13 March 2019

Dear [Name]

I refer to your request dated 26 February 2019, pursuant to the Official Information Act 1982 (the Act), seeking a copy of the briefing New Zealand Transport Agency: 2018/22 Statement of Intent and 2018/19 Statement of Performance Expectations, which was the document referenced in the Newsroom article to which you provided a link.

Please find attached the briefing you have requested. Information has been withheld under section 9(2)(a) of the Act, which relates to the privacy of persons.

I consider that the withholding of the information under section 9 of the Act is not outweighed by other considerations that render it desirable, in the public interest, to make the information available.

You have the right under section 28 of the Act to make a complaint to the Ombudsman about my decisions to withhold information. The address for the Office of the Ombudsman is:

Office of the Ombudsman
PO Box 10152
WELLINGTON 6143

Yours sincerely

Ngaire Best
Manager, Governance and Commercial

www.transport.govt.nz
HEAD OFFICE: PO BOX 3175, Wellington 6140, New Zealand. TEL: +64 4 439 9000, FAX: +64 4 439 9001
AUCKLAND OFFICE: NZ Government Auckland Policy Office, PO Box 106 238, Auckland City 1143, New Zealand. TEL: +64 9 985 4827, FAX: +64 9 985 4849

<table>
<thead>
<tr>
<th>Reason for this briefing</th>
<th>This report provides you with the Ministry of Transport’s advice on the New Zealand Transport Agency’s revised 2018/22 Statement of Intent and 2018/19 Statement of Performance Expectations.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Action required</td>
<td>To review and provide comment to the New Zealand Transport Agency on its revised Statement of Intent and Statement of Performance Expectations, and sign the attached letter to the Chair of the New Zealand Transport Agency.</td>
</tr>
<tr>
<td>Deadline</td>
<td>22 October 2018.</td>
</tr>
<tr>
<td>Reason for deadline</td>
<td>To meet your legislative requirements for providing feedback to the New Zealand Transport Agency on its revised Statement of Intent and Statement of Performance Expectations.</td>
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Contact for telephone discussion (if required)

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Telephone</th>
<th>First contact</th>
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<td>Ngaire Best</td>
<td>Manager, Governance and Commercial</td>
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<tr>
<td>Nick Brown</td>
<td>Deputy Chief Executive, Governance and Engagement</td>
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</tbody>
</table>

MINISTER’S COMMENTS:

Date: 1 October 2018

Attention: Hon Phil Twyford
Minister of Transport

Copied to: Hon Shane Jones
Associate Minister of Transport
Hon James Shaw
Acting Associate Minister of Transport

Minister of Transport’s office actions

☐ Noted
☐ Needs change
☐ Withdrawn
☐ Seen
☐ Referred to
☐ Not seen by Minister
☐ Approved
☐ Overtaken by events
Purpose of report

1. This report sets out:
   a. the Ministry of Transport’s (the Ministry) advice on the New Zealand Transport Agency’s (NZTA) revised 2018/22 Statement of Intent (SoI) and 2018/19 Statement of Performance Expectations (SPE)
   b. suggested feedback you may like to provide to the NZTA on its revised SoI and SPE.

Executive summary

2. The NZTA has recently revised its SoI and SPE to align its strategic direction with the Government’s new priorities for the land transport system, set out in the 2018 Government Policy Statement on Land Transport (GPS). The SoI and SPE revision process provides you with a key opportunity to shape the NZTA’s direction and annual performance expectations in the context of your priorities.

3. Under the Crown Entities Act 2004, you are required, as the responsible Minister, to provide the NZTA with comment on the SoI and SPE within 15 working days of receiving the documents (by 22 October 2018). Following your feedback, the NZTA will finalise the SoI and SPE, which are expected to be tabled in the House of Representatives around 15 November 2018.

4. The Ministry considers that the NZTA’s revised strategy, set out in the SoI and SPE, provides a firm basis for the agency to align its focus and delivery with the Government’s priorities for land transport. It also provides stakeholders and the NZTA’s staff with greater clarity over the agency’s direction in the context of the Government’s transport priorities. The NZTA has also ensured that its strategy aligns well to the Ministry’s Transport Outcomes Framework, which provides a common set of outcomes to support greater cohesion in delivery and performance across the transport system.

5. There are some areas where the Ministry considers that the NZTA’s new strategy could be further strengthened to ensure it realises its intended impacts. The first area is ensuring that the strategy is supported by a comprehensive and clear action plan. Additional work is needed to form a clear view of the indicative actions that will be delivered over the next four years to give effect to the intentions set out in the new strategy. The NZTA has signalled that it has work under way to refine its planning framework over the coming months, which is expected to provide a clearer view of the actions it will take to embed the strategy. These actions will be set out in the NZTA’s 2019/20 SPE.

6. A key success factor for the NZTA in embedding its new strategy is being able to measure and assess its impact against the revised strategic intentions. The NZTA has yet to develop a comprehensive framework to effectively track its progress and impacts. Without a clear performance framework, there is a risk that the NZTA will not be able to fully articulate whether it is delivering on its strategic intentions. It will also make it difficult for you to hold the Board to account for performance. The NZTA currently has work under way to develop a comprehensive performance framework against the strategy, which is expected to be in place to track progress by April 2019. This will be informed and is dependent on the work that the Ministry has underway to develop indicators against for the Transport Outcomes Framework.

7. The NZTA’s forecast financial statements outline a budgeted increase of around nine per cent in the agency’s operating expenditure (to $355 million) for 2018/19. The Ministry has
requested further information to understand the rationale for the proposed increase and how this additional expenditure will be used to support your priorities.

8. The National Land Transport Fund’s (NLTF) forecast financial statements show a growing deficit against the fund of around $1.9 billion, primarily the result of the increased drawdowns for private-public partnerships. While the NLTF is placed to meet current debt servicing obligations, the forecast statements highlight the growing challenge in using the NLTF, as a single revenue source, to fund future transport projects.

9. The Ministry considers that the revised Sol and SPE meet the requirements of the Crown Entities Act 2004. The Ministry recommends that you approve the NZTA’s draft Sol and SPE, but signal to the Board an expectation that work is prioritised to refine the action plan underpinning the strategy, and that a comprehensive performance framework is in place to track progress. This work should be set out in the NZTA’s 2019/20 SPE. The Ministry also suggests that you signal that the NZTA continue to work with the Ministry to provide more information on how the budgeted increase in operating expenditure has been determined and how it demonstrates value for money.

Background

The Statement of Intent and Statement of Performance Expectations provide you with a key opportunity to influence the direction and priorities of the NZTA.

10. The NZTA, as a Crown entity, is required under the Crown Entities Act 2004 to produce a Statement of Intent (Sol) and Statement of Performance Expectations (SPE). These documents provide you with a key opportunity to set the NZTA’s strategic direction and performance expectations.

11. Under the Crown Entities Act 2004, you are required, as the responsible Minister, to provide feedback to the NZTA on the draft revisions of the Sol and SPE no later than 15 working days after receiving these documents. Once this process is complete, the NZTA must provide you with a final Sol and SPE as soon as practicable for tabling in the House of Representatives.

12. Since the NZTA developed its last Sol and SPE, the Government has released the 2018/19 – 2027/28 Government Policy Statement on Land Transport (GPS), confirming a new direction and set of priorities for the land transport system. The NZTA has revised its Sol and SPE to reflect the change in direction signalled through the GPS, alongside the Government’s wider transport and wellbeing priorities.

13. The Ministry’s advice in this report will help to inform your feedback to the NZTA on these documents, and more broadly on the direction the agency is heading in to deliver your priorities.

Assessment framework

14. In preparing this advice, the Ministry has assessed the extent to which the NZTA’s revised Sol and SPE align with the Government’s key transport priorities, which include:
   a. providing increased access to economic and social opportunities (including supporting regional development)
   b. creating a safe system free of death and serious injury
   c. enabling transport choice and access
d. supporting resilience across the transport system

e. reducing greenhouse gas emissions, as well as the adverse effects on the local environment and public health

f. delivering the right infrastructure and services to the right level at the best cost.

15. Alongside these priorities, the Ministry has also considered the three key themes set out in the GPS:

a. incorporating technology and innovation into the design and delivery of land transport investment

b. taking a mode-neutral approach to transport planning and investment decisions

c. integrating land use and transport planning and delivery.

16. The Ministry has also assessed how the NZTA’s revised Sol and SPE aligns with the Transport Outcomes Framework. The Ministry’s expectation is that the transport Crown entities start aligning their organisational strategy to the outcome areas, with detailed measures to be developed over the next year.

Statement of Intent

17. The NZTA’s revised Sol sets out its intentions over the next four years to deliver against the Government’s new direction for the land transport system. The Ministry has assessed the NZTA’s revised Sol and considers that it meets the requirements under the Crown Entities Act 2004. In reviewing the Sol, the Ministry has identified areas where the document could be strengthened.

The NZTA has developed position statements to align with the Government’s new direction for land transport

18. The NZTA has refreshed its strategic direction to align with the vision and intent set through the Government’s new priorities for the land transport system. The NZTA has done this by establishing eight position statements that confirm the long-term challenges and outcomes that the agency seeks to achieve over the next four years. A description of the NZTA’s new position statements is set out in table one. The Sol outlines further detail on the changes that the NZTA needs to drive to give effect to the position statements.

Table one: Overview of NZTA position statements

<table>
<thead>
<tr>
<th>Focus area</th>
<th>NZTA’s position statements</th>
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<tbody>
<tr>
<td>Transport safety</td>
<td>Our position is that it is unacceptable for anyone to be killed or seriously injured while travelling or working on the land transport system.</td>
</tr>
<tr>
<td>Inclusive access</td>
<td>Our position is that everyone should have fair and equitable access to the transport system.</td>
</tr>
<tr>
<td>Liveable communities</td>
<td>Our position is that we will partner to efficiently combine planning and investment for transport and land use and this will result in more vibrant, interactive communities.</td>
</tr>
<tr>
<td>Transport technology</td>
<td>Our position is that we will use transport technology and data to transition to safer, sustainable and connected journeys for customers.</td>
</tr>
<tr>
<td>Resilience</td>
<td>Our position is that the resilience of the land transport system is increased by managing risks and long-term resilience challenges and helping communities quickly recover from disruptions.</td>
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</tbody>
</table>
The position statements provide a firm basis for the NZTA to give effect to the Government's transport priorities

19. The Ministry considers that the position statements set out in the Sol are well aligned to the direction and priorities that have been signalled for the land transport system, as well as the Government's broader priorities across other portfolios (e.g. environment, housing and regional development). The position statements will also provide greater clarity to the NZTA's stakeholders and staff on the agency's areas of focus and objectives in the context of the Government's new direction.

20. The Ministry is actively working with the transport Crown entities to provide greater alignment and direction across the transport system. The NZTA has been working closely with the Ministry to develop the Transport Outcomes Framework. The Ministry considers that there is a good link between the NZTA's revised strategy and the outcome areas in the Transport Outcomes Framework.

There are some areas where the NZTA could strengthen its revised strategy.

21. The NZTA has had to revise its direction and strategy within a fairly tight timeframe following the release of the 2018 GPS. This has resulted in less time for the NZTA to develop a comprehensive measurement framework to track progress against its strategic intentions.

22. In the short term, the NZTA has signalled that it will measure progress against its strategy by monitoring the delivery of significant activities and assessing the achievement of target states defined in the Sol. However, the NZTA does not yet have a clear set of indicators to measure the impact and delivery of the revised strategy.

23. The Ministry considers that the NZTA should have a comprehensive performance framework, consisting of robust indicators and measures, to meaningfully track progress against the intentions set out in the Sol. However, the Ministry acknowledges the pace at which the NZTA has had to revise its new direction and considers that it should take additional time to build a robust and enduring performance framework against its strategy.

24. The NZTA is currently revising its performance measurement framework with a view to having it in place to track progress by April 2019. The NZTA is supporting the Ministry to develop a performance framework against the Transport Outcomes Framework. Development of indicators against the Transport Outcomes Framework is a key dependency for the NZTA in refreshing the agency’s performance framework. The Ministry recommends that you direct the NZTA to include an updated performance framework in its 2019/20 SPE.

25. The Ministry has identified two additional areas where the Sol could be strengthened in line with the Treasury’s guidance for developing Crown entity Sols. These areas include:

a. setting out further detail on how the NZTA will align its investment and asset management to the intentions signalled through the new strategy. The Sol currently does not include information in this area. However, the Ministry considers it important as it ensures the NZTA, as a significant asset manager and investor, is aligning its
investment and asset management practices to drive progress against its revised strategic intentions.

b. providing more information on how the NZTA will manage its organisational health and capability. The Ministry considers that there is more that the NZTA could do to outline how it is building its capability and performance to support the revised strategy. This includes setting out any impacts that the NZTA’s new strategy could have for its organisational transformation programme.

Statement of Performance Expectations

26. The Ministry has reviewed the NZTA’s revised SPE and considers that it meets the requirements for preparing an SPE under the Crown Entities Act 2004. The Ministry has identified the following issues that you should consider in forming your feedback to the NZTA on its SPE.

Further work is needed to strengthen the actions underpinning the NZTA’s new strategy

27. The NZTA’s revised SPE aligns its annual activities and financial forecasts against the new direction signalled through the GPS. The SPE includes the position statements from the Sol and sets out significant activities that the agency will deliver in 2018/19 against each of these statements.

28. Setting a clear and comprehensive action plan is critical for the NZTA to successfully execute its strategic intentions by 2022. The activities set out in the SPE do not yet represent the full programme of work that the NZTA will need to deliver in order to embed the strategy.

29. The Ministry considers that the NZTA needs to undertake further work in defining a comprehensive, multi-year action plan to deliver on the ambitious shifts signalled in the Sol. The NZTA has signalled that it has work under way to further define and develop the actions against the strategy.

30. The Ministry recommends that you signal to the NZTA an expectation that it develop a clear roadmap of indicative actions to give effect to its strategy. It is recommended that these actions are set out in the NZTA’s 2019/20 SPE.

The Ministry has a concern about one of the NZTA’s proposed performance measure changes

31. Investment in the funding allocation system (IFAS) is the activity that incorporates the processes, tools and systems required to plan, optimise and deliver the National Land Transport Programme (NLTP), thereby giving effect to the GPS. The NZTA has proposed a new target against the measure that provides the agency with funding for IFAS. The measure is set as a percentage of total expenditure (NLTP and Crown)¹.

32. The target against this measure is currently set at less than or equal to 1 percent of NLTP and Crown expenditure. The NZTA’s proposal is to lift the target to less than or equal to 1.2 percent.

33. The NZTA has justified the proposed increase as a response to additional activity that it considers is needed to deliver against the GPS and as a result of increased indirect costs, primarily in technology that are charged across all outputs. It also includes the costs of

¹ Crown funding is only included against this measure where it does not include funding for investment management related activities.
upgrading the investment decision making framework, which sets the methodology for assessing investment against the priorities in the GPS.

34. One percent of the total NLTP expenditure is approximately $43 million per annum. An additional 20 percent translates into an additional $8.5 million of expenditure against the investment management activity class. The NZTA is of the view that the increase is necessary for it to respond to the additional activities needed to support the new GPS.

35. The Ministry recommends that you should approve a temporary increase in the measure so that the NZTA has the resourcing to deliver the investment management activity required to respond to the GPS. It is recommended that you approve the measure to less than or equal to 1.1 percent of NLTP and Crown expenditure. This proposed increase will provide the NZTA with around an additional $4.5 million to fund investment management activity in 2018/19. Taking this approach will ensure that the NZTA has additional funding to respond to new GPS priorities, while ensuring the increase in the target is proportionate and balanced.

36. The Ministry intends to undertake a review of expenditure and performance against the measure prior to the NZTA completing its 2019/2020 SPE. At this point, the Ministry will recommend whether to retain or revert back to the less than or equal to 1 percent target.

The SPE sets out updated financial forecasts for the NZTA...

37. Under the Crown Entities Act 2004, Crown entities are required to provide forecast financial statements in the SPE. The NZTA’s revised SPE sets out updated statements for the agency and the NLTF.

38. Table two outlines key information related to the NZTA’s financial performance and position for 2018/19. The NZTA’s revised SPE outlines that it is projected to record a surplus of around $4.6 million in 2018/19, reflecting the difference in the NZTA’s revenue and expenditure set out in table two.

39. The NZTA’s total liabilities are budgeted to increase by around 24 percent in 2018/19 (to around $2.6 billion), of which the most significant component relates to $1.3 billion in drawdowns for the public-private partnerships (PPP)². Based on the current financial position, the NZTA’s projected cash flow will allow the agency to meet its existing long-term liabilities and debt servicing commitments.

40. Growth in budgeted liabilities, primarily driven by the PPPs, raises a broader question about the NZTA’s ability to service additional debt against the NLTF to fund future transport projects. The Ministry will continue to monitor the NZTA’s cash flow and debt management closely to ensure it remains in a sustainable position to meet its future commitments.

41. Operating expenditure for the NZTA is budgeted to increase to $355 million in 2018/19 (up by around nine percent from $323 million in 2017/18). In addition, the NZTA’s budget also includes around $35 million to fund activities that the NZTA provides as an authorised organisation, which include the running of the Transport Operation Centres and direct service costs for State highway projects.

42. The NZTA has signalled that the increase in operating expenditure is due to capacity and capability cost pressures in meeting new demands through the GPS, improvements in the agency’s technology systems, and service delivery cost pressures. The Ministry has requested further detail to determine whether the increase is appropriate and demonstrates value for money.

² Transmission Gully and Pūhoi and Warkworth
### Table two: Key financial information for the NZTA

<table>
<thead>
<tr>
<th>Key financial indicators</th>
<th>Projected 2017/18 ($000m)</th>
<th>Budget 2018/19 ($000m)</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue</td>
<td>2,655,874</td>
<td>3,076,983</td>
<td>Consists of funding from the NLTF, the Crown and revenue from other activities. Increased funding from the NLTF is the primary contributor of the lift in revenue for 2018/19. Revenue from the NLTF has increased to around $2.7 billion and incorporates a 3.5 cent increase in Road User Charges and Fuel Excise Duties from 1 October 2018.</td>
</tr>
<tr>
<td>Total expenditure</td>
<td>2,648,903</td>
<td>3,072,357</td>
<td>Key drivers of the increase reflect additional expenditure through the National Land Transport Programme (to $2 billion), an increase in depreciation (to $544 million), and the transfer of assets to local authorities ($182 million). Other costs include personnel ($122 million), operating expenses ($186 million) and interest and finance costs ($38 million).</td>
</tr>
<tr>
<td>NZTA operating expenditure</td>
<td>326,600</td>
<td>355,741</td>
<td>The increase in agency operating expenditure represents a nine percent increase from 2017/18. Key drivers of this increase include additional spending on road safety campaigns, alcohol interlock devices, projects to support key government priorities (e.g. revision of investment assessment framework tools), IT infrastructure upgrades and increased service delivery costs, including contingency.</td>
</tr>
<tr>
<td>Total assets</td>
<td>46,351,330</td>
<td>48,421,273</td>
<td>The State highway network makes up a significant proportion of the NZTA’s total assets ($43 billion in 2017/18). The State highway valuation has recently been increased by approximately $7 billion. This change reflects improvements in the valuation methodology.</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>2,085,805</td>
<td>2,606,874</td>
<td>The majority of the NZTA’s budgeted liabilities relates to its public-private partnerships ($1.3 billion in 2018/19, up from $855 million in 2017/18), reflecting progress in Transmission Gully and Pōhio to Warkworth. The 2018/19 budget also reflects $596 million in payables, $397 million in borrowing and other liabilities, $197 million in derivative liabilities, and $16.9 million in employee entitlements.</td>
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... and the National Land Transport Fund

43. Table three sets out the key information related to the budgeted financial position of the NLTF, as signalled in the NZTA’s revised SPE.

44. The updated NLTF forecast financial statements reflect the increase in expenditure signalled through the GPS. The NZTA is budgeting for a deficit against the NLTF of $360 million in 2018/19, which is offset by cash funds held at the beginning of 2017/18 of $575 million. The NLTF has negative equity of $1.9 billion which reflects future obligations on the fund through debt borrowings and the ongoing drawdowns to fund the PPPs.
Table three: Key financial information for the National Land Transport Fund

<table>
<thead>
<tr>
<th>Key financial indicators</th>
<th>Projected 2017-18 ($000)</th>
<th>Budget 2018-19 ($000)</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue</td>
<td>3,733,000</td>
<td>3,956,000</td>
<td>Increases in total revenue primarily relate to an increase in land transport revenue to $3.8 billion (up from $3.6 billion in 2017/18). Other sources of revenue in 2018/19 total $80 million (relating to the management of Crown land, tolling revenue and interest revenue).</td>
</tr>
<tr>
<td>Total outflows</td>
<td>3,774,000</td>
<td>4,316,000</td>
<td>Change in total outflows reflects increased investment through the NLTP to $3.9 billion (up from $3.4 billion in 2017/18). Investment in road policing has also increased to $335 million (up from $333 million in 2017/18).</td>
</tr>
<tr>
<td>Cash held by Crown at the end of the year</td>
<td>515</td>
<td>251</td>
<td>The amount held by the Crown has reduced significantly to offset the budgeted increase in expenditure to suppliers in 2018/19 ($4.2 billion, up from $3.7 billion in 2017/18).</td>
</tr>
<tr>
<td>Net position of the NLTF</td>
<td>(1,112)</td>
<td>(1,932)</td>
<td>The NLTF is projected to record a deficit of $360 million in 2018/19. In addition, there is $459 million in long-term expenditure to be funded by the NLTF. The total cumulative deficit to be funded by the future revenue to the fund is $819 million for 2018/19. This figure is carried over into the total general funds held by the NLTF, contributing to a total deficit of $1.9 billion for 2019/20 (up from an opening balance of $1.1 billion).</td>
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Risks

45. The Ministry has identified the following risks which it recommends you should take into account when providing comment to the NZTA.

a. *Measuring progress and embedding the strategy* – the absence of a comprehensive performance framework against the new strategy could make it difficult for the NZTA to effectively assess and express its impacts and performance to 1 July 2019, when it is anticipated that a new SPE will be produced with robust measures. The Ministry also considers that there are some delivery risks if the NZTA does not embed a clear work programme set against its revised strategic intentions. The NZTA has work under way to address both of these issues, which are expected to be set out in its 2019/20 SPE. The Ministry will monitor the NZTA’s progress to complete this work by April 2019.

b. *Operating expenditure* – The Ministry considers that there is potential risk around the extent to which the budgeted increase in operating expenditure represents good value for money. The Ministry has sought additional information from the NZTA to assess this issue and we will keep you informed of any issues.

c. *Debt and borrowings* – the updated SPE budget for 2018/19 demonstrates growing pressure against the NLTF resulting from borrowings to fund large-scale transport
projects. Continuing to leverage debt against the NLTF is likely to increase pressure on land transport revenue streams in the future. Ongoing consideration is needed to ensure that a balanced approach is taken in further leveraging the NLTF to fund new projects.

Next steps

46. Attached is a draft letter for you to send to the NZTA Chair setting out some suggested comments on the NZTA’s revised Sol and SPE. The Ministry will work with your office to amend the letter to reflect any further feedback you may have on these documents.

47. The NZTA will provide your office with copies of the final Sol and SPE, along with its 2018 Annual Report, for tabling in the House of Representatives around 15 November 2018. A separate briefing regarding the NZTA’s 2018 Annual Report will follow this briefing.

Recommendations

48. The Ministry recommends that you:

a. note that, under the Crown Entities Act 2004, you are required to provide comment on the New Zealand Transport Agency’s revised Statement of Intent and Statement of Performance Expectations by 22 October 2018.

b. sign the attached letter to the Chair outlining your response to the New Zealand Transport Agency’s Statement of Intent and Statement of Performance Expectations

c. note that you are required to table the revised Statement of Intent and Statement of Performance Expectations in the House of Representatives as soon as practicable following receipt of the final documents.

Ngaire Best
Manager, Governance and Commercial

MINISTER’S SIGNATURE:

DATE: