1,911	Total expenses	1,615	1,000	1,700
(195)	<b>Net surplus / (deficit)</b>	-	-	-

### OUTPUT CLASS: ROAD USER CHARGES COLLECTION, INVESTIGATION AND ENFORCEMENT

Through this output class, the Secretary for Transport (Chief Executive) delegates to, and contracts with, the NZ Transport Agency to provide an administrative and accounting service for the collection and refund of road user charges, and the investigation and enforcement of road user charges evasion.

Actual 2008/09	Performance Measures	Actual 2009/10	Standards/Targets 2009/10
65%	Identified evasion revenue recovered.	40%	≥ 30%
New	Average \$ cost per transaction.	7.36	≤ 7.36
\$17,688,000	<b>Cost</b> The output is produced within appropriation (GST exclusive).	\$17,344,000	\$17,344,000

#### Commentary on performance

\$18.2 million of evaded road user charges was identified during the year. \$7.24 million was recovered but it does not all relate to the \$18.2 million due to the time it takes to reach recovery agreements.

**Output Class: Road user charges collection, investigation and enforcement — financial performance** (amounts are GST exclusive)

Actual 2008/09 \$000		Actual 2009/10 \$000	Main Estimates 2009/10 \$000	Supplementary Estimates 2009/10 \$000
17,688	Revenue Crown	17,344	17,344	17,344
-	Other revenue	-	-	-
17,688	<b>Total revenue</b>	17,344	17,344	17,344
17,688	Total expenses	17,344	17,344	17,344
-	<b>Net surplus / (deficit)</b>	-	-	-

**OUTPUT CLASS: REFUND OF FUEL EXCISE DUTY**

Through this output class, the Secretary for Transport (Chief Executive) delegates to, and contracts with, the NZ Transport Agency to provide an administrative and accounting service for the refund of fuel excise duty.

Actual 2008/09	Performance Measures	Actual 2009/10	Standards/ Targets 2009/10
New	Eligible refunds processed within 7 days.	Not met	100%
2.4%	Proportion of revenue which is refunded.	2.4%	≤ 3%
\$392,000	<b>Cost</b> The output is produced within appropriation (GST exclusive).	\$429,000	\$429,000

**Commentary on performance**

The timeliness of refund processing target has not been met. After the Estimates were finalised, the measure was amended by the NZ Transport Agency to 'percentage of refunds actioned within 10 working days'. The actual achievement against this measure was 39.16 percent due to the need to return some claims to applicants and wait for the weekly cheque run. The measure is being reviewed.

**Output Class: Refund of fuel excise duty — financial performance** (amounts are GST exclusive)

Actual 2008/09 \$000		Actual 2009/10 \$000	Main Estimates 2009/10 \$000	Supplementary Estimates 2009/10 \$000
392	Revenue Crown	429	429	429
-	Other revenue	-	-	-
392	<b>Total revenue</b>	429	429	429
392	Total expenses	429	429	429
-	<b>Net surplus / (deficit)</b>	-	-	-

## OUTPUT CLASS: AIRPORT OPERATION AND ADMINISTRATION

This output class covers the operation of Milford Sound/Piopiotahi Aerodrome to provide a safe and efficient aerodrome operation.

Actual 2008/09	Performance Measures	Actual 2009/10	Standards/ Targets 2009/10
100%	The aerodrome will conform with appropriate Civil Aviation Authority safety requirements.	100%	100%
\$157,000	<b>Cost</b> Operating costs within third party revenue (GST exclusive).	\$240,120	\$200,000

### Commentary on performance

During the 2009/10 year Milford Sound/Piopiotahi Aerodrome complied with CAA physical standards. There were no reported aircraft incidents attributable to the physical condition of the aerodrome during the year. The outstanding work from the interrupted 2008/09 resealing of the aerodrome movement areas was completed.

Subsequent to this, the Ministry's aerodrome assets were revalued as reflected in the financial statements. A review of landing charges was then undertaken and new charges from 1 July 2010 were approved by the Minister of Transport. The intent of the charge review was that the fees paid by aircraft operators should fully cover the cost of the aerodrome operation. The increased costs for the year are a reflection of the increased time being spent on the review and the reseal.

### Output class: Airport operation and administration — financial performance (amounts are GST exclusive)

Actual 2008/09 \$000		Actual 2009/10 \$000	Main Estimates 2009/10 \$000	Supplementary Estimates 2009/10 \$000
-	Revenue Crown	-	-	-
73	Other revenue	84	200	250
73	<b>Total revenue</b>	84	200	250
157	Total expenses	240	200	250
<b>(84)</b>	<b>Net surplus/(deficit)</b>	<b>(156)</b>	-	-

# Financial Performance

## Statement of Objectives – Financial Performance

for the year ended 30 June 2010

Actual 2008/09		Unit/%	Actual 2009/10	Main Estimates 2009/10	Supplementary Estimates 2009/10
	<b>Operating results</b>				
2,465	Other revenue	\$000	810	488	838
57,579	Output expenses	\$000	49,712	52,289	53,302
486	Operating surplus before capital charge	\$000	223	258	223
-	Net surplus	\$000	-	-	-
	<b>Working capital</b>				
(47)	Net current assets	\$000	111	(951)	52
99	Current ratio	%	102	79	102
	<b>Resource utilisation</b>				
4,053	Property plant and equipment and intangibles at year end	\$000	4,015	5,031	3,928
30	Additions as a percentage of property, plant and equipment and intangible assets at year end	%	13	16	17
56	Property, plant and equipment and intangibles as a percentage of total assets at year end	%	42	58	55
2,984	Taxpayers' funds at year end	\$000	3,116	2,984	2,958
	<b>Net cash flows</b>				
(508)	Surplus/(deficit) from operating activities	\$000	2,441	843	3,362
2,354	Surplus/(deficit) from investing activities	\$000	(605)	(800)	(669)
(10,649)	(Deficit) from financing activities	\$000	(26)	-	(26)
(8,803)	Net increase/(decrease) in cash held	\$000	1,810	43	2,667

## Statement of Comprehensive Income

for the year ended 30 June 2010

Actual 2008/09 \$000		Notes	Actual 2009/10 \$000	Main Estimates 2009/10 \$000	Supplementary Estimates 2009/10 \$000
	<b>Income</b>				
31,937	Revenue Crown	2	30,129	33,028	33,691
18,996	Revenue from fees	3	18,773	18,773	18,773
2,465	Other revenue	4	810	488	838
4,181	Revenue from the National Land Transport Fund	5	-	-	-
<b>57,579</b>	<b>Total operating income</b>		<b>49,712</b>	<b>52,289</b>	<b>53,302</b>
	<b>Expenditure</b>				
26,058	Contractual payments to Crown entities	6	20,837	20,864	20,864
18,409	Personnel expenses	7	17,408	17,493	18,024
11,736	Other operating expenses	8	10,422	12,831	13,397
486	Capital charge	9	223	258	223
543	Depreciation of property, plant and equipment	12	505	545	506
347	Amortisation of intangible assets	13	297	298	288
-	Finance costs	14	20	-	-
<b>57,579</b>	<b>Total expenditure</b>		<b>49,712</b>	<b>52,289</b>	<b>53,302</b>
-	<b>Net surplus/(deficit)</b>		-	-	-
-	Gain on revaluation of Milford aerodrome	12	158	-	-
-	<b>Total comprehensive income</b>		<b>158</b>	-	-

Explanation of significant variances against budget is detailed in note 24.

## Statement of Movements in Taxpayers' Funds

for the year ended 30 June 2010

Actual 2008/09 \$000		Notes	Actual 2009/10 \$000	Main Estimates 2009/10 \$000	Supplementary Estimates 2009/10 \$000
<b>9,974</b>	<b>Balance at 1 July</b>		<b>2,984</b>	<b>2,984</b>	<b>2,984</b>
-	Total comprehensive income		158	-	-
(6,990)	Capital withdrawal	10	(26)	-	(26)
<b>2,984</b>	<b>Balance at 30 June</b>	<b>10</b>	<b>3,116</b>	<b>2,984</b>	<b>2,958</b>

The notes form an integral part of, and should be read in conjunction with, these financial statements.

# Statement of Financial Position

as at 30 June 2010

Actual 2008/09 \$000		Notes	Actual 2009/10 \$000	Main Estimates 2009/10 \$000	Supplementary Estimates 2009/10 \$000
	<b>Taxpayers' funds</b>				
2,381	General funds		2,355	2,381	2,355
603	Revaluation reserve - aerodrome		761	603	603
<b>2,984</b>	<b>Total taxpayers' funds</b>	<b>10</b>	<b>3,116</b>	<b>2,984</b>	<b>2,958</b>
	<i>Represented by:</i>				
	<b>Current assets</b>				
345	Cash and cash equivalents		2,155	3,235	3,011
2,830	Debtors and other receivables	11	3,454	380	263
<b>3,175</b>	<b>Total current assets</b>		<b>5,609</b>	<b>3,615</b>	<b>3,274</b>
	<b>Non-current assets</b>				
3,349	Property, plant and equipment	12	3,387	3,961	3,268
704	Intangible assets	13	540	1,070	660
-	Work in progress		88	-	-
<b>4,053</b>	<b>Total non-current assets</b>		<b>4,015</b>	<b>5,031</b>	<b>3,928</b>
<b>7,228</b>	<b>Total assets</b>		<b>9,624</b>	<b>8,646</b>	<b>7,202</b>
	<b>Current liabilities</b>				
2,269	Creditors and other payables	15	4,342	3,702	2,269
953	Employee entitlements	16	1,156	864	953
<b>3,222</b>	<b>Total current liabilities</b>		<b>5,498</b>	<b>4,566</b>	<b>3,222</b>
	<b>Non-current liabilities</b>				
470	Employee entitlements	16	438	544	470
552	Provision for lease make-good	17	572	552	552
<b>1,022</b>	<b>Total non-current liabilities</b>		<b>1,010</b>	<b>1,096</b>	<b>1,022</b>
<b>4,244</b>	<b>Total liabilities</b>		<b>6,508</b>	<b>5,662</b>	<b>4,244</b>
<b>2,984</b>	<b>Net assets</b>		<b>3,116</b>	<b>2,984</b>	<b>2,958</b>

The notes form an integral part of, and should be read in conjunction with, these financial statements.

# Statement of Cash Flows

for the year ended 30 June 2010

Actual 2008/09 \$000		Notes	Actual 2009/10 \$000	Main Estimates 2009/10 \$000	Supplementary Estimates 2009/10 \$000
	<b>Cash flows from operating activities</b>				
48,366	Crown		48,263	51,801	55,031
477	Departments		575	288	588
4,062	Crown entities		88	-	-
4,181	National Land Transport Fund		-	-	-
167	Other		146	200	250
(18,410)	Personnel costs		(17,390)	(17,493)	(18,024)
(12,672)	Operating expenses		(8,331)	(12,831)	(13,396)
(26,058)	Contractual payments to Crown entities		(21,159)	(20,864)	(20,864)
(135)	Net GST paid		472	-	-
(486)	Capital charge		(223)	(258)	(223)
<b>(508)</b>	<b>Net cash flows from operating activities</b>	<b>18</b>	<b>2,441</b>	<b>843</b>	<b>3,362</b>
	<b>Cash flows from investing activities</b>				
17	Receipts from the sale of property, plant and equipment		-	-	-
3,019	Receipts from the sale of intangible assets		-	-	-
(480)	Purchase of property, plant and equipment		(384)	(500)	(425)
(202)	Purchase of intangible assets		(221)	(300)	(244)
<b>2,354</b>	<b>Net cash flows from investing activities</b>		<b>(605)</b>	<b>(800)</b>	<b>(669)</b>
	<b>Cash flows from financing activities</b>				
(6,990)	Capital withdrawal by the Crown	10	(26)	-	(26)
(3,659)	Repayment of surplus to the Crown		-	-	-
<b>(10,649)</b>	<b>Net cash flows from financing activities</b>		<b>(26)</b>	<b>-</b>	<b>(26)</b>
<b>(8,803)</b>	<b>Net increase/(decrease) in cash held</b>		<b>1,810</b>	<b>43</b>	<b>2,667</b>
9,148	Cash at beginning of year		345	3,192	345
<b>345</b>	<b>Total cash at end of year</b>		<b>2,155</b>	<b>3,235</b>	<b>3,012</b>

The net GST paid component of operating activities reflects the net GST paid to and received from the Inland Revenue Department. This component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes and to be consistent with the presentation basis of the other primary financial statements.

The notes form an integral part of, and should be read in conjunction with, these financial statements.

## Statement of Commitments

as at 30 June 2010

### Non-cancellable operating lease commitments

The Ministry leases property in the normal course of business. The majority of these leases are for premises, which have non-cancellable leasing periods ranging from one to six years.

Actual 2008/09 \$000		Actual 2009/10 \$000
	<b>Non-cancellable operating lease commitments</b>	
1,309	Not later than one year	1,299
4,992	Later than one year and not later than five years	4,837
4,200	Later than five years	3,056
<b>10,501</b>	<b>Total non-cancellable lease commitments</b>	<b>9,192</b>

The Ministry's non-cancellable operating leases have varying terms, escalation clauses and renewal rights. There are no restrictions placed on the Ministry by any of its leasing arrangements. Some accommodation leases are cancellable, subject to penalty. The amount disclosed is based on the current rental rates. The total operating lease cost is expensed on a straight line basis over the life of the lease.

A review of the rent on the Wellington premises fell due on 1 March 2009. Negotiations were still in progress as at 30 June 2010. The anticipated increase is not reflected in the above operating lease commitments as the rent has still not been agreed. However additional amounts have been accrued in the financial statements for the possible increase.

### Capital commitments

There were no capital commitments as at 30 June 2010 (2009: \$nil).

## Statement of Contingent Liabilities and Contingent Assets

as at 30 June 2010

### Quantifiable contingent liabilities

Actual 2008/09 \$000		Actual 2009/10 \$000
30	Personal grievances	8
<b>30</b>		<b>8</b>

### Personal grievances

A former staff member has taken a grievance claim. A determination has been made in favour of the Ministry by the Employment Relation Authority. Ratification of the final settlement is pending the Mediation Service's confirmation (this is the same case as disclosed in 2008/09).

### Contingent assets

The Ministry has no contingent assets (2009: \$nil).

## Statement of Departmental Expense and Capital Expenditure against Appropriations

for the year ended 30 June 2010

Actual Expenditure 2008/09 \$000		Actual Expenditure 2009/10 \$000	Voted Appropriation 2009/10 \$000
	<b>Vote Transport</b>		
	<b>Appropriations for classes of outputs</b>		
28,078	Policy advice	27,769	31,079
17,688	Road user charges collection, investigation and enforcement	17,344	17,344
3,517	Sector leadership and support	2,315	2,500
1,911	Land transport revenue forecasting and strategy	1,615	1,700
392	Refund of fuel excise duty	429	429
157	Airport operation and administration	240	250
5,197	Motor vehicle registry and revenue management	-	-
238	Distress radio beacons national education campaign	-	-
401	Next steps review implementation	-	-
<b>57,579</b>	<b>Total appropriation for output expenses</b>	<b>49,712</b>	<b>53,302</b>
	<b>Appropriation for capital expenditure</b>		
<b>682</b>	Ministry of Transport — Permanent Legislative Authority	<b>605</b>	<b>669</b>

The Voted Appropriation column includes all adjustments made in the 2009/10 Supplementary Estimates.

## Statement of Departmental Unappropriated Expenditure against Appropriations

for the year ended 30 June 2010

Unappropriated Expenditure 2008/09 \$000		Actual Expenditure 2009/10 \$000	Voted Appropriation 2009/10 \$000	Unappropriated Expenditure 2009/10 \$000
	<b>Vote Transport</b>			
	<b>Appropriations for classes of outputs</b>			
-	Policy advice	27,769	31,079	-
-	Road user charges collection, investigation and enforcement	17,344	17,344	-
-	Sector leadership and support	2,315	2,500	-
195	Land transport revenue forecasting and strategy	1,615	1,700	-
-	Refund of fuel excise duty	429	429	-
-	Airport operation and administration	240	250	-
<b>195</b>		<b>49,712</b>	<b>53,302</b>	<b>-</b>

The Ministry did not incur any unappropriated expenditure during the year. Overall, expenditure remained within the total budget.

The Ministry did not incur any capital expenditure in excess of appropriation, nor breach its departmental net asset schedule during the year.

### 2008/09 unappropriated expenditure

Output class: Land transport revenue forecasting and strategy exceeded appropriation in 2008/09 as more time was required from Ministry staff than was budgeted for on the road user charges review. This could not be avoided or delayed to 2009/10 as the results of the review were subject to public scrutiny and had to be followed up. The expenditure was not outside the scope of the appropriation.

# Notes to the Financial Statements

for the year ended 30 June 2010

## NOTE 1: STATEMENT OF ACCOUNTING POLICIES

### Reporting Entity

The Ministry of Transport (the Ministry) is a government department as defined by section 2 of the Public Finance Act 1989 and is domiciled in New Zealand.

The primary objective of the Ministry is to provide services to the public rather than making a financial return. Accordingly, the Ministry has designated itself as a public benefit entity for the purpose of the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements of the Ministry are for the year ended 30 June 2010. The financial statements were authorised for issue by the Chief Executive of the Ministry on 30 September 2010.

The information in these financial statements comprises the revenue, expenditure, assets and liabilities associated with operating its Wellington, Auckland and Christchurch offices and the Milford Sound/Piopiotaahi aerodrome for the full year.

Until 31 July 2008, the Ministry was responsible for the Motor Vehicle Registry and Revenue Management business and the Economic Compliance Unit, both of which were contracted out to Land Transport New Zealand. The Land Transport Management Act 2003 came into force on 1 August 2008. At that date, Land Transport New Zealand merged with Transit New Zealand to form the NZ Transport Agency and the ownership of the Motor Vehicle Register and the responsibilities of the Registrar function transferred to the new entity. The Chief Executive of the Ministry remains responsible for the collection, investigation and enforcement of road user charges and fuel excise duty refunds.

These financial statements have been prepared pursuant to section 35 of the Public Finance Act 1989.

In addition, the Ministry has reported the Crown activities which it administered throughout 2009/2010.

### Basis of preparation

The financial statements of the Ministry have been prepared in accordance with the requirements of the Public Finance Act 1989, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP).

These financial statements have been prepared in accordance with, and comply with, NZ IFRS as appropriate for public benefit entities.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. The financial statements have been prepared on an historical cost basis, modified by the revaluation of certain fixed assets.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency of the Ministry is the New Zealand dollar.

Standards, amendments, and interpretations issued that are not yet effective and have not been early adopted and which are relevant to the Ministry, are:

- NZ IAS 24 Related Party Disclosures (Revised 2009) replaces NZ IAS 24 Related Party Disclosures (Issued 2004) and is effective for reporting periods commencing on or after 1 January 2011. The revised standard:
  - i) Removes the previous disclosure concessions applied by the Ministry for arms-length transactions between the Ministry and entities controlled or significantly influenced by the Crown. The effect of the revised standard is that more information is required to be disclosed about transactions between the Ministry and entities controlled or significantly influenced by the Crown.
  - ii) Provides clarity on the disclosure of related party transactions with Ministers of the Crown. Further, with the exception of the Minister of Transport, the Ministry will be provided with an exemption from certain disclosure requirements relating to transactions with other Ministers of the Crown. The clarification could result in additional disclosures should there be any related party transactions with Ministers of the Crown.
  - iii) Clarifies that related party transactions include commitments with related parties.
- NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following three main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 on the classification and measurement of financial assets has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in NZ IAS 39. The new standard is required to be adopted for the year ended 30 June 2014. The Ministry has not yet assessed the effect of the new standard and expects it will not be early adopted.

## Capital charge

The capital charge is recognised as an expense in the period to which it relates.

## Budget figures

The budget figures are those included in the Estimates 2009. In addition, the financial statements also present the updated budget information from the Supplementary Estimates.

## Revenue

The Ministry derives revenue from the provision of outputs to the Crown and for services to third parties. Such revenue is recognised when earned and is reported in the financial period to which it relates. Revenue is measured at the fair value of the consideration received or receivable.

## Leases

### Operating leases

An operating lease is where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item. Lease payments under an operating lease are charged as expenses on a straight-line basis in the period in which they are incurred.

## Financial instruments

The Ministry is party to financial instruments as part of its normal operations. These financial instruments include cash and bank balances, and accounts receivable and payable. Financial assets and financial liabilities are initially measured at fair value plus transaction costs, unless they are carried at fair value through profit or loss in which case the transaction costs are recognised in the statement of comprehensive income.

## Cash and cash equivalents

Cash and cash equivalents include cash on hand and funds on deposit with banks and is measured at its face value.

## Debtors and other receivables

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate, less impairment changes.

Impairment of a receivable is established when there is objective evidence that the Ministry will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debtor is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement

of comprehensive income. Overdue receivables that are renegotiated are reclassified as current (ie not past due).

## Property, plant and equipment

Property, plant and equipment consist of leasehold improvements, furniture and fittings, office equipment, and Milford Sound/Piopiotaahi Aerodrome.

Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses.

All fixed assets costing more than \$2,000 are capitalised. They are valued at historical cost or estimated recoverable amount, less accumulated depreciation. Any write-down of an item to its recoverable amount is recognised in the statement of comprehensive income.

### Additions

The cost of an item of plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Ministry and the cost of the item can be measured reliably.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

### Disposal

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the statement of comprehensive income. When revalued assets are sold, the amounts included in the property, plant and equipment revaluation reserves in respect of those assets are transferred to general funds.

### Revaluation

The Ministry does not revalue its assets, except for Milford Sound/Piopiotaahi Aerodrome.

Milford Sound/Piopiotaahi Aerodrome is stated at optimised depreciated replacement cost as determined by an independent registered valuer. Milford Sound/Piopiotaahi Aerodrome is revalued at least every five years. Additions between revaluations are recorded at cost.

The result of revaluing Milford Sound/Piopiotaahi Aerodrome is credited or debited to an asset revaluation reserve for that class of asset. Where a revaluation results in a debit balance in the revaluation reserve, the debit balance will be expensed in the statement of comprehensive income.

### Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Ministry and the cost of the item can be measured reliably.

## Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, at rates that will write-off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Furniture and fittings	10 years	10% per annum
Leasehold improvements	2-10 years	10-50% per annum
Milford Sound/ Piopiotahi Aerodrome	6-100 years	1-17% per annum
Plant and equipment	3-10 years	10-33.3% per annum

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter.

Capital work in progress is not depreciated. The total cost of this work is transferred to the relevant asset category on the completion of the project and then depreciated.

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

## Intangible assets

### Software acquisition and development

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

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs that are directly associated with the development of software for internal use by the Ministry are recognised as an intangible asset. Direct costs include the software development, employee costs and an appropriate portion of relevant overheads.

Staff training cost is recognised as an expense when incurred.

### Amortisation

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

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

Other software	3-5 years	20-33.3% per annum
Crash analysis system	2 years	50% per annum
Motor vehicle register	3 years	33.3% per annum

Capital work in progress is not depreciated. The total cost of this work is transferred to the relevant asset category on the completion of the project and then depreciated.

## Impairment of non-financial assets

An intangible asset that is not yet available for use at the balance sheet date is tested annually for impairment.

Property, plant and equipment and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets the impairment loss is recognised against the revaluation reserve for that class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the statement of comprehensive income.

For assets not carried at a revalued amount, the total impairment loss is recognised in the statement of comprehensive income.

The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that class of asset was previously recognised in the statement of comprehensive income, a reversal of the impairment loss is also recognised in that statement.

For assets not carried at a revalued amount, the reversal of an impairment loss is recognised in the statement of comprehensive income.

## Creditors and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

## Employee entitlements

Employee entitlements include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, retirement and long service leave entitlements, and sick leave.

### Current liability for employee entitlements

Employee entitlements that the Ministry expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

The Ministry recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that the Ministry anticipates it will be used by staff to cover those future absences.

The Ministry recognises a liability and an expense for bonuses where it is contractually obliged to pay them, or where there is a past practice that has created a constructive obligation.

### Long-term employee entitlements

Entitlements that are payable beyond 12 months, such as long service leave and retirement leave, have been calculated on an actuarial basis, using a model for use by government entities that was developed by the Treasury during 2008/09 in consultation with a firm of actuaries.

The calculations are based on:

- likely future entitlements based on years of service
- years to entitlement
- the likelihood that staff will reach the point of entitlement
- contractual entitlements information
- the present value of the estimated future cash flows.

The discount rates used are detailed below and are in line with Treasury guidance.

	Year to 30 June 2011	Year to 30 June 2012	Outyears
Discount rate %	3.48	4.45	6.00
Salary inflation factor %	3.00	3.00	3.50

### Superannuation schemes

#### *Defined contribution schemes*

Obligations for employer contributions to the State Sector Retirement Savings Scheme, KiwiSaver and the Government Superannuation Fund are accounted for as defined contribution schemes and are recognised as an expense in the statement of comprehensive income as incurred.

### Taxpayers' funds

Taxpayers' funds are the Crown's investment in the Ministry and are measured as the difference between total assets and total liabilities. Taxpayers' funds are disaggregated and classified as general funds and asset revaluation reserves.

The Revaluation reserve - aerodrome relates to the revaluation of Milford aerodrome to fair value.

### Provisions

The Ministry recognises a provision for future expenditure of uncertain amount or timing when:

- there is a present obligation (either legal or constructive) as a result of a past event
- it is probable that an outflow of future economic benefits will be required to settle the obligation
- a reliable estimate can be made of the amount of the obligation.

Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

### Goods and services tax (GST)

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

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

### Income tax

Government departments are exempt from income tax as public authorities. Accordingly, no charge for income tax has been provided for.

### Statement of Cash Flows

Cash means cash balances on hand and held in bank accounts.

Operating activities include cash received from all income sources of the Ministry and record the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise the payment to the Crown of the operating surplus achieved by the Ministry and any capital withdrawals by or investments by the Crown.

## Commitments

Expenses yet to be incurred on non-cancellable contracts that have been entered into on or before balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

## Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are disclosed at the point at which the contingency is evident.

## Statement of Cost Accounting Policies

The Ministry has determined the cost of outputs using the cost allocation system outlined below.

### Types of cost

Direct costs are those costs directly attributed to an output. Indirect costs are those costs that cannot be identified with a specific output in an economically feasible manner.

### Method of assigning direct costs to outputs

Direct costs, such as consultants, are charged to outputs on the basis of the cost of the service provided.

Personnel costs are allocated to outputs based on the time recording data from the Ministry's time recording system.

### Method of assigning indirect costs to outputs

Indirect costs are allocated to outputs through a two-stage process. The costs are assigned to cost centres within the Ministry, and then the costs are allocated to outputs on the basis of the direct staff time attributable to the outputs of that cost centre.

## Critical accounting estimates and assumptions

In preparing these financial statements, the Ministry has made estimates and assumptions about the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### Retirement and long service leave

Note 16 provides an analysis of the exposure in relation to estimates and uncertainties surrounding retirement and long service leave liabilities.

### Useful lives of property, plant and equipment and intangible assets

Useful lives of assets are determined by the Ministry based on its best assessment of the asset's use.

## Critical judgements in applying the Ministry's accounting policies

Management has exercised the following critical judgements in applying the Ministry's accounting policies for the year ended 30 June 2010.

### Operating lease

Determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the Ministry. Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term and determining an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset is recognised in the statement of financial position as property, plant and equipment. With an operating lease, no such asset is recognised.

The Ministry has exercised its judgement on the appropriate classification of accommodation leases, and has determined the lease arrangements to be operating leases.

## Changes in accounting policies

The accounting policies have been applied consistently to all years presented in these schedules.

Certain items have been re-classified to conform to the current year's presentation of the Ministry's financial statements. These reclassifications do not have material impact on the substance of the information presented.

The Ministry has adopted one revision to accounting standards during the year, which has had only a presentational or disclosure effect.

NZ IAS 1 Presentation of Financial Statements (Revised 2007) replaces NZ IAS 1 Presentation of Financial Statements (Issued 2004). The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. The statement of comprehensive income will enable readers to analyse changes in equity resulting from non-owner changes separately from transactions with owners. The Ministry has decided to prepare a single statement of comprehensive income for the year ended 30 June 2010 under the revised standard. Financial statement information for the year ended 30 June 2009 has been restated accordingly. Items of other comprehensive income presented in the statement of comprehensive income were previously recognised directly in the statement of changes in equity.

## NOTE 2: REVENUE CROWN

Actual 2008/09 \$000		Actual 2009/10 \$000
27,817	Policy advice	27,199
3,517	Sector leadership and support	2,315
-	Land transport revenue forecasting and strategy	615
238	Distress radio beacons national education campaign	-
365	Next steps review implementation	-
<b>31,937</b>	<b>Total revenue Crown</b>	<b>30,129</b>

## NOTE 3: REVENUE FROM FEES

Actual 2008/09 \$000		Actual 2009/10 \$000
17,688	Road user charges collection, investigation and enforcement	17,344
916	Land transport revenue forecasting and strategy	1,000
392	Refund of fuel excise duty	429
<b>18,996</b>	<b>Total revenue from fees</b>	<b>18,773</b>

The above revenue replaced the Motor Vehicle Registry and Revenue Management output class from 1 July 2008. The revenue shown for 2008/09 is for the eleven months to 30 June 2009 (note 5).

## NOTE 4: OTHER REVENUE

Actual 2008/09 \$000		Actual 2009/10 \$000
495	Departmental	625
1,897	Crown entities	89
73	Other recoveries	96
<b>2,465</b>	<b>Total other revenue</b>	<b>810</b>

The decrease in revenue from Crown entities is mainly due to \$800,000 received for the road user charges review from the NZ Transport Agency and \$1,016,000 from the Accident Compensation Corporation received for the Motor Vehicle Registry and Revenue Management output class in 2008/09. This output class ceased on 31 July 2008 (note 5).

## NOTE 5: REVENUE FROM THE NATIONAL LAND TRANSPORT FUND

In prior years, the Ministry received funding from the National Land Transport Fund (the Fund) to cover the cost of the Motor Vehicle Registry and Revenue Management output class. On 1 August 2008, the funding regime changed with the transfer of the Motor Vehicle Register to the NZ Transport Agency and the cessation of this appropriation from 31 July 2008. Thus the revenue shown for 2008/09 is for July 2008 only.

## NOTE 6: CONTRACTUAL PAYMENTS TO CROWN ENTITIES

Actual 2008/09 \$000		Actual 2009/10 \$000
	NZ Transport Agency:	
17,688	For road user charges collection, investigation and enforcement activity	17,344
1,013	For rules programme activity	813
392	For refund of fuel excise duty activity	429
4,670	For motor vehicle registry and revenue management activity	-
1,438	Civil Aviation Authority for rules programme activity	1,541
857	Maritime New Zealand for rules programme activity	710
<b>26,058</b>	<b>Total contractual payments to Crown entities</b>	<b>20,837</b>

## NOTE 7: PERSONNEL EXPENSES

Actual 2008/09 \$000		Actual 2009/10 \$000
17,257	Salary and wages	16,423
502	Employer contribution to defined contribution schemes	489
253	Annual leave	207
21	Long service leave	11
6	Retirement leave	(12)
-	Sick leave	31
370	Other personnel costs	259
<b>18,409</b>	<b>Total personnel expenses</b>	<b>17,408</b>

Employer contributions to defined contribution plans include contributions to the State Sector Retirement Savings Scheme, Kiwisaver, and the Government Superannuation Fund.

## NOTE 8: OTHER OPERATING EXPENSES

Actual 2008/09 \$000		Actual 2009/10 \$000
5,624	Professional and specialist services	4,947
2,547	Other operating expenses	2,014
1,407	Operating lease payments	1,565
1,787	Computer bureau and software licence fees	1,581
306	Advertising and publicity	244
65	Audit fees for the financial statement audit	71
<b>11,736</b>	<b>Total other operating expenses</b>	<b>10,422</b>

## NOTE 9: CAPITAL CHARGE

The Ministry pays a capital charge to the Crown on its taxpayers' funds as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2010 was 7.5 percent (2009: 7.5 percent).

## NOTE 10: TAXPAYERS' FUNDS

Actual 2008/09 \$000		Actual 2009/10 \$000
	<b>General funds</b>	
9,371	Balance at 1 July	2,381
-	Net surplus/(deficit)	-
(6,990)	Capital withdrawal	(26)
<b>2,381</b>	Balance at 30 June	<b>2,355</b>
	<b>Revaluation reserve-aerodrome</b>	
603	Balance at 1 July	603
-	Revaluation gains	158
<b>603</b>	Balance as at 30 June	<b>761</b>
<b>2,984</b>	<b>Total taxpayers' funds</b>	<b>3,116</b>

An amount of \$26,000 was repaid to the Crown during the year as the Ministry's contribution towards the funding of the Identity Verification Services. In 2008/09, \$6,990,000 was repaid to the Crown being the proceeds of \$3,019,000 from the sale of the Motor Vehicle Register to the NZ Transport Agency, plus unspent depreciation on the register of \$3,971,000.

## NOTE 11: DEBTORS AND OTHER RECEIVABLES

Actual 2008/09 \$000		Actual 2009/10 \$000
2,567	Crown	3,206
263	Other	248
<b>2,830</b>	<b>Total debtors and other receivables</b>	<b>3,454</b>

As at 30 June 2010 the Ministry was owed money by the Crown, as Crown revenue was only drawn down as required.

The carrying value of debtors and other receivables approximates their fair value. No debtor is past due, and the Ministry has assessed that no provision for impairment is required.

## NOTE 12: PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements \$000	Plant and equipment \$000	Milford Sound/ Piopiotahi Aerodrome \$000	Furniture and fittings \$000	Total \$000
<b>Cost or valuation</b>					
Balance at 1 July 2008	2,170	1,722	702	944	5,538
Additions	-	143	330	7	480
Disposals	-	(195)	-	(112)	(307)
<b>Balance at 30 June 2009</b>	<b>2,170</b>	<b>1,670</b>	<b>1,032</b>	<b>839</b>	<b>5,711</b>
Balance at 1 July 2009	2,170	1,670	1,032	839	5,711
Additions	-	191	190	4	385
Net increase in revaluation	-	-	123	-	123
Disposals	-	(317)	-	-	(317)
<b>Balance at 30 June 2010</b>	<b>2,170</b>	<b>1,544</b>	<b>1,345</b>	<b>843</b>	<b>5,902</b>

	Leasehold improvements \$000	Plant and equipment \$000	Milford Sound/ Piopiotahi Aerodrome \$000	Furniture and fittings \$000	Total \$000
<b>Accumulated depreciation</b>					
Balance at 1 July 2008	464	1,285	22	336	2,107
Depreciation expense	218	234	7	84	543
Disposals	-	(195)	-	(93)	(288)
<b>Balance at 30 June 2009</b>	<b>682</b>	<b>1,324</b>	<b>29</b>	<b>327</b>	<b>2,362</b>
Balance at 1 July 2009	682	1,324	29	327	2,362
Depreciation expense	217	193	13	82	505
Reverse accumulated depreciation on revaluation	-	-	(35)	-	(35)
Disposals	-	(317)	-	-	(317)
<b>Balance at 30 June 2010</b>	<b>899</b>	<b>1,200</b>	<b>7</b>	<b>409</b>	<b>2,515</b>
<b>Carrying amounts</b>					
At 1 July 2008	1,706	437	680	608	3,431
At 30 June and 1 July 2009	1,488	346	1,003	512	3,349
<b>At 30 June 2010</b>	<b>1,271</b>	<b>344</b>	<b>1,338</b>	<b>434</b>	<b>3,387</b>

Milford Sound/Piopiotahi Aerodrome was valued as at 31 March 2010 by an independent valuer, G.Hughson (BE,MIPENZ), of Maunsell Ltd.

The total fair value of the aerodrome at that date was \$1.3 million resulting in a gain on revaluation of \$0.158 million. The net increase in revaluation was \$0.123 million after setting off the reversal of accumulated depreciation on the date of valuation of \$0.035 million.

## NOTE 13: INTANGIBLE ASSETS

	Motor Vehicle Register \$000	Crash analysis system \$000	Other software \$000	Total \$000
<b>Cost</b>				
Balance at 1 July 2008	33,386	408	791	34,585
Additions	267	-	456	723
Disposals	(33,653)	-	(115)	(33,768)
<b>Balance at 30 June 2009</b>	<b>-</b>	<b>408</b>	<b>1,132</b>	<b>1,540</b>
Balance at 1 July 2009	-	408	1,132	1,540
Additions	-	-	133	133
<b>Balance at 30 June 2010</b>	<b>-</b>	<b>408</b>	<b>1,265</b>	<b>1,673</b>
<b>Accumulated depreciation</b>				
Balance at 1 July 2008	30,459	408	371	31,238
Amortisation expense	175	-	172	347
Disposals	(30,634)	-	(115)	(30,749)
<b>Balance at 30 June 2009</b>	<b>-</b>	<b>408</b>	<b>428</b>	<b>836</b>
Balance at 1 July 2009	-	408	428	836
Amortisation expense	-	-	297	297
<b>Balance at 30 June 2010</b>	<b>-</b>	<b>408</b>	<b>725</b>	<b>1,133</b>
<b>Carrying amounts</b>				
At 1 July 2008	2,927	-	420	3,347
At 30 June and 1 July 2009	-	-	704	704
<b>At 30 June 2010</b>	<b>-</b>	<b>-</b>	<b>540</b>	<b>540</b>

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

## NOTE 14: FINANCE COST

Actual 2008/09 \$000		Actual 2009/10 \$000
-	Discount unwind on provisions (note 17)	20
-	<b>Total finance cost</b>	<b>20</b>

## NOTE 15: CREDITORS AND OTHER PAYABLES

Actual 2008/09 \$000		Actual 2009/10 \$000
1,976	Accrued expenses	3,230
395	Trade creditors	741
(102)	GST payable	371
<b>2,269</b>	<b>Total creditors and other payables</b>	<b>4,342</b>

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of creditors and other payables approximates their fair value.

## NOTE 16: EMPLOYEE ENTITLEMENTS

Actual 2008/09 \$000		Actual 2009/10 \$000
	<b>Current liabilities</b>	
847	Annual leave	987
95	Long service leave	112
11	Retirement leave	26
-	Sick leave	31
<b>953</b>	<b>Total of current portion</b>	<b>1,156</b>
	<b>Non-current liabilities</b>	
140	Long service leave	134
330	Retirement leave	304
<b>470</b>	<b>Total of non-current portion</b>	<b>438</b>
<b>1,423</b>	<b>Total provision for employee entitlements</b>	<b>1,594</b>

The present values of the long service and retirement leave obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factor. Any changes in this assumption will impact on the carrying amount of the liability. The discount rate and inflation factors used are detailed in the accounting policies.

If the discount rate were to differ by 1 percent from the Ministry's estimates, with all other factors held constant, the estimated carrying amount of the liability would be \$33,000 higher/lower.

If the inflation factor were to differ by 1 percent from the Ministry's estimates, with all other factors held constant, the estimated carrying amount of the liability would be \$41,000 higher/lower.

## NOTE 17: PROVISION FOR LEASE MAKE-GOOD

Actual 2008/09 \$000		Actual 2009/10 \$000
552	Opening balance 1 July	552
-	Discount unwind (note 14)	20
<b>552</b>	<b>Balance at 30 June 2010</b>	<b>572</b>

In respect of its leased premises, the Ministry is required at the expiry of the lease term to make good any damage caused to the premises and to remove any fixtures or fittings installed by the Ministry. The Ministry may have the option to renew these leases, which impacts on the timing of expected cash outflows.

## NOTE 18: RECONCILIATION OF THE NET SURPLUS IN THE STATEMENT OF COMPREHENSIVE INCOME WITH NET CASH FLOWS FROM OPERATING ACTIVITIES IN THE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010

Actual 2008/09 \$000		Actual 2009/10 \$000
-	<b>Net surplus</b>	-
	<b>Add non-cash items</b>	
543	Depreciation of property, plant and equipment	505
347	Amortisation of intangible assets	297
<b>890</b>	<b>Total of non-cash items</b>	<b>802</b>
	<b>Add/(deduct) movements in working capital items</b>	
6	(Increase)/decrease in prepayments	-
(216)	(Increase)/decrease in debtors and other receivables	(625)
(1,251)	Increase/(decrease) in payables and provisions	2,093
5	Increase/(decrease) in employee entitlements	171
<b>(1,456)</b>	<b>Net movements in working capital items</b>	<b>1,639</b>
	<b>Add/(deduct) items classified as investing activities</b>	
1	Loss on non-current assets held for sale	-
38	Work in progress expensed	-
19	(Profit)/loss on disposal of property, plant and equipment	-
<b>58</b>	<b>Total of investing activities</b>	<b>-</b>
<b>(508)</b>	<b>Net cash flows from operating activities</b>	<b>2,441</b>

## NOTE 19: FINANCIAL INSTRUMENTS

The Ministry's activities expose it to a variety of financial instrument risks, including market risk, credit risk, and liquidity risk. The Ministry has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

### Credit risk

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

In the normal course of its business, credit risk arises from debtors and deposits with banks.

The Ministry is only permitted to deposit funds with Westpac, a registered bank, and enter into foreign exchange forward contracts with the New Zealand Debt Management Office. These entities have high credit ratings. For its other financial instruments, the Ministry does not have significant concentrations of credit risk.

The Ministry's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents and net debtors. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

### Liquidity risk

Liquidity risk is the risk that the Ministry will encounter difficulty raising liquid funds to meet commitments as they fall due.

In meeting its liquidity requirements, the Ministry closely monitors its forecast cash requirements with expected cash drawdowns from the New Zealand Debt Management Office. The Ministry maintains a target level of available cash to meet liquidity requirements.

The table below analyses the Ministry's financial liabilities that will be settled based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows, based on the liabilities in note 15.

Actual 2008/09 \$000		Actual 2009/10 \$000
2,269	Less than 6 months	4,342
-	Greater than 6 months	-

### Market risk

#### Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate, or the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.

The Ministry has no exposure to interest rate risk because it has no interest-bearing financial instruments.

#### Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Ministry has no exposure to currency risk because it does not enter into foreign exchange forward contracts.

## NOTE 20: CATEGORIES OF FINANCIAL INSTRUMENTS

The carrying amount of the financial assets and financial liabilities in each of the NZ IAS 39 categories are as follows:

Actual 2008/09 \$000		Actual 2009/10 \$000
	<b>Loans and receivables</b>	
345	Cash and cash equivalents	2,155
2,830	Debtors and other receivables (note 11)	3,454
	<b>Financial liabilities measured at amortised cost</b>	
2,269	Creditors and other payables (note 15)	4,342

## NOTE 21: RELATED PARTY INFORMATION

The Ministry is a wholly owned entity of the Crown. The government significantly influences the role of the Ministry as well as being its major source of revenue.

The Ministry enters into transactions with other government departments, Crown entities and State-owned Enterprises on an arm's length basis. Those transactions that occur within a normal supplier and client relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the Ministry would have adopted if dealings with that entity at arm's length in the same circumstance are not disclosed.

### Key management personnel compensation

Actual 2008/09 \$000		Actual 2009/10 \$000
1,922	Salaries and other short-term employee benefits	1,420
7	Other long-term benefits	-
340	Termination benefits	-
<b>2,269</b>	<b>Total key management personnel compensation</b>	<b>1,420</b>

At 30 June 2010 key management personnel include the Chief Executive and the four members (2009: 6 members) of the senior management team. The decrease in the cost is due to reduction in number of members and the reorganisation.

Key management personnel compensation excludes the remuneration and other benefits the Minister and the Associate Minister of Transport receive. The Minister's and Associate's remuneration and other benefits are not received only for their roles as members of the key management personnel of the Ministry. Their remuneration and other benefits are set by the Remuneration Authority under the Civil List Act 1979 and are paid under Permanent Legislative Authority, and not paid by the Ministry of Transport.

## NOTE 22: CAPITAL MANAGEMENT

The Ministry's capital is its equity (or taxpayers' funds), which comprise general funds and revaluation reserves. Equity is represented by net assets.

The Ministry manages its revenues, expenses, assets, liabilities and general financial dealings prudently. The Ministry's equity is largely managed as a by-product of managing income, expenses, assets, liabilities and compliance with the government Budget process and the Treasury instructions.

The objective of managing the Ministry's equity is to ensure the Ministry effectively achieves the goals and objectives for which it has been established, whilst remaining a going concern.

## NOTE 23: MAJOR CHANGES TO THE DEPARTMENTAL OUTPUT BUDGETS

Changes were made to the Ministry's departmental output budgets for the year 2009/10 by way of the Supplementary Estimates. The net changes appear in the following table.

	Main Estimates \$000	Supplementary Estimates \$000	Cumulative Vote \$000
<b>Appropriations for departmental output expenses</b>			
Policy advice	31,366	(287)	31,079
Road user charges collection, investigation and enforcement	17,344	-	17,344
Refund of fuel excise duty	429	-	429
Land transport revenue forecasting and strategy	1,000	700	1,700
Airport operation and administration	200	50	250
Sector leadership and support	1,950	550	2,500
<b>Total departmental appropriations</b>	<b>52,289</b>	<b>1,013</b>	<b>53,302</b>

Explanations for the major changes were outlined in the 2009/10 *Information Supporting the Supplementary Estimates* (pages 381 to 383).

The total departmental appropriations increased due to a carry forward of \$0.65 million from 2008/09, and an increase in other revenue of \$0.36 million due mainly to cost recoveries. This funding was allocated to the Policy Advice output class. During the year, funding was transferred from Policy Advice to other output classes to reflect the actual activity expected in each one.

## NOTE 24: EXPLANATION OF MAJOR VARIANCES BETWEEN ACTUAL AND BUDGET FIGURES

The significant variances between the actual results and the figures included in the Estimates of Appropriations for the year ended 30 June 2010 are:

### Statement of Comprehensive Income

Revenue Crown increased by \$0.66 million between the Main Estimates and the Supplementary Estimates. The main reason for this is a carry forward of \$0.65 million from 2008/09. The actual figure was \$3.58 million below the Supplementary figure because the amount was not required.

Other revenue increased by \$0.35 million between the Main Estimates and the Supplementary Estimates. This was due to an increase in other revenue earned in the year.

Other operating expenses increased between the Estimates and the Supplementary Estimates to reflect the funds carried forward from 2008/09 and the additional other revenue. Actual expenditure was less than this as the Ministry acted to control its expenditure in the current economic climate.

### Statement of Financial Position (and Cash Flows)

Cash and bank balances were \$1 million lower than budget and \$0.9 million lower than the Supplementary Estimates mainly due to the movement in current assets and current liabilities.

Debtors and other receivables were \$3.1 million over budget and \$3.1 million over the Supplementary Estimates mainly due to the balance due from the Crown for Crown revenue of \$3.206 million (budget \$nil).

## NOTE 25: EVENTS AFTER BALANCE SHEET DATE

No event has occurred since the end of the financial period (not otherwise dealt with in the financial statements) that has affected, or may significantly affect, the Ministry's operations or state of affairs for the year ended 30 June 2010.

# Schedules and Statements: Crown

## INTRODUCTION/OVERVIEW

The following non-departmental statements and schedules record the revenue and receipts, expenses, assets and liabilities that the Ministry manages on behalf of the Crown.

The Ministry administered:

- \$1.125 billion of non-departmental revenue and receipts
- \$2.962 billion of non-departmental expenditure
- \$0.094 billion of non-departmental assets
- \$0.363 billion of non-departmental liabilities

on behalf of the Crown for the year ended 30 June 2010.

Further details of the management of these Crown assets and liabilities are provided later in this report.

## Schedule of Non-departmental Revenue and Receipts for the year ended 30 June 2010

This schedule summarises non-departmental revenues and receipts that the Ministry collects on behalf of the Crown.

Actual 2008/09 \$000		Notes	Actual 2009/10 \$000	Main Estimates 2009/10 \$000	Supplementary Estimates 2009/10 \$000
1,003,574	Indirect taxation	2	1,048,680	972,539	1,027,613
124	Other 'sovereign power' revenue	3	88	10	100
70,615	Other operational revenue	4	75,827	63,702	72,736
7,114	Share of net asset increase in joint venture airports	10	542	-	-
<b>1,081,427</b>	<b>Total non-departmental revenue and receipts</b>		<b>1,125,137</b>	<b>1,036,251</b>	<b>1,100,449</b>

## Schedule of Non-departmental Expenses for the year ended 30 June 2010

This schedule summarises non-departmental expenses that the Ministry administers on behalf of the Crown. Further details are provided in the Statement of Non-departmental Expenditure and Capital Expenditure Appropriations.

Actual 2008/09 \$000		Notes	Actual 2009/10 \$000	Main Estimates 2009/10 \$000	Supplementary Estimates 2009/10 \$000
1,727,599	Non-departmental output classes	5	1,972,573	1,514,508	1,980,393
905,390	Purchase or development of capital assets	6	693,200	1,009,064	629,805
17,813	Other expenses to be incurred by the Crown	7	348,591	463,009	403,802
-	Write back of National Land Transport Fund balance	8	(55,800)	-	-
2,398	Bad debts expense		7,666	5,000	10,000
7,125	Movement in doubtful debts provision		(4,141)	-	-
<b>2,660,325</b>	<b>Total non-departmental expenses</b>		<b>2,962,089</b>	<b>2,991,581</b>	<b>3,024,000</b>

Explanations of major variances against budget are detailed in note 15.

The notes form an integral part of, and should be read in conjunction with, these financial statements.

## Schedule of Non-departmental Assets

as at 30 June 2010

This schedule summarises the assets that the Ministry administers on behalf of the Crown.

Actual 2008/09 \$000		Notes	Actual 2009/10 \$000	Main Estimates 2009/10 \$000	Supplementary Estimates 2009/10 \$000
	<b>Current assets</b>				
5,642	Cash and bank balances		23,853	22,720	2,608
70,129	Receivables and advances	9	45,345	40,970	53,163
	<b>Non-current assets</b>				
31,308	Investment in joint venture airports	10	24,450	26,581	26,245
<b>107,079</b>	<b>Total non-departmental assets</b>		<b>93,648</b>	<b>90,271</b>	<b>82,016</b>

In addition, the Ministry monitors a number of Crown entities. These are:

- Civil Aviation Authority (which includes the Aviation Security Service)
- Maritime New Zealand
- NZ Transport Agency (formerly Land Transport New Zealand and Transit New Zealand)
- Transport Accident Investigation Commission.

The investment in these entities is recorded within the Crown financial statements on a line-by-line basis. No disclosure is made in this schedule.

## Schedule of Non-departmental Liabilities

as at 30 June 2010

This schedule summarises the liabilities that the Ministry administers on behalf of the Crown.

Actual 2008/09 \$000		Notes	Actual 2009/10 \$000	Main Estimates 2009/10 \$000	Supplementary Estimates 2009/10 \$000
	<b>Current liabilities</b>				
518,154	Payables	12	362,742	453,365	518,150
<b>518,154</b>	<b>Total non-departmental liabilities</b>		<b>362,742</b>	<b>453,365</b>	<b>518,150</b>

Explanations of major variances against budget are detailed in note 15.

# Statement of Non-departmental Expenditure and Capital Expenditure Appropriations

For the year ended 30 June 2010

This statement details expenditure and capital payments incurred against appropriations. The Ministry administers these appropriations on behalf of the Crown.

Actual 2008/09 \$000		Actual 2009/10 \$000	Main Estimates 2009/10 \$000	Supplementary Estimates 2009/10 \$000
	<b>Appropriations for non-departmental output classes</b>			
700	Administration of the public transport concessions for SuperGold cardholders scheme	624	700	1,100
-	Canterbury transport project	14,500	10,000	14,500
2,261	Civil aviation policy advice	2,261	2,261	2,261
2,095	Licensing activities	2,245	2,475	3,475
5,689	Maritime safety regulation and monitoring	5,689	5,689	5,689
145	Maritime security	145	145	145
31,678	Motor vehicle registry	39,536	35,991	41,686
-	National Land Transport Programme - demand management and community programmes PLA	40,683	47,000	41,344
-	National Land Transport Programme - maintenance and operation of local roads PLA	215,000	245,000	215,000
-	National Land Transport Programme - maintenance and operation of State highways PLA	320,894	287,000	320,900
-	National Land Transport Programme - management of the funding allocation system PLA	35,740	36,000	35,740
-	National Land Transport Programme - new and improved infrastructure for local roads PLA	175,000	196,000	175,000
-	National Land Transport Programme - public transport infrastructure PLA	135,000	27,000	135,000
-	National Land Transport Programme - public transport services PLA	200,000	201,000	200,000
-	National Land Transport Programme - rail and coastal freight PLA	2,000	2,000	2,000
-	National Land Transport Programme - renewal of local roads PLA	218,000	222,000	218,000
-	National Land Transport Programme - sector training and research PLA	6,000	6,000	6,000
-	National Land Transport Programme - State highway renewals PLA	380,000	-	380,000
-	National Land Transport Programme - transport planning PLA	30,000	37,000	30,000
-	National Land Transport Programme - walking and cycling facilities PLA	20,000	16,000	20,000
-	New Zealand Railways Corporation operating support	90,000	90,000	90,000
8,000	Regional development transport funding	9,000	10,000	12,000
548	Regulatory implementation and enforcement	548	548	548
3,938	Reporting on accident or incident investigations	3,938	3,938	3,938
6,772	Search and rescue activities	7,197	7,188	7,494
4,586	Waikato rail funding	-	5,000	-
17,511	Weather forecasts and warnings	18,573	18,573	18,573
240,622	Maintenance of local roads PLA	-	-	-
298,524	Maintenance of State highways PLA	-	-	-
74,156	Management of funding allocation system PLA	-	-	-
313,064	New and improved infrastructure for local roads PLA	-	-	-
313,800	Passenger transport services PLA	-	-	-
30,545	Promotion, information and education PLA	-	-	-

The notes form an integral part of, and should be read in conjunction with, these financial statements.

Actual 2008/09 \$000		Actual 2009/10 \$000	Main Estimates 2009/10 \$000	Supplementary Estimates 2009/10 \$000
2,500	Rail and sea freight PLA	-	-	-
319,120	Regional land transport PLA	-	-	-
5,821	Regulatory enforcement PLA	-	-	-
11,776	Research and performance monitoring PLA	-	-	-
33,748	Transport demand management, and walking and cycling PLA	-	-	-
<b>1,727,599</b>	<b>Sub-total</b>	<b>1,972,573</b>	<b>1,514,508</b>	<b>1,980,393</b>
	<b>Appropriations for other expenses to be incurred by the Crown</b>			
-	Auckland rail development MYA	178,580	297,132	184,884
13,300	Enhanced public transport concessions for SuperGold cardholders	19,627	17,300	19,300
743	International memberships	743	743	743
-	Metro rail rolling stock and infrastructure (Wellington)	38,376	-	81,000
2,398	Motor vehicle registration/licences and road user charges bad debt provision	7,666	5,000	10,000
3,270	New Zealand Railways Corporation - public policy projects	3,270	3,270	3,270
-	Rail network and rolling stock upgrade MYA	30,923	84,725	46,105
500	Railway safety	500	500	500
-	Wellington rail development MYA	76,572	59,339	68,000
<b>20,211</b>	<b>Sub-total</b>	<b>356,257</b>	<b>468,009</b>	<b>413,802</b>
	<b>Appropriations for capital contributions to other organisations</b>			
7,348	Aviation Security Service	2,981	7,054	7,054
820	Joint venture airports - Crown contribution MYA	422	489	903
-	KiwiRail turnaround plan funding	-	-	20,000
-	Maritime New Zealand capital expenditure PLA	750	-	900
-	Metro rail rolling stock and infrastructure (Wellington)	-	146,000	-
-	New Zealand Railways Corporation loans	380,000	85,000	405,000
250	Transport Accident Investigation Commission	635	635	635
24,948	ALPURT B2	-	-	-
1,000	Maritime New Zealand	-	-	-
259	Maritime NZ	-	-	-
20,345,525	New Zealand Transport Agency *	-	-	-
<b>20,380,150</b>	<b>Sub-total</b>	<b>384,788</b>	<b>239,178</b>	<b>434,492</b>
	<b>Appropriations for purchase or development of capital assets from the Crown</b>			
30,000	Accelerated State highway construction	78,700	73,700	78,700
727,065	New and improved infrastructure for State highways - Crown contribution	1,302	5,065	1,302
-	New infrastructure for and renewal of State highways PLA **	613,198	930,299	549,803
70,425	New and improved State highways infrastructure PLA	-	-	-
77,900	State highway construction programme guarantee	-	-	-
<b>905,390</b>	<b>Sub-total</b>	<b>693,200</b>	<b>1,009,064</b>	<b>629,805</b>
<b>23,033,350</b>	<b>Total non-departmental expenditure and appropriations</b>	<b>3,406,818</b>	<b>3,230,759</b>	<b>3,458,492</b>

\* Two Crown entities Land Transport New Zealand and Transit New Zealand were merged into one new entity, the NZ Transport Agency on 1 August 2008. The net assets of the two agencies at that date which totalled \$20,338,535,000 were repaid to the Crown and then reinvested in the NZ Transport Agency.

The notes form an integral part of, and should be read in conjunction with, these financial statements.

\*\* This appropriation is one of several permanent legislative authority appropriations that relate to the National Land Transport Fund. The size of the appropriation is limited by the revenue that is hypothecated to the Fund and the appropriation size in the Estimates is indicative only. The appropriation drew down \$64 million more than in the Supplementary Estimates but this is not an issue as there is sufficient revenue to cover this. Thus the appropriation is not unappropriated.

## Details of Multi-Year Appropriations

	Auckland Rail Development \$000	Joint Venture Airports - Crown Contribution \$000	Rail Network and Rolling Stock Upgrade \$000	Wellington Rail Development \$000
<i>Commences</i>	1 July 2009	1 July 2008	1 July 2009	1 July 2009
<i>Expires</i>	30 June 2013	30 June 2011	30 June 2011	30 June 2011
Appropriation at 1 July 2009	663,875	1,773	104,851	91,478
Adjustments for 2009/10	19,722	-	6,980	2,264
<b>Total funding</b>	<b>683,597</b>	<b>1,773</b>	<b>111,831</b>	<b>93,742</b>
Expenditure in prior years	-	820	-	-
Expenditure in current year	178,580	422	30,923	76,572
<b>Total expenditure to 30 June 2010</b>	<b>178,580</b>	<b>1,242</b>	<b>30,923</b>	<b>76,572</b>
Balance of appropriation remaining at 30 June 2010	<b>505,017</b>	<b>531</b>	<b>80,908</b>	<b>17,170</b>

The adjustments in the current year are the rail funding in Vote Finance that was unspent in 2008/09 and transferred to Vote Transport.

## Statement of Non-departmental Commitments

As at 30 June 2010

This statement records those expenditures to which the Crown is contractually committed and which will become liabilities if and when the terms of the contracts are met.

Actual 2008/09 \$000		Actual 2009/10 \$000
	<b>Operating commitments</b>	
74,295	Other non-cancellable contracts for the supply of goods and services	74,296
<b>74,295</b>	<b>Total operating commitments</b>	<b>74,296</b>
	<b>Term classification of commitments</b>	
18,573	Not later than one year	18,574
18,574	More than one year but less than two years	18,574
37,148	Between two and five years	37,148
<b>74,295</b>	<b>Total operating commitments</b>	<b>74,296</b>

The liability is a contract with a State-owned enterprise for the supply of outputs. The contract is for an indefinite term and can be terminated by mutual agreement between the parties. The fee is renegotiable every three years. The commitment is disclosed based on the term of four years currently within the approved Estimates.

## Statement of Non-departmental Contingent Liabilities

as at 30 June 2010

This statement discloses situations which exist at 30 June 2010, the ultimate outcome of which is uncertain and will be confirmed only on the occurrence of one or more future events after the date of approval of the financial statements.

Actual 2008/09 \$000		Actual 2009/10 \$000
10,000	Transport Accident Investigation Commission emergency guarantee	10,000
<b>10,000</b>	<b>Total contingent liabilities</b>	<b>10,000</b>

The Minister of Finance has issued a \$10 million guarantee to the Transport Accident Investigation Commission. The guarantee is to be used in the event of a major transport accident (air or rail) where the Commission would have to hire specialist recovery equipment. This is expected to be a near permanent guarantee.

In addition to the contingent liability disclosed above, an indemnity has been provided by the Crown to the Meteorological Service of New Zealand for potential third party claims in excess of arranged public liability cover. The value of the liability will depend on the circumstances of the claim (unchanged since 21 August 2000).

## Statement of Non-departmental Unappropriated Expenditure

For the year ended 30 June 2010

One instance of unappropriated expenditure was reported during the year.

### Enhanced public transport concessions for SuperGold cardholders

The appropriation has been in place for two years and the growing demand meant that expenditure exceeded the funding available for 2009/10. Officials are currently reviewing the scheme and exploring options for the scheme's sustainability going forward. The quantum of the unappropriated expenditure is \$0.327 million.

### 2008/09 unappropriated expenditure

There were three instances of unappropriated expenditure in 2008/09.

#### Motor vehicle registration/licences and road user charges bad debt provision

The appropriation was established in 2007/08 but, in error, was created only for that year when it should have been established for out years as well. Bad debts of \$0.257 million were recognised in the first quarter before the error was corrected and the appropriation re-established.

#### International memberships

Since 2005, the Ministry had been paying an annual subscription to the Pacific Aviation Safety Office (PASO). However PASO was not within the scope of the appropriation and so the payments were unappropriated. PASO was not paid from the appropriation in 2008/09 as the issue had been identified. The unappropriated expenditure relating to prior years amounted to \$0.049 million.

#### NZ Transport Agency

The scope of this appropriation allowed for the transfer of the net assets of Land Transport New Zealand and Transit New Zealand to the new Crown entity, the NZ Transport Agency.

A related matter was the transfer of the Motor Vehicle Register from the Ministry of Transport to the new entity at a cost of \$6.99 million. Instead of creating a new appropriation for this transfer, officials received permission to include it in this existing appropriation. The payment was outside the scope and so unappropriated expenditure of \$6.99 million was incurred.

The notes form an integral part of, and should be read in conjunction with, these financial statements.

# Notes to Non-departmental Schedules

for the year ended 30 June 2010

## NOTE 1: STATEMENT OF ACCOUNTING POLICIES

### Reporting entity

These non-departmental schedules and statements present financial information on public funds managed by the Ministry on behalf of the Crown.

The Ministry's responsibility is to manage the revenue, expenditure, assets and liabilities on behalf of the Crown. The non-departmental balances are consolidated into the Financial Statements of the government. For a full understanding of the Crown's financial position, the results of its operations and cash flows for the year, reference should be made to the consolidated audited Financial Statements of the government for the year ended 30 June 2010.

The non-departmental schedules of the government in respect of the activities administered by the Ministry on behalf of the Crown comprise:

- collection of indirect tax revenues
- payment of refunds on claims received
- joint venture airports.

The non-departmental schedules and statements have been prepared pursuant to section 35 of the Public Finance Act 1989.

### Accounting policies

The non-departmental schedules and statements have been prepared in accordance with the government's accounting policies as set out in the Financial Statements of the government, and in accordance with the relevant Treasury instructions and Treasury Circulars.

Measurement and recognition rules applied in the preparation of these non-departmental schedules and statements are consistent with New Zealand generally accepted accounting practice as appropriate for a public benefit entity.

The accounting policies set out below have been applied consistently to all years presented in these schedules and statements. The following particular accounting policies have been applied.

### Budget figures

The budget figures are consistent with the financial information in the Main Estimates. In addition, these schedules and statements also present the updated budget information from the Supplementary Estimates.

### Revenue

Revenue from road user charges, motor vehicle licensing fees and tolling revenue are recognised when payment for the charge or fee is made.

### Debtors and other receivables

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate, less any provision for impairment.

Impairment of a receivable is established when there is objective evidence that the Crown will not be able to collect amounts due according to the original terms of the receivable. Indicators that the debtor is impaired include the significant financial difficulties of the debtor, the probability that the debtor will enter into bankruptcy, and any default in payments. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the schedule of non-departmental expenses. When a debtor is not collectible, it is written off against the allowance account for debtors. Overdue receivables that are renegotiated are reclassified as current (ie not past due).

### Investments in joint venture airports

Investments represent the Crown's investment in joint venture airports. Investments in the joint venture airports are accounted using the equity method, consolidating the post acquisition net asset increase or decrease into these non-departmental schedules.

## Creditors and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

## Financial instruments

Crown: Vote Transport is party to financial instruments as part of its normal operations. These financial instruments include cash and bank balances, accounts receivable and accounts payable. Revenue and expenses in relation to all financial instruments are recognised in the schedule of non-departmental revenue and receipts and the schedule of non-departmental expenses. All financial instruments are recognised in the schedule of non-departmental assets and the schedule of non-departmental liabilities.

## Goods and services tax (GST)

All items in the schedules including appropriation statements are exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis.

The amount of GST owing to the Inland Revenue Department at balance date, being net GST on motor vehicle registration activities, is included in payables.

## Commitments

Future expenses and liabilities to be incurred on non-cancellable contracts that have been entered into at balance date are disclosed as commitments to the extent that they are equally unperformed obligations.

## Contingent liabilities

Contingent liabilities are disclosed at the point at which the contingency is evident.

## Changes in accounting policies

The accounting policies have been applied consistently to all years presented in these schedules and statements.

## NOTE 2: INDIRECT TAXATION

Actual 2008/09 \$000		Actual 2009/10 \$000	Main Estimates 2009/10 \$000	Supplementary Estimates 2009/10 \$000
170,606	Motor vehicle registration fees	171,295	166,651	169,932
867,649	Road user charges	909,900	885,421	894,079
<b>1,038,255</b>	<b>Sub-total</b>	<b>1,081,195</b>	<b>1,052,072</b>	<b>1,064,011</b>
(34,681)	Fuel excise duty refunds	(32,515)	(79,533)	(36,398)
<b>1,003,574</b>	<b>Total indirect taxation</b>	<b>1,048,680</b>	<b>972,539</b>	<b>1,027,613</b>

## NOTE 3: OTHER "SOVEREIGN POWER" REVENUE

Actual 2008/09 \$000		Actual 2009/10 \$000	Main Estimates 2009/10 \$000	Supplementary Estimates 2009/10 \$000
124	Infringement fees	88	10	100
<b>124</b>	<b>Total other "sovereign power" revenue</b>	<b>88</b>	<b>10</b>	<b>100</b>

#### NOTE 4: OTHER OPERATIONAL REVENUE

Actual 2008/09 \$000		Actual 2009/10 \$000	Main Estimates 2009/10 \$000	Supplementary Estimates 2009/10 \$000
2,315	Tolling revenue from ALPURT B2 (Note 11)	6,057	-	4,000
43,725	Motor vehicle registration administration revenue	44,734	40,190	44,454
13,030	Road user charges administration revenue	13,772	13,012	13,782
11,545	Motor vehicle registration recoveries	11,264	10,500	10,500
<b>70,615</b>	<b>Total other operational revenue</b>	<b>75,827</b>	<b>63,702</b>	<b>72,736</b>

#### NOTE 5: NON-DEPARTMENTAL OUTPUT CLASSES

Actual 2008/09 \$000		Actual 2009/10 \$000	Main Estimates 2009/10 \$000	Supplementary Estimates 2009/10 \$000
1,727,599	This expense item is equal to the appropriations for non-departmental output classes listed in the statement of non-departmental expenditure and appropriations	1,972,573	1,514,508	1,980,393
<b>1,727,599</b>	<b>Total non-departmental output classes</b>	<b>1,972,573</b>	<b>1,514,508</b>	<b>1,980,393</b>

#### NOTE 6: PURCHASE OR DEVELOPMENT OF CAPITAL ASSETS

Actual 2008/09 \$000		Actual 2009/10 \$000	Main Estimates 2009/10 \$000	Supplementary Estimates 2009/10 \$000
905,390	This expenditure is for the construction of, and improvement to the State highway network including pavement rehabilitation and seal widening	693,200	1,009,064	629,805
<b>905,390</b>	<b>Total purchase or development of capital assets</b>	<b>693,200</b>	<b>1,009,064</b>	<b>629,805</b>

#### NOTE 7: OTHER EXPENSES TO BE INCURRED BY THE CROWN

Actual 2008/09 \$000		Actual 2009/10 \$000	Main Estimates 2009/10 \$000	Supplementary Estimates 2009/10 \$000
-	Auckland rail development MYA	178,580	297,132	184,884
13,300	Enhanced public transport concessions for SuperGold cardholders	19,627	17,300	19,300
743	International memberships	743	743	743
-	Metro rail rolling stock and infrastructure (Wellington)	38,376	-	81,000
3,270	New Zealand Railways Corporation public policy projects	3,270	3,270	3,270
-	Rail network and rolling stock upgrade MYA	30,923	84,725	46,105
500	Railway safety	500	500	500
-	Wellington rail development MYA	76,572	59,339	68,000
<b>17,813</b>	<b>Total other expenses to be incurred by the Crown</b>	<b>348,591</b>	<b>463,009</b>	<b>403,802</b>

## NOTE 8: WRITE BACK OF NATIONAL LAND TRANSPORT FUND BALANCE

At the end of each year, the Crown is usually holding a balance due to the National Land Transport Fund (the Fund). In the years up to 30 June 2008, the balance was reflected in the Crown financial statements as owed to the Fund and the movement in the balance was reflected in the schedule of non-departmental expenses. This was a requirement of the previous Land Transport Management Act. This Act was amended from 1 August 2008 and the balance was no longer required to be reflected. In the year to 30 June 2009, the Vote Transport Crown financial statements did not update the balance for the movement in the Fund and the balance has remained at \$55.8 million as at 30 June 2008. A corresponding debtor is held in the books of the NZ Transport Agency which administer the Fund. At 30 June 2010, it was agreed that both sides should remove the balance from their books as it is no longer required. Thus the adjustment is fiscally neutral to the Crown once the Crown consolidation has taken place.

## NOTE 9: RECEIVABLES AND ADVANCES

Actual 2008/09 \$000		Actual 2009/10 \$000	Main Estimates 2009/10 \$000	Supplementary Estimates 2009/10 \$000
65,054	Motor vehicle registration fees	40,074	49,810	65,054
20	Other	-	-	-
6,075	Over payment for motor vehicle registry expenditure	-	-	-
292	Prepayments	221	324	292
10,364	Road user charges	12,006	6,259	10,364
871	Tolling revenue	1,450	-	-
<b>82,676</b>	<b>Sub-total</b>	<b>53,751</b>	<b>56,393</b>	<b>75,710</b>
(12,547)	Provision for doubtful debts	(8,406)	(15,423)	(22,547)
<b>70,129</b>	<b>Total receivables and advances</b>	<b>45,345</b>	<b>40,970</b>	<b>53,163</b>

The carrying value of receivables and advances approximates their fair value. A provision for doubtful debts has been made against the motor vehicle registration fees and road user charges. The Ministry has assessed that no provision for impairment is required at 30 June 2010 for other balances (2009: \$nil).

## NOTE 10: INVESTMENT IN JOINT VENTURE AIRPORTS

Actual 2008/09 \$000		Actual 2009/10 \$000
7,400	Hawke's Bay	-
12,752	New Plymouth	12,875
3,393	Taupo	3,303
5,114	Whanganui	4,964
493	Westport	427
313	Whakatane	357
1,843	Whangarei	2,524
<b>31,308</b>	<b>Total investment in joint venture airports</b>	<b>24,450</b>

The Hawke's Bay airport was corporatised on 1 July 2009 and the assets transferred to a new company. The Crown has a 50 percent shareholding in the new company.

PriceWaterhouseCoopers were retained by the joint venture partners to value the airport for the purposes of corporatisation. The valuation of \$7.4 million shown is 50 percent of the final valuation as at 30 June 2009.

The value of the investments in the other airports is based on the annual financial statements of each airport for the year ending 30 June 2009 (2009: 30 June 2008). The Crown has an interest of 50 percent in each airport.

## NOTE 11: INVESTMENT IN ALPURT B2

The Alpur B2 project was completed during 2008/09 with a contribution from the Crown of \$158 million. The charging of a toll for using the road began in February 2009. The Crown issued infrastructure bonds to fund the project and the toll revenue is intended to cover the costs of the bonds. The bonds are shown within the financial statements of the Treasury and tolling revenue is recorded by the Ministry.

It was agreed that a notional account would be kept of the 'cost' of the project using an estimated interest rate charged on the balance advanced. The interest charge is calculated daily based on the outstanding balance of money advanced plus interest less tolling revenue received. The interest rate used is the average infrastructure bond rate plus 15 basis points. This is 6.45 percent and this will not change as all of the bonds have been issued. The project was modelled using an estimated rate of 6.4 percent. The two tables show the project over its full life to date and then for the current year. Further information is available at [www.tollroad.govt.nz](http://www.tollroad.govt.nz).

### Life of project to date

Actual 2008/09 \$000		Actual 2009/10 \$000
158,000	Expenditure over the life of the project	158,000
15,802	Interest over the life of the project	27,089
(2,315)	Tolling revenue since February 2009	(8,372)
<b>171,487</b>	<b>Balance at the year end</b>	<b>176,717</b>

### Current year

Actual 2008/09 \$000		Actual 2009/10 \$000
163,450	Balance brought forward	171,487
10,352	Interest cost for the year	11,287
(2,315)	Tolling revenue for the year	(6,057)
<b>171,487</b>	<b>Balance at the year end</b>	<b>176,717</b>

## NOTE 12: PAYABLES

Actual 2008/09 \$000		Actual 2009/10 \$000	Main Estimates 2009/10 \$000	Supplementary Estimates 2009/10 \$000
478,415	National Land Transport Fund revenue payable to the NZ Transport Agency	296,001	423,463	478,472
-	Output funding payable to Maritime New Zealand	50	-	-
-	Output funding payable to New Zealand Railways Corporation	20,335	-	-
1,645	Output funding payable to Meteorological Service	1,741	1,642	1,645
10,345	GST payable	11,284	10,352	10,341
26,832	Motor vehicle registration third party collections	25,187	17,257	26,831
-	Output funding payable to Greater Wellington Regional Council	7,137	-	-
56	Other creditors	-	-	-
861	Road user charges refunds	1,007	651	861
<b>518,154</b>	<b>Total payables</b>	<b>362,742</b>	<b>453,365</b>	<b>518,150</b>

Payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of payables approximates their fair value.

## NOTE 13: FINANCIAL INSTRUMENTS

The carrying amounts of financial assets and financial liabilities in each of the NZ IAS 39 categories are as follows:

Actual 2008/09 \$000		Actual 2009/10 \$000
	<b>Loans and receivables</b>	
5,642	Cash and cash equivalents	23,853
70,129	Receivables and advances	45,345
75,771	Total loans and receivables	69,198
	<b>Financial liabilities measured at amortised cost</b>	
518,154	Payables	362,742

### Credit risk

Credit risk is the risk that a third party will default on its obligation, causing a loss to be incurred. It arises from debtors and deposits with banks.

Funds must be deposited with Westpac, a registered bank.

The maximum credit exposure for each class of financial instruments is represented by the total carrying amount of cash and cash equivalents and net debtors. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired. Other than Westpac bank, there are no significant concentrations of credit risk.

## NOTE 14: MAJOR BUDGET CHANGES

Changes were made to the non-departmental budgets in the 2009/10 Supplementary Estimates. Explanations for significant variances only are provided below.

### Revenue and receipts

	Main Estimates \$000	Supplementary Estimates \$000	Cumulative Vote \$000
<b>Tax revenue</b>			
Motor vehicle registration fees	166,651	3,281	169,932
Road user charges	885,421	8,658	894,079
Fuel excise duty refunds	(79,533)	43,135	(36,398)
	972,539	55,074	1,027,613
<b>Other operational revenue</b>			
Motor vehicle registration administration revenue	40,190	4,264	44,454
Road user charges administration revenue	13,012	770	13,782
Tolling revenue	-	4,000	4,000
	53,202	9,034	62,236

### Tax revenue and administration revenue

The National Land Transport Fund Revenue Forecasting Group meets on a six-monthly basis to reforecast the tax revenue that is expected for the Fund based on the current economic forecasts. The changes reflect the result of this process. The administration revenue is also forecast as part of this.

### Tolling revenue

Tolling revenue has only been collected since February 2009. In error, a budget figure was not included in the Main Estimates 2009 but this was corrected during the year.

## Non-departmental expenditure and capital appropriations

	Main Estimates \$000	Supplementary Estimates \$000	Cumulative Vote \$000
<b>Appropriations for non-departmental output expenses</b>			
Administration of the public transport concessions for SuperGold cardholders scheme	700	400	1,100
Canterbury transport project	10,000	4,500	14,500
Licensing activities	2,475	1,000	3,475
Motor vehicle registry	35,991	5,695	41,686
National Land Transport Programme –			
Demand management and community programmes PLA	47,000	(5,656)	41,344
Maintenance and operations of local roads PLA	245,000	(30,000)	215,000
Maintenance and operation of State highways PLA	287,000	33,900	320,900
Management of funding allocation system PLA	36,000	(260)	35,740
New and improved infrastructure for local roads PLA	196,000	(21,000)	175,000
Public transport infrastructure PLA	27,000	108,000	135,000
Public transport services PLA	201,000	(1,000)	200,000
Renewal of local roads PLA	222,000	(4,000)	218,000
State highway renewals PLA	-	380,000	380,000
Transport planning PLA	37,000	(7,000)	30,000
Walking and cycling PLA	16,000	4,000	20,000
Regional development transport funding	10,000	2,000	12,000
Search and rescue activities	7,188	306	7,494
Waikato rail funding	5,000	(5,000)	-
<b>Non-departmental other expenses</b>			
Auckland rail development MYA	297,132	(112,248)	184,884
Enhanced public transport concessions for SuperGold cardholders	17,300	2,000	19,300
Metro rail rolling stock and infrastructure (Wellington)	-	81,000	81,000
Motor vehicle registration/licences and road user charges bad debt provision	5,000	5,000	10,000
Rail network and rolling stock upgrade MYA	84,725	(38,620)	46,105
Wellington rail development MYA	59,339	8,661	68,000
<b>Capital expenditure</b>			
Accelerated State highway construction	73,700	5,000	78,700
Joint venture airports — Crown contribution MYA	489	414	903
KiwiRail Turnaround Plan funding	-	20,000	20,000
Maritime New Zealand capital expenditure PLA	-	900	900
Metro rail rolling stock and infrastructure (Wellington)	146,000	(146,000)	-
New and improved infrastructure for State highways — Crown contribution	5,065	(3,763)	1,302
New infrastructure for and renewal of State highways PLA	930,299	(380,496)	549,803
New Zealand Railways Corporation loans	85,000	320,000	405,000

Explanations for the major changes were outlined in the 2009/10 *Information Supporting the Supplementary Estimates* (pages 383 to 399). They were:

**Administration of the public transport concessions for SuperGold cardholders scheme, Enhanced public transport concessions for SuperGold cardholders, Canterbury transport project, Licensing activities, Regional development transport funding, Search and rescue activities, Accelerated State highway construction, Joint venture airports – Crown contribution MYA**

These increases reflect funding carried forward from 2008/09.

**Auckland rail development MYA, Rail network and rolling stock upgrade MYA, Wellington rail development MYA**

These appropriations formerly existed as part of Vote Finance and were transferred to Vote Transport on 1 July 2009. The changes during the year are a combination of funding carried forward from Vote Finance and funding being transferred to or from outyears to match the expenditure profile.

	Estimates \$000	Carry forward from Vote Finance \$000	Transfer from/(to) outyears \$000	Supplementary Estimates \$000
Auckland rail development MYA	297,132	19,722	(131,970)	184,884
Rail network and rolling stock upgrade MYA	84,725	6,980	(45,600)	46,105
Wellington rail development MYA	59,339	2,264	6,397	68,000

**National Land Transport Programme output expense PLA appropriations, New infrastructure for and renewal of State highways PLA, Maritime New Zealand capital expenditure PLA**

There are five reasons for the changes in these appropriations which relate to how this funding is managed.

- Road tax revenue is forecast every six months. The State highway capital appropriation is adjusted as required as revenue increases or decreases.
- The National Land Transport Programme for 2009–2012 was published after the Estimates 2009. Changes were made to the appropriations to match the planned programme of expenditure for the year. Additional funding is sourced from the capital State highway appropriation as required.
- Some expenditure was transferred to 2010/11 to reflect updated expenditure profiles.
- The State highway renewals appropriation was created to remedy the deficit in NZ Transport Agency's operating statement caused by State highway depreciation which is an operating expense but was being funded by a capital appropriation. The funding was created by a fiscally neutral transfer from the capital appropriation: New infrastructure for and renewal of State highways PLA.
- The Maritime New Zealand capital expenditure PLA was created in the current year under section 9(1) of the Land Transport Management Act 2003. Funding was provided by a fiscally neutral transfer from capital appropriation: New infrastructure for and renewal of State highways PLA.

**Metro rail rolling stock and infrastructure (Wellington)**

This appropriation was originally created as capital in error and so had to be recreated as an operating expense during the year and the funding transferred. In addition, \$65 million was carried forward to 2010/11 to reflect the updated expenditure profile.

**New Zealand Railways Corporation loans**

The increase of \$320 million reflects

- \$10 million being carried forward from a Vote Finance appropriation
- a loan of \$170 million being rolled over twice (totalling \$340 million)
- \$30 million being carried forward to 2010/11.

**KiwiRail Turnaround Plan**

This appropriation was established as part of Budget 2010 to allow KiwiRail to progress the objectives detailed in the KiwiRail Turnaround Plan.

### **New and improved infrastructure for State highways — Crown contribution, Motor Vehicle Registry**

The activities of the Motor Vehicle Registry are funded by administration fees and any excess fees are appropriated to the National Land Transport Fund using the Crown contribution appropriation. During the year, the surplus fees from 2008/09 were calculated and \$1.9 million was added to the Crown contribution appropriation. Subsequently additional funding of \$5.7 million was approved for the Motor Vehicle Registry and that amount was transferred from the Crown contribution appropriation to the Motor Vehicle Registry one.

### **Waikato rail funding**

The funding was transferred to 2010/11 and 2011/12 to reflect the updated expenditure profile.

### **Motor vehicle registration/licence and road user charges bad debt provision**

The increase reflects the updated forecast expense.

## **NOTE 15: MAJOR BUDGET TO ACTUAL VARIANCES**

The significant variances between actual results and the Supplementary Estimates forecasts were:

### **Schedule of non-departmental revenue and receipts**

Indirect taxation was \$21 million more than forecast. This is mainly due to lower fuel excise duty refunds (\$4 million), higher revenue from road user charges (\$16 million) and higher motor vehicle registration fees (\$1 million), as shown in Note 2. All of these revenues are forecast on a six monthly basis to be as accurate as possible.

Other revenue was \$3 million higher than forecast mainly due to the variance of \$2 million from ALPURT B2 tolling revenue. Tolling revenue has only been collected for two years and its level is still difficult to forecast.

### **Schedule of non-departmental expenses**

Expenditure on non-departmental output classes was \$7.4 million below the Supplementary Estimates. The only significant underspends were:

- regional development transport fund (\$3 million)
- motor vehicle register (\$2 million)
- licensing activities (\$1 million).

The first two variances relate to the timing of projects and the approval of the Minister of Finance has been received to carry the funding forward to 2010/11.

Other expenses were \$58.6 million lower than the Supplementary Estimates. This is the net result of under expenditure on the following appropriations:

- metro rail rolling stock and infrastructure (\$43 million)
- rail network and rolling stock upgrade (\$15 million)
- Auckland rail development (\$6 million)
- motor vehicle registration and road user charges bad debt provision (\$2 million)

netted off over expenditure of \$9 million on the Wellington rail development MYA.

The rail variances relate to the timing of contracts and payments.

### **Schedule of non-departmental assets**

Non-departmental assets were higher than forecast by \$12 million due to a combination of cash and bank being \$21 million higher than forecast because of other account movements; and receivables and advances being \$8 million lower than the forecast due to a decrease in the provision for doubtful debts.

### **Schedule of non-departmental liabilities**

Payables were \$155 million lower than forecast.

\$182 million of this was due to the reduction in the National Land Transport Fund balance payable to the NZ Transport Agency and there are two components of this variance.

- In 2007/08, the NZ Transport Agency's predecessor entity drew down too much funding from the Fund and since then has been reducing this by only drawing cash as required. High expenditure by the NZ Transport Agency in 2009/10 has resulted in the reserves being utilised so the amount owed to the NZ Transport Agency is lower than last year. The forecast had been based on the 2008/09 figure.
- In addition, as described in note 8, an amount of \$55.8 million payable by the Crown to the NZ Transport Agency was written back at 30 June. This balance had been included in the forecast.

# Audit Report

## TO THE READERS OF THE MINISTRY OF TRANSPORT'S FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2010

The Auditor-General is the auditor of the Ministry of Transport (the Ministry). The Auditor-General has appointed me, John O'Connell, using the staff and resources of Audit New Zealand, to carry out the audit on her behalf. The audit covers the financial statements, the schedules of non-departmental activities and statement of service performance included in the annual report of the Ministry, for the year ended 30 June 2010.

### UNQUALIFIED OPINION

In our opinion:

- The financial statements of the Ministry on pages 25 to 46:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect:
    - the Ministry's financial position as at 30 June 2010;
    - the results of its operations and cash flows for the year ended on that date;
    - its expenses and capital expenditure incurred against each appropriation administered by the Ministry and each class of outputs included in each output expense appropriation for the year ended 30 June 2010; and
    - its unappropriated expenses and capital expenditure for the year ended 30 June 2010.
- The schedules of non-departmental activities on pages 47 to 62 fairly reflect the assets, liabilities, revenues, expenses, contingencies, and commitments managed by the Ministry on behalf of the Crown for the year ended 30 June 2010.
- The statement of service performance of the Ministry on pages 12 to 24:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects for each class of outputs:
    - its standards of delivery performance achieved, as compared with the forecast standards included in the statement of forecast service performance adopted at the start of the financial year; and
    - its actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses included in the statement of forecast service performance adopted at the start of the financial year.

The audit was completed on 30 September 2010, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Chief Executive and the Auditor, and explain our independence.

### BASIS OF OPINION

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and statement of service performance did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and statement of service performance. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Chief Executive;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement and statement of service performance disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance.

We evaluated the overall adequacy of the presentation of information in the financial statements and statement of service performance. We obtained all the information and explanations we required to support our opinion above.

## RESPONSIBILITIES OF THE CHIEF EXECUTIVE AND THE AUDITOR

The Chief Executive is responsible for preparing the financial statements and statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Ministry as at 30 June 2010 and the results of its operations and cash flows for the year ended on that date.

The financial statements must also fairly reflect the expenses and capital expenditure incurred against each appropriation administered by the Ministry and each class of outputs included in each output expense appropriation for the year ended 30 June 2010. The financial statements must also fairly reflect the Ministry's unappropriated expenses and capital expenditure for the year ended on that date.

In addition, the Chief Executive is responsible for preparing schedules of non-departmental activities, in accordance with the Treasury Instructions 2009 that must fairly reflect the assets, liabilities, revenues, expenses, contingencies, and commitments managed by the Ministry on behalf of the Crown for the year ended 30 June 2010.

The statement of service performance must fairly reflect, for each class of outputs, the Ministry's standards of delivery performance achieved and revenue earned and expenses incurred, as compared with the forecast standards, revenue and expenses adopted at the start of the financial year.

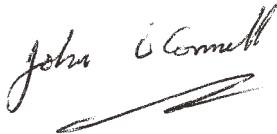
The Chief Executive's responsibilities arise from sections 45A and 45B of the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 45D (2) of the Public Finance Act 1989.

## INDEPENDENCE

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Other than the audit, we have no relationship with or interests in the Ministry.



John O'Connell  
Audit New Zealand

On behalf of the Auditor-General  
Wellington, New Zealand

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