

Operating report to the Minister of Transport for the twelve months ended 30 June 2014



EXECUTIVE SUMMARY

5.761 million

This operating period has seen traffic volumes increase by 6% (349,000 trips) when compared to the same period last year. This unanticipated growth has resulted in trips being 8% ahead of forecast for the year. (Chargeable trips for this period is 5.71 million)

97% TRIP PAYMENT RATE

The percentage of chargeable tolls paid within this reporting period has remained consistent with last year's result of 97%.

\$0.61c NET OPERATIONAL COST PER TRANSACTION

The net operational cost per transaction of \$0.61 is slightly higher when compared to the previous year (\$0.60). The increase of 1 cent is attributable to higher operational expenditure and a reduction in recovered administration revenue. This result is lower than our Statement of Intent range of 0.65 to 0.70 per transaction.

80% NETWORK USAGE

The percentage of total network traffic using the Northern Gateway Toll Road for the year ending 30 June 2014 is 80%. This result has been calculated using volumes from a new Traffic Management System site just south of Puhio, as the previous site no longer records trip volumes. For this reason this percentage should not be compared to previous results reported.

\$518,635 WRITTEN OFF DUE TO AGE

The total amount written off due to age this period was \$518,635, comprising of toll revenue of \$193,875 and administration revenue of \$324,760. This is a reduction from the previous year of \$6,633 for toll revenue and \$26,129 for administration revenue.

HIGHLIGHTS

Marketing

Over the Easter/Anzac week and Queens Birthday weekend we ran an advertising campaign using both radio advertisement in the Auckland area and an interactive banner on the Met Service website. The objective of this campaign was to raise awareness of our website, the ability to purchase the toll online and to encourage customers to purchase their trips prior to travelling on the Northern Gateway Toll Road.

A tight geo-targeting strategy was used for the online promotion, so only customers starting south of the road checking the weather in towns north of the road saw the banners, and likewise for customers starting north of the road and checking towns south of the road.

The click through rate for the banner campaign was almost double industry average and initial analysis indicates that 94% of customers who clicked on the interactive banner on the Met Service website were new visitors to the toll road website. Over this time our results show that we had a small increase of payments made online of approximately 1%, achieving our objective of this campaign.

Increased Customer Service

On 2 September 2013 our Contact Centre extended the hours it was available to assist with customer enquiries, moving from 8:00 am to 6:00 pm to 8:00 am to 8:00 pm. This provided more accessibility for customers and resulted in an extra 9,200 calls being answered during the last nine months. The most common feedback received from our customers was 'it was great to be able to do this after work'.

Over the last year the Transport Agency has utilised social media channels such as Facebook and Twitter to post messages. The majority of these messages have been to encourage users to purchase trips online prior to travelling, particularly around public holidays. The Transport Agency regularly monitors these channels and specific inquiries are responded to.

The opening of the Tauranga Eastern Link in May 2015, which will become the second toll road operated by the Transport Agency, has provided an opportunity to undertake an initiative to enhance the tolling system and provide an improved customer friendly website.

Increased Traffic Volumes

This year's traffic growth on the Northern Gateway Toll Road was higher than anticipated, at just over 6% on traffic volumes from the previous year. For more details please refer to page 4.

Kiosks

Bank note and card readers were removed from the kiosks at the southern end of the road in September 2013. The removal of these problematic components has seen our faults reduce by 55% when compared to the same period last year, resulting in reduced downtime of the kiosks and an improved quality of service to customers choosing this payment method.

The average number of faults currently sits at 20 per month which is primarily due to coin jams. All eroded/worn mechanical parts have been replaced, and testing of the electronic components responsible for controlling the coin mechanisms is scheduled to further reduce unplanned outages for this reason.

VOLUMES AND REVENUE

Traffic volumes and toll tariff revenue

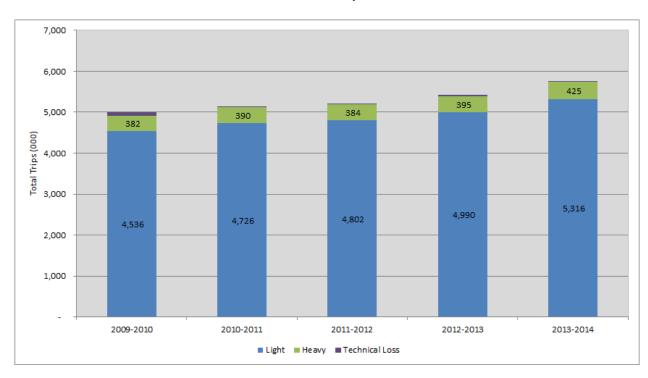
Toll tariffs have remained the same since the increase on 1 March 2012 which saw light vehicles and motor bikes set at \$2.20 and heavy vehicles set at \$4.40.

	Vehicle volumes (000)		Base rate	Vehicle reve	enue (\$000)
	Actual	Forecast	(GST incl)	Actual	Forecast
Light vehicles	5,288	4,895	\$2.20	11,634	10,769
Heavy vehicles	422	396	\$4.40	1,857	1,742
Total chargeable trips	5,710	5,291		13,491	12,511
Exempt	20	21			
Unidentifiable	11	12			
Technical loss ¹	20	13			
TOTAL	5,761	5,337		13,491	12,511

Traffic volumes have increased by 6% this year when compared to last year, an increase of 349,000 trips.

The following graph illustrates that the increase in overall traffic volumes using the Northern Gateway Toll Road year on year has risen, with the majority of growth being in the last two years, 4% in 2012/2013 and 6% this year.

Traffic Volumes per Year



¹ Technical Loss is where an image has been recorded which isn't for a valid vehicle, e.g. a towed vehicle has been captured in error.

TOLL PAYMENTS RECEIVED

Level of tolls paid

Tolls were collected for 97.0% of the 5.71 million chargeable trips undertaken in the operating year ended June 2014.

	Trips (000)	Revenue \$(000)
Total chargeable toll trips	5,710	13,491
Total administration charges		2,196
Total tolling revenue		15,687
Paid toll trips	5,538	13,093
Paid administration charges		1,644
Paid tolling revenue		14,737
Unpaid toll trips	172	398
Unpaid administration charges		552
Unpaid tolling revenue		950
Administration charge payment rate		74.9%
Trip payment Rate	97.0%	

When compared to the previous year chargeable trips increased by 360,000 (6%) resulting in \$858,000 (6%) of additional revenue. The trip payment rate, which is the percentage of chargeable tolls paid within this reporting period, has remained consistent with last year's result of 97%.

Administration charges relate to toll payment notices issued for trips not paid for within the allowed timeframes. When compared to last year, the number of toll payment notices issued has decreased, resulting in lower administration charge revenue of \$16,000. 74.9% of toll payment notices issued have subsequently been paid, a reduction of 3.3% from the previous year.

TOLL PAYMENTS NOT MADE

Trips not allocated to an account or pass

A toll payment notice is issued when a chargeable trip has not been either matched to an account or to an individual trip payment within the required five days. When a toll payment notice is issued it is sent to the registered person of the vehicle and an extra \$4.90 administration charge is added to the outstanding tolls.

The table below shows the number of toll payment notices issued and their respective status at the year ending 30 June 2014.

Tall manners making	2013/14	2013/14	2013/14	2012/13	2012/13	2012/13
Toll payment notices	Number	Amount	%	Number	Amount	%
Issued	455,326	\$3,581,724		458,385	\$3,599,483	
Paid	341,372	\$2,690,381	75%	347,616	2,730,227	76%
Unpaid	76,233	\$595,995	16%	74,403	\$584,169	16%
Written off	30,622	\$239,867	7%	29,377	\$230,735	6%
Reissued ²	7,099	\$55,481	2%	6,989	\$54,352	2%

There has been a slight decrease in the number of toll payment notices issued this year when compared to the previous year (~3,000 notices). The percentages of the different status have remained relatively consistent over the last number of years, with the percentage of toll payment notices paid sitting in the mid-seventies.

Debt profile from unpaid toll trips

The table below shows the value of average toll debt by individual users is relatively low, with the majority of individuals (78%) owing less than \$50 in outstanding toll and administration charges.

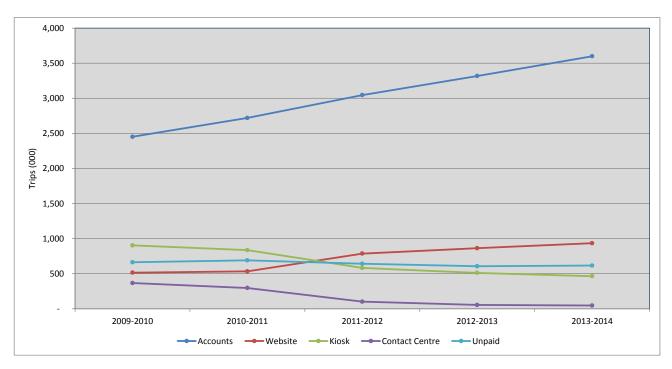
Toll payment notice debtor schedule	2013/14 Number	2013/14 Value	2013/14 % of Total Value	2012/13 Number	2012/13 Value	2012/13 % of Total Value
> \$200	109	\$43,594	7%	106	\$38,320	7%
\$100 < debt < \$200	268	\$35,811	6%	254	\$34,245	6%
\$50 < debt < \$100	823	\$56,068	9%	741	\$50,874	9%
\$20 < debt < \$50	4,607	\$134,624	23%	4,384	\$128,325	21%
< \$20	31,588	\$325,824	55%	32,442	\$332,241	57%
TOTAL	37,395	\$595,921	100%	37,927	\$584,005	100%

² Toll payment notices can be reissued where a statutory declaration is provided by the registered person detailing the driver at the time and transferring liability to that person.

METHOD OF PAYMENT

Payment channels

The use of toll road accounts continues to grow from the 62% of trips charged to accounts last year to approximately 64% this year.



Trips by payment type

Casual trips purchased via the website continued to increase with 8% more trips purchased online this year compared to last year. Kiosk and Contact Centre trip purchases continue to decrease, reducing by 46,651 (9%) and 8,310 (15%) respectively when compared to the 2012/13 period.

Toll payment by channel		2013/14 Number of trips	2013/14	2012/13 Number of trips	2012/13 %
Toll road account debited		3,653,033	64.0%	3,317,382	62.0%
Casual purchase of trip pass	Website	933,821	16.4%	862,484	16.1%
	Kiosk	463,876	8.1%	510,527	9.6%
	Contact Centre	45,735	0.8%	54,045	1.0%
Unpaid trips gone to toll payment notice		613,417	10.7%	605,293	11.3%

The number of trips paid within the required timeframe (prior to a toll payment notice) being issued increased by 7% this operating year.

RECOVERY OF UNPAID TOLLS AFTER 5 DAYS

Toll debt referral, debt recovery and write offs

On average 74.9% of administration charges relating to toll payment notices issued this financial year have been paid. Those not paid by their due date are referred to our collection agent to pursue.

Total toll payment notices financially written off this operating period, due to the length of time outstanding is \$518,635, which is made up of \$193,875 toll debt, and \$324,760 unpaid administration charges. These toll payment notices are still payable, and the debt continues to be pursued by our debt collection agency. Where recovery can be achieved, the total debt owed including debt previously written-off, is sought and recovered.

During this operating period \$64,360 of debt previously written-off was recovered.

Toll payment notices written off due to age

	2013/14 Amount	2012/13 Amount
Toll	\$193,875	\$200,508
Administration charge	\$324,760	\$350,889
	\$518,635	\$551,397

Toll debt previously written off and recovered this year

	2013/14 Amount	2012/13 Amount
Toll	\$27,521	\$36,193
Administration charge	\$36,839	\$41,258
	\$ 64,360	\$77,451

Toll payment notices which cannot be collected

	2013/14 Amount	2012/13 Amount
Statutory declarations completed where stated driver (rental car hirer) resides overseas	\$60,350	\$74,639
Statutory declarations completed where the vehicle has been reported stolen	\$869	\$654
Toll payment notices incorrectly issued ³	\$34,220	\$30,220
Insufficient registered owner/plate information for the vehicle ⁴	\$42,291	\$37,941
	\$137,730	\$143,454

³ Notices issued by the Tranport Agency in error or to the incorrect registered person.

⁴Insufficent information of registered person avaliable from Motor Vehicle Registar at the time it was required.

REVENUE AND EXPENDITURE

The toll tariff consists of toll revenue that is designated to be used to repay the debt to build the toll road, toll operating revenue retained by the the Transport Agency, and GST. A breakdown of how tolls are allocated is contained in the table below

	Light	Heavy
Tariff	\$2.20	\$4.40
Toll revenue (amount to be paid to the Ministry of Transport to repay loan)	\$1.21	\$3.13
Toll operating revenue (amount retained by the Transport Agency to operate toll business)	\$0.70	\$0.70
GST	\$0.29	\$0.57

Toll revenue collection

The statement of toll revenue collection reports on the toll revenue portion of the toll tariff only, which is paid to the Ministry of Transport to meet debt repayments.

STATEMENT OF TOLL REVENUE FOR THE YEAR ENDED 30 JUNE 2014				
		Actual 2013/14	Budget 2013/14	Actual 2012/13
	Note	\$000	\$000	\$000
Paid toll Revenue				
Light		6,285	5,773	5,856
Heavy		1,309	1,221	1,212
Total Paid Revenue	1	7,594	6,994	7,068
Interest on toll revenue	2	54	41	47
Total funds available to be paid to Ministry of Transport for debt repayment:	3	7,648	<u>-</u>	7,115
Funds paid to Ministry of Transport in current financial year		5,766		5,424
Funds held by the Transport Agency subject to pay over to Ministry of Transport		1,882		1,691
Unpaid toll revenue				
Light		(6)	67	8
Heavy		(3)	10	7
Total unpaid toll revenue	4	(9)	77	15

- **1. Paid toll revenue** Paid toll revenue is the portion of all paid tolls that is designated to be used to repay the debt to build the road. Total paid toll revenue is 9% (\$600,000) greater than budget.
- **2. Interest on toll revenue** Interest is earned daily on balances held for payover to the Ministry of Transport and credited to the toll revenue account on a monthly basis. This interest is included in the debt repayment to the Ministry of Transport memorandum account.

- **3. Funds available to be paid to the Ministry of Transport for debt repayment** Total toll revenue collected in this reporting year was \$7,648 million, of which \$5,766 million was paid to the ministry within the reporting period. The balance of the collected toll revenue (\$1,882 million) was paid to the ministry on 7 July 2014.
- **4. Unpaid toll revenue** Unpaid toll revenue is the portion of all unpaid tolls that is designated to be used to repay the debt to construct the road. Once collected, this amount will be paid to the Ministry of Transport for debt repayment. The negative balance is a combination of paid toll revenue collected and toll revenue written off this year being greater than unpaid toll revenue for the year.

Operating revenue and expenditure

The statement of comprehensive income reports on the operating revenue portion of the toll tariff and administration revenues which are retained by the the Transport Agency to cover direct operating costs. As tolling is currently a marginal cost business, this expenditure does not include any overhead expenses.

STATEMENT OF COMPREHENSIVE INCOME				
FOR THE YEAR ENDED 30 JUNE 2014				
		Actual	Budget	Actual
		2013/14	2013/14	2012/13
	Note	\$000	\$000	\$000
INCOME	1			
Operating charges		4,001	3,715	3,740
Administration revenues		2,043	1,972	2,084
Interest		12	10	16
Total income		6,056	5,697	5,840
EXPENDITURE				
Transaction related costs	2	869	914	911
System support and maintenance costs	3	1,875	1,934	1,374
Operating costs	4	2,737	2,937	2,984
Total expenditure		5,481	5,785	5,269
NET SURPLUS		575	(88)	571

- 1. Income Revenue from third parties to date is 6% (\$359,000) higher than budget. This is driven by the actual number of trips made on the Northern Gateway Toll Road being 8% higher than forecasted trips.
- 2. Transaction related expenses These costs were under budget by \$45,000 (5%). This is due to kiosk cash management costs being higher than forecast by \$17,000 (22%) as a result of slightly higher than expected monthly charges received from our external contractors, which include the charges associated with updating the kiosks to coin only operations. The costs associated with the printing and postage of toll payment and infringement notices are higher than forecast by \$18,000 (7%). This is the result of the printing and postage of infringement notices being outsourced to our external printing centre in July 2013. These overspends are reduced as credit card commissions costs are below budget by \$79,000 (13%) due to a reduction in the commission charged by our supplier. It was unknown at the time the 2013/14 budgets were set that this change would occur.
- **3. System support and maintenance costs** The positive variance of \$59,000 (3%) is a result of being under budget by \$358,000 in kiosk/roadside equipment support and maintenance and phone expenses due to lower than expected monthly charges. This is offset by being over budget in system support and maintenance of \$253,000, system development of \$19,000 and hosting expenses of \$27,000. System support and maintenance is over budget due to a combination of higher than forecasted monthly charges, and an adjustment completed this financial year to correct an oversight from last year where an accrual was reversed twice.

- **4. Operating expenses** Operating costs are under budget by \$200,000 (7%) due to the following underspends; personnel costs of \$136,000, marketing of \$9,000, depreciation of \$7,000, and general expenditure of \$48,000.
- **5. Net Surplus** The net operating non cash surplus for all tolling revenue and expenditure for the twelve month period ended 30 June 2014 was \$575,000.

Operational cost per transaction

The cost per transaction reflects the operating costs of the tolling business over and above the administration charges recovered from customers, divided by the number of revenue generating toll trips within the year.

Operational expenditure	2013/14 (000)	2012/13 (000)
Operational expenditure (net of doubtful and bad debts)	\$5,270	\$4,983
Total toll trips	5,710	5,350
Gross operational cost per transaction	\$0.92	\$0.93
Less recovered administrative charge revenue	\$1,760	\$1,800
Net operational expenditure	\$3,510	\$3,183
Total toll trips	5,710	5,350
Net operational cost per transaction	\$0.61	\$0.60

Administration revenue relates to charges associated with toll payment notices, postal delivery of tax invoices and statements, dishonour charges, and payment channel charges. These charges are appropriately calculated through cost modeling and intended to recover the true cost associated with those customers who interact with us through the more expensive channels.

Where these costs have been recovered through the above charges, they are no longer a cost to other compliant road users required to be met by the \$0.70 operating charge per toll trip.

The gross cost of running the tolling business was \$0.92 per chargeable toll trip. With the collection of the administration fees this means that the tolling business required \$0.61 cents of the allocated revenue per toll to cover current operational costs.

Taxation applying to gross tolling revenue

GST is applied to all toll trips at the time the trip is recognised by the toll system. GST is therefore charged on an invoice basis.

Revenue classification	\$ (000)
Toll revenue	7,603
Operating charge	4,001
Payment channel and administration charges	2,043
Total toll revenue	13,647
GST	2,048
Total toll revenue (GST incl)	15,695

STATEMENT OF CASH FLOWS			
FOR THE YEAR ENDED 30 JUNE 2014			
	Actual	Budget	Actual
	2013/14	2013/14	2012/13
	\$000	\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from third party revenue	17,056	16,689	16,362
Interest received	66	51	63
Payments to third parties	(6,913)	(7,336)	(7.262)
Payments to employees	(2,122)	(2,278)	(1,926)
Net cash from operating activities	8,087	7,126	7,237
CASH FLOWS FROM FINANCING ACTIVITIES			
Pay over to Ministry of Transport for repayment of debt	(7,458)	(6,722)	(7,063)
Net cash from financing activities	(7,458)	(6,722)	(7,063)
NET INCREASE IN CASH AND CASH EQUIVALENTS	629	404	174
Cash and cash equivalents at the beginning of the year	4,958	4,958	4,784
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5,587	5,362	4,958

STATEMENT OF FINANCIAL POSITION **AS AT 30 JUNE 2014** Actual **Budget** Actual 2013/14 2013/14 2012/13 \$000 Note \$000 \$000 **ASSETS CURRENT ASSETS** Cash and cash equivalents 1 5,587 5,362 4,958 2 Debtors and other receivables 5,143 4,292 3,441 Total current assets 10,730 9,654 8,399 **NON-CURRENT ASSETS** 2,074 Roadside hardware/software 2,073 2,677 Total non-current assets 3 2,074 2,073 2,677 **TOTAL ASSETS** 12,804 11,727 11,076 LIABILITIES **CURRENT LIABILITIES** Creditors and other payables 4 2,859 2,461 2,158 5 Tolling funds held in trust 3,216 3,200 2,764 TOTAL LIABILITIES 6,075 5,661 4,922 **NET ASSETS** 6,729 6,066 6,154 **EOUITY** 6 Retained funds - Transport Agency 6,729 6,066 6,154 **TOTAL EQUITY** 6,729 6,066 6,154

- 1. Cash and cash equivalents Three bank accounts are maintained by the tolling operation to facilitate cash management and payovers. The toll trust account (\$1.7m) holds the funds pre-paid by account holders. The toll operating account (\$3.2m) holds the funds to be paid over to the Ministry of Transport, and also receives all casual toll payments. The toll payments account (\$0.5m) receives the operating charge and administration revenues, and operational expenditure is paid from this account. Deposits in transit (\$0.1m) are also included to reflect deposits for cash received at the kiosks and credit card payments, where the cash has not yet been deposited in the bank account.
- 2. Debtors and other receivables Toll debtor balances consist of multiple groups. Toll casual debtors is the total of all outstanding toll payment notices and unpaid toll trips that are yet to receive a toll payment notice. Toll Infringement Debtors is the sum of all infringement notices issued and still unpaid and not yet referred to the courts. These fees are collected on behalf of the Crown and are offset by a corresponding liability. Account debtors reflect the balance of any pre-pay accounts with a negative balance as at the end of June, and post-pay account balances invoiced for June to be paid on the 21st July.
- **3. Non current assets** The Non Current Assets reflect the Tolling System and Roadside assets held by the Tranport Agency and the associated accumulated depreciation of these assets. The tolling system assets represent a share of the total cost of these assets, as the system has the ability to handle multiple roads and hence only one-fifth of these shared assets is allocated to this road.
- **4. Creditors and payables** The toll creditors consists primarily of the balances on pre-pay accounts (\$1.6m) and pre-paid casual trip purchases not yet used (\$1.3m).
- **5. Tolling funds held in trust** This represents the funds held to be paid over to the Ministry of Transport for repayment of the debt for construction of the Northern Gateway Toll Road. Also included is GST payable to Inland Revenue for June and infringement payments for the Ministry of Transport.
- **6. Equity** This includes the full year operating surplus of \$575,000 from the statement of comprehensive income.

CHARGES RECEIVED IN CONNECTION WITH SECTION 51(4) OF THE LAND TRANSPORT MANAGEMENT ACT 2003

The following GST inclusive charges were received in connection with section 51(4) of the Land Transport Management Act (2003). This section reads:

"the toll operator may impose reasonable charges in connection with the administration of any method of payment".

	Amount
Total Charges Received under s51(4) of the Land Transport Management Act (2003)	\$173.891
- includes 40c kiosk & \$3.70 Contact Centre payment charges respectively	\$175,091

DISCLOSURES TO THE MINISTER

This section covers the requirements under section 16 of the Land Transport Management (Road Tolling Scheme for ALPURT B2) Order 2005.

The designated feasible, un-tolled, alternative route remains available to road users being the Hibiscus Coast Highway through Orewa with an additional alternative route also being available through State Highway 16.

The Transport Agency provides a payment method that does not record the personal information in relation to the person paying the toll. The kiosks at either end of the Northern Gateway Toll Road do not record personal information of the person paying a toll.